THE TEL-AVIV STOCK EXCHANGE LTD.

Periodic Report for 2019

The text in these Periodic Report for 2019 is an English translation of the original Hebrew report for the periodic report for 2019. In the event of any discrepancy between the original Hebrew and this translation, the Hebrew alone will prevail.

TEL AVIV הבורסה
STOCK לניירות ערך
EXCHANGE תל אביב

THE TEL-AVIV STOCK EXCHANGE LTD.

Periodic Report for 2019

Part One - **Description of the Company's Business**

Part Two - **Report of the Board of Directors on the State of the Company's Affairs for 2019**

Part Three - **Consolidated Financial Statements as of December 31, 2019 and Separate Financial Information as of December 31, 2019.**

Part Four - **Additional Information on the Company**

365219

This English version is only for convenience purposes. This is not an official translation and has no binding force. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the Hebrew version. In the event of any discrepancy between the Hebrew version and this translation, the Hebrew version shall prevail.

DESCRIPTION OF THE COMPANY'S BUSINESS

Part One - Description of the General Development of the Company's Business

1.1 The Company's Activities and a Description of the Development of Its Business

1.1.1 General

1.1.1.1 The Company was incorporated in Israel on September 28, 1953, as a company limited by the guarantee of its members, pursuant to the Companies Ordinance, 1929, under the name the Tel-Aviv Stock Exchange Limited.

In 1969, following the enactment of the Securities Law, the Company was granted a license to manage a stock exchange, pursuant to the provisions of section 45(A) of the Securities Law. The Company, together with its subsidiaries, TASE Clearing House, MAOF Clearing House and the Nominee Company, is engaged in the trading and settlement of securities (including derivatives) and associated transactions.

1.1.1.2 On April 6, 2017, the Securities Law (Amendment No. 63), 2017 ("**Amendment 63**"), on the demutualization of TASE was published in the Official Gazette. To the best of the Company's knowledge, the primary purpose of Amendment 63 was to outline the change in the ownership structure of a stock exchange in Israel while severing the connection between its owners and members, thereby making it a for-profit company (with the ability to distribute dividends to its shareholders), to expand the base of companies on TASE and to make the stock exchange accessible to a larger number of entities. Another goal of Amendment 63 was to lay a foundation for future strategic collaborations with foreign stock exchanges and strategic investors. For further details, see Section 1.34 below.

Against this backdrop, on September 7, 2017 the Tel Aviv District Court approved the plan for the demutualization arrangement of TASE (the "**TASE Demutualization Arrangement**"). The TASE Demutualization Arrangement had two primary immediate and related goals. First, a change in the form of incorporation of the Company, from a company limited by guarantee without any share capital, to a company limited by shares, with one type of shares; second, to make the capital and voting rights of the TASE members equal, on the basis of the commonly accepted principle of "**one share, one vote**," and to abolish the special arrangements for the appointment of directors set forth in the Securities Law, in the Company's previous articles of incorporation, and also pursuant to the reduction in the number of members of the Board of Directors of the Company. As a result, and in compliance with the corporate governance provisions that apply to TASE under Amendment 63, on July 6, 2018, the Company completed its transition to a "for-profit" private company.

Further to the aforesaid, on August 1, 2019, the Company's closed the process for an initial public offering of the Company's shares and their listing on the Tel-Aviv Stock Exchange, and the Company became a public company.

1.1.1.3 As of Reporting Date, the Company, together with TASE Clearing House and MAOF Clearing House (together, the "**Clearing Houses**"), manage a stock exchange and clearing houses for securities. The Company, together with TASE Clearing House, MAOF Clearing House and the Nominee Company, are referred to herein as the **"Group**" or the **"TASE Group**".

A stock exchange is a company licensed to establish and manage a multi-lateral system through which trading in securities is conducted, by means of matching orders for the purchase and sale of securities, and enhancing transactions between purchasers and sellers of securities, which operates on a non-discretionary basis, pursuant to rules set forth and published in advance.

The Company is responsible for the management of a regulated market for the trading of securities in Israel, pursuant to the rules set forth in the TASE Rules (the **"TASE Rules**") and in the TASE Regulations, which are set pursuant to the Securities Law [1]. Within this framework, the Company manages a system for the trading of a wide variety of securities/. It provides an operating and regulatory infrastructure for the execution of such trading, alongside various associated services, such as data distribution services, services in connection with listing, and it also provides an infrastructure for the settlement of these transactions through its clearing house subsidiaries.

A clearing house is a company that is licensed to open and manage a central system for the settlement of transactions in securities (namely, the delivery of the security and the delivery of the consideration for the security, pursuant to the terms of the transaction).This may include the provision of central custody services (Central Securities Depository - CSD) for the securities and/or it may act as a Central Counterparty (CCP) for transactions in securities, to ensure the settlement of the transaction.

Accordingly, the TASE Group's only reportable area of activity, which is reported as a business segment in the Company's consolidated financial statements, is the trading and settlement of securities transactions.

The provision of a central financial market infrastructure for trading investment instruments, with high levels of capacity, flexibility and reliability, pursuant to the required business and regulatory standards, involves a high fixed cost. After this investment, the marginal cost of executing associated or supplementary actions is relatively low. Therefore, TASE and the Clearing Houses benefit from tangible advantages in relation to the development and penetration of products and services that are complementary to and/or associated with their trading and clearing activities.

Currently, as the only stock exchange in Israel, the Company plays a central role in the Israeli economy and constitutes a market infrastructure important for the economy's growth. TASE is the "home court" of the capital raisers in Israel: many Israeli corporations[2] are assisted by TASE in financing their investments and their business activities. TASE assists the government, among other things, in selling shares to the public as part of the privatization process. TASE is also the "home court" of the investing public and the securities industry in Israel. For the investors, TASE is a sophisticated and reliable trading platform for securities trading, including a wide range of financial instruments.

Currently, approximately 560 companies that have issued equity and debt instruments, 582 ETFs and foreign funds, including the Government of Israel, benefit from TASE's services in Israel, and hundreds of thousands of investors, including households, invest directly using TASE. In fact, the majority of households in Israel are exposed to activity in TASE's markets through entities engaged in the management of investments, primarily pension funds, but also insurance companies, provident funds, advanced study funds and others.

The added value inherent in TASE's activities as a central trading infrastructure are substantial. This value is reflected in the increase in value of companies as a result TASE's creation of liquidity for their shares, as well as decreased interest on raising of debt as a result of greater tradability of debt instruments. At the same time, the investing public benefits from

---

1 The TASE Rules (as distinguished from the Company's articles of incorporation), together with the TASE Regulations and the Bylaws of the Clearing Houses, will be referred to as the "**TASE Rules**."

2 While the majority of issuers of the securities listed on TASE are incorporated as companies, in certain areas of activity the securities of limited partnerships are also listed on TASE (chiefly in the field of oil and gas). Therefore, reference to companies and corporations in this Report also includes reference to these partnerships.

low transaction costs on investments and access to a variety of assets, while ensuring transparency and the receipt of up-to-date information, along with the existence of an ongoing and reliable mechanism for determining the market value of the investment.

The securities traded on TASE as of Reporting Date include, among other things, shares, participation units, corporate bonds, structured bonds, convertible securities, ETFs and government bonds. In addition, derivatives issued by MAOF Clearing House which include, as of Reporting Date, options on shares, options and futures on equity indices and on foreign currency exchange rates, are traded on TASE.

Transactions in securities listed on TASE are executed through TASE members only, both on their own behalf and on behalf of others, and they are settled through TASE Clearing House, a wholly owned subsidiary of the Company. In addition, TASE Clearing House provides central counterparty (CCP) services and securities custody services (CSD), for the realization of rights attached to the securities listed on TASE and, for the settlement of payments of issuing companies, such as interest and dividends to security holders who hold the securities through TASE members. Given the above, it is clear that the activities of TASE Clearing House are supplemental to the Company, interwoven with Company's activities and vital to the smooth and effective functioning of a stock exchange.

TASE Clearing House carries out the clearing of securities itself. Monetary clearing is carried out based on instructions sent by TASE Clearing House to the Bank of Israel. The Bank of Israel executes monetary clearing in shekels and US dollars on the "ZAHAV" (RTGS) system (a system for the daily settlement of payments in real time, managed by the Bank of Israel) (the **"ZAHAV System"**). The debits and credits on the ZAHAV System are immediate and final[3]. In addition, TASE Clearing House is making it possible, with certain restrictions anchored in its bylaws, to clear company payments in foreign currency, other than through the Bank of Israel.

In order to mitigate the risk inherent in the settlement of the transactions at TASE Clearing House, settlement is effected using a DVP (Delivery Versus Payments) mechanism, whereby the clearing of the securities is synchronized with the monetary settlement (which is executed on the ZAHAV System). For further details, see Section 1.7.3. below.

Pursuant to the Joint Investment Trust Law, 1994, TASE Clearing House settles instructions for the creation of units in funds for joint investments in trusts (open-end mutual funds, ETFs), and instructions for the redemption of the units and for the exercise of rights and the execution of other payments with respect to these units.

In addition, TASE Clearing House provides custody and settlement services for securities that are not listed for trade on TASE ("**NLT**").

In order to handle securities of dual-listed companies, which are listed both on the stock exchange in Tel Aviv and on stock exchanges overseas, and are cleared both at TASE Clearing House and an overseas clearing house, TASE Clearing House opened accounts at the DTC (the central clearing house in the United States, which provides clearing and custody services for securities in the United States, "**DTC**") and at Euroclear Bank ("**Euroclear**") (which is a central European clearing house that provides clearing and custody services for securities in and outside of Europe).

Additional activities of TASE Clearing House include operating services for the lending pool of the Ministry of Finance. The lending pool includes government bonds issued pursuant to the Government Loan Law, 1979 and the regulations

---

[3] As of Reporting Date, TASE Clearing House allows the clearing of company actions in foreign currency, without the involvement of the Bank of Israel. This process is being executed, as of Reporting Date, solely in US dollars and with certain restrictions; however, such clearing may also be executed in other currencies – in this instance too with certain restrictions, as set out in the TASE Clearing House bylaws.

thereunder ("**Government Bonds**") and serves to lend Government Bonds to market makers approved for this purpose by the Ministry of Finance[4], and the settlement of transactions in Government Bonds executed on the MTS Israel system[5].

In addition, TASE Clearing House manages on behalf of the Bank of Israel the deposit of collateral for the Bank of Israel by the banks that participate in the ZAHAV System, against the credit that the Bank of Israel allocates to them (ICS - Intraday Credit System). As part of its activities, TASE Clearing House manages an array of collateral that is received from the members of TASE Clearing House in respect of the default fund, which was set up by it and is intended to handle situations of default by a Clearing House member.

Derivatives (options and futures) are issued by MAOF Clearing House, which is also a wholly owned subsidiary of the Company and was incorporated in 1957 (under a different name) and commenced operations in the field of financial instruments in 1993. The derivatives are traded on TASE and the transactions are cleared through MAOF Clearing House. As part of its activities, MAOF Clearing House manages a range of margins received from its members with respect to the ongoing activity of the members and of their clients in the derivatives market, and with respect to the default fund, which was set up by MAOF Clearing House and is intended to handle situations in which a member has defaulted. These margins, which are not in cash, are deposited with TASE Clearing House in the name of MAOF Clearing House for its members.

As part of its activities, the Company also distributes information, including announcements of companies that are traded via the MAYA site (an online system for company announcements - http://maya.tase.co.il), which the Company operates as part of its website at http://tase.co.il (the "**TASE Website**"), and TASE announcements. It is also engaged in the registration of securities, the preparation of indices etc.

1.1.1.4 On October 25, 2017, the Nominee Company, which is a nominee company pursuant to its definition in the Securities Law, was established. Its primary activity is the registration of securities of publicly traded or reporting corporations (that are not foreign companies) in its name in the securities register of these corporations, and their deposit with TASE Clearing House, as well as the day-to-day handling of the rights attached to these securities. For further details regarding the activities of the Nominee Company, see Section 1.7.3.4 below.

1.1.2 **The holdings structure chart for the Group, as of Reporting Date:**

* One share of MAOF Clearing House is held by TASE Clearing House.

---

[4] A primary dealer who wishes to borrow Government Bonds (subject to a current limit of NIS 1 billion per dealer) must provide collateral for lending through TASE Clearing House. The lending pool agreement between the Ministry of Finance and TASE Clearing House is included in the TASE Rules.

[5] A trading system, which is located in Europe, on which government bonds of the State of Israel are also traded, and is managed by Euro MTS Ltd. For further details, see Section 1.33.2 below.

1.2 **Area of Activity**

As stated above, as of Reporting Date, the Company has a single area of activity reported as a business segment in the Company's consolidated financial statements – the area of trade and settlement of transactions in securities. For details regarding the area of activity, see Section 1.7 below.

1.3 **Investments in the Company's Equity and Transactions in Its Shares**

1.3.1 **Allocation of shares to the Company's employees**

In May 2017, the Company entered into a collective agreement with the Histadrut (the New General Federation of Labor in Israel) and the Company's employees committee, pursuant to which it was agreed – among other matters – to allocate shares to employees with respect to TASE's restructuring. Accordingly, on September 13, 2017, TASE allocated 6,000,000 ordinary shares having no par value to a trustee for TASE employees and service providers, for no consideration. On the allocation date and on Reporting Date, these shares constituted 6% of the Company's issued share capital.

For details regarding the fair value of the benefit and how the expense is recorded, see note 15 A to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.3.2 **Process for selling shares of the Company to foreign investors**

In December 2017, the Company contacted all of its shareholders, inviting them to submit an offer for the sale and transfer of their shares in the Company, on the basis of a valuation of the Company (100%) of NIS 500 million (i.e. NIS 5 per share), where the Company would be entitled to assign the offers submitted to any third party that it sees fit. In response to this request, the Company received offers from 21 shareholders (the "**Selling Shareholders**") in respect of 71,717,499 shares, constituting 71.72% of the Company's issued share capital.

Further to the aforesaid, on April 16, 2018, the Company entered into an agreement for the sale 19,999,999 shares at a rate of 19.99% of the Company's issued share capital (as amended on August 8, 2018; the "**Sale Agreement with Manikay**") with a foreign company registered in Delaware, USA, Manikay Partners LLC ("**Manikay**"). for consideration of NIS 5.51 per share, and for a total of approximately NIS 110,200,000, and, of this sum, a total of NIS 10.2 million was paid to the Company (reflecting the amount in excess of NIS 5 per share), and the balance of NIS 100 million was distributed among the Selling Shareholders.

The balance of the shares of the Selling Shareholders, namely 51.72%, will be earmarked for investors that will be found by Manikay and approved by the Company (the "**Additional Investors**").

In August 2018, at Manikay's suggestion and in accordance with the terms of the Sale Agreement with Manikay, the Company entered into four sale agreements with four Additional Investors, which are foreign investment corporations, pursuant to which each of the Additional Investors purchased 12,929,375 shares in the Company (12.93% of the issued share capital) for a consideration of NIS 5 per share, and for a total of NIS 64.6 million, which was divided among the Selling Shareholders. Under these agreements, each of the Additional Investors has undertaken, inter alia, to agree to the sale of its shares in the Company, at a rate of 7.94% of the issued share capital, within the framework of an IPO of the Company's shares, at a net share price that will not be less than NIS 5.51 (an "**Approved IPO**"), such that, following the closing of an Approved IPO, each of the Additional Investors will hold shares at a rate of 4.99% of the Company's issued share capital. It was also agreed that the surplus consideration in excess of the minimum price required to perform an Approved IPO, will be distributed equally between the Company and the Additional Investors.

1.3.3 **Secondary offering of the Company's shares to the public**

On July 31, 2019, the Additional Investors sold 31,717,504 Company shares, constituting 31.7% of the Company's issued share capital. This took place within the framework of a public offering of the Company's shares, by way of a secondary offering, for a total consideration of NIS 225.2 million (gross), at a value of NIS 7.1 per share, viz. at a Company value of NIS 710 million. As was agreed with the Additional Investors with regard to the division of the surplus consideration in the Approved IPO, the Company's share of the surplus consideration amounted to NIS 15.5 million. At the same time, the Company's shares were listed on the Tel-Aviv Stock Exchange. For further details, see the immediate report issued by the Company on July 29, 2019 (reference no. 2019-01-065259). The information presented in the aforesaid report is included herewith by way of this reference.

1.3.4 **Transfer of surplus consideration from the sale of Company shares by other shareholders**

In accordance with Section 41(L)(2) of the Securities Law, as amended within the framework of Amendment 63, from the listing date of the Company's shares on August 1, 2019 through to shortly before the date of publishing this Report, as a result of sales of Company shares by entities that were shareholders of the Company on the date of approving the TASE Demutualization Arrangement, the Company received a total of NIS 13.8 million. For further details, see note 18 B to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.3.5 To the best of the Company's knowledge, except as specified above, from January 1, 2018 through the publication date of this Report, no other material transaction was executed by an interested party of the Company in the Company's shares.

1.4 **Dividends**

1.4.1 **Distribution of dividends and retained earnings**

In the two years preceding Reporting Date, the Company had not distributed a dividend to its shareholders.

On March 24, 2020, at the same time as it approved the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report, the Company's Board of Directors resolved to distribute a dividend in the amount of NIS 0.0877 per share, and in a total amount of NIS 8,770 thousand. The record date for entitlement to receive the dividend and the payment date have been set for April 1, 2020 and April 16, 2020, respectively.

According to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report, the Company has retained earnings of NIS 541 million, and this is – to remove any doubt – after taking into account the dividend referred to above in this Section.

1.4.2 **External restrictions on the payment of dividends**

In accordance with Section 45B of the Securities Law (which was revoked within the framework of Amendment 63), until July 6, 2018, the Company was not authorized to distribute its profits among its members. As of Reporting Date, the Company had not imposed any restrictions on itself vis-à-vis third parties that might affect its ability to distribute a dividend in the future. Generally, the Company itself (on its own, as distinct from TASE's Clearing Houses) is not subject to any regulatory directive with regard to liquidity. In the absence of any such directive, the Company's capital adequacy and liquidity requirements are determined using internal models that were approved by the Company's Board of Directors in January 2015. For further details, see note 5 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report. As of Reporting Date, these requirements do not have a material effect on the Company's ability to distribute dividends.

1.4.3 **Dividend distribution policy**

On March 31, 2019, the Company's Board of Directors approved a dividend distribution policy in relation to the Company's profits for the years 2019 through 2022 (the "**Dividend Distribution Policy**"), pursuant to which – with effect from 2019 and through the end of the Dividend Distribution Policy, the Company will act to distribute a cash dividend to its shareholders at a rate of between 30% and 50% of the annual net profit from its operating activities (namely, without taking into account revenue from exceptional events), in accordance with the Company's annual consolidated financial statements, and this will be done at the time of approving the annual financial statements. So as to remove any doubt, it is hereby clarified that – under this Dividend Distribution Policy – no dividend will be distributed from the profits accumulated by the Company prior to January 1, 2019.

The approval of the Dividend Distribution Policy will not be deemed as obligating the Company's Board of Directors to pass a resolution for the distribution of a dividend. The decision as to whether to distribute a dividend will be subject to the Company complying with the distribution criteria prescribed in the Companies Law. These criteria examine whether – at the time of passing the resolution regarding a dividend distribution, and taking into consideration the ongoing business activity needs of the Company, the work plan, the TASE Group's liquidity position and the leverage ratios, the TASE Group is able to meet its commitments and fulfill its covenants (if any), and likewise, the regulatory requirements to which the Group companies are subject (such as with regard to liquidity, minimum equity, etc.), and all at the time of passing any such resolution. It is further clarified that the Board of Directors may change the Dividend Distribution Policy and/or cancel it and/or deviate from it at any time.

Part Two - Other Information

This part includes information about customers compiled from various sources that the Company has deemed appropriate as set forth in the body of this part (the "**Sources**"). Although it has not conducted any independent checks to verify the data, the Company is of the opinion that these Sources are reasonable sources for the relevant information.

1.5 Financial Information Regarding the Company's Area of Activity

1.5.1 The following table shows data from the Company's (consolidated) financial statements regarding the Company's area of activity (NIS thousands):

	2019	2018	% change
Revenues – from external customers [(1)]	260,001	255,605	2%
Fixed costs* – with respect to revenues from external customers (excluding depreciation)	158,847	153,477	3%
Fixed costs (non-cash) – depreciation expenses	43,571	32,672	33%
Variable costs – with respect to revenues from external customers**	38,207	40,621	(6%)
Variable costs (non-cash)***	5,216	(84,787)	(106%)
Total expenses	**245,841**	**141,983**	**73%**
Profit (loss) before financing income, net	**14,160**	**113,622**	**(88%)**
Assets of the area at the end of the period	**1,040,455**	**1,504,352**	**(31%)**
Liabilities at the end of the period	**558,195**	**1,050,593**	**(46%)**

(1) For revenue details, see Section 1.17 below.

* The majority of the Company's expenses are fixed and are not affected by the level of the revenue. These expenses include, among other things, salaries and related expenses, computers and communications, municipal taxes and building maintenance and the annual fee to the Israel Securities Authority. In the Company's opinion, salary and related costs (apart from bonuses and overtime) are fixed due to collective labor relations and limited flexibility in the ability to change or adjust salary and/or manpower costs.

** The variable costs primarily include marketing and consultancy expenses, and salary costs for bonuses and overtime.

*** Non-cash variable costs include capital losses and expenses with respect to share-based payments in 2019, and, in 2018, the reversal of an impairment provision. For further details, see Section 1.1 of the Board of Directors' Explanations, which are included below.

1.5.2 For explanations on the primary developments with respect to the data set forth above, see the Board of Directors' Report on the Company's State of Affairs, which is included in this Periodic Report below.

1.6 Economic Environment and the Impact of External Factors on the Company's Activities

The contents of this section below are based on trends, events and developments in the Company's macro-economic environment, which have, or are expected to have, a material impact on the Company's business. Therefore, any reference that appears in this section below to the Company's assessment of the developments expected in the future and their effect on the TASE Group, is based on an examination of forward-looking information that is not under the Company's control and is uncertain.

Below are details regarding trends, events and developments in the Company's macro-economic environment which have, or are expected to have, a material impact on the Company's business results or developments or in the Company's area of activity.

1.6.1 **The capital market in Israel**

Given the Company's unique position as the only stock exchange in Israel, constituting key infrastructure for the execution of investments in securities and financial instruments, and for raising equity and debt capital, the activity in the primary and secondary market on TASE is affected to a large degree by macro-economic factors, by regulatory factors and by taxation policy, as set forth below.

Despite the robust and developed nature of the Israeli economy, even in 2019, the coverage scope of activity of the public capital market in Israel (viz., the ratio between the public company equities market and the gross domestic product) is relatively constrained compared to other developed nations.

In addition, according to third party data, the velocity of trading in Israel (which is determined as the ratio between the annual trading volume in shares and ETFs traded on TASE, in relation to the average aggregate market value) is low compared to most other developed nations.

Presented below are details regarding the velocity of trading in Israel for 2018 and 2019 and for the fourth quarter of 2018 and 2019:

	2019	2018	% change	For the three months ended 31.12.2019	For the three months ended 31.12.2018	% change
Equities (1)	35.2%	36.3%	(3.0%)	36.4%	39.6%	(8%)
Corporate bonds (1) (2)	54.9%	64.8%	(15.3%)	58.8%	76.8%	(23.4%)
Government bonds – shekel (3)	128.4%	135.8%	(5.5%)	110.0%	137.2%	(19.8%)
Government bonds – linked (4)	79.8%	84.4%	(5.5%)	73.1%	76.5%	(4.4%)
Treasury-bills (Makams)	61.3%	61.9%	(0.1%)	56.2%	95.3%	(41.0%)

(1) The velocity of trading includes the data of the traded ETFs/ETNs. It should be noted that, during the fourth quarter of 2018, the ETN reform was implemented, a process that led to exceptional activity in ETN trading and, consequently, the data presented above in relation to the velocity of trading in equities during that period is not indicative.

(2) The velocity of trading does not include data of TACT institutional-traded corporate bonds.

(3) Including "Shahar" fixed-interest shekel bonds and short-term government bonds.

(4) Includes CPI-linked bonds and "Gilon" variable-interest shekel bonds.

Further, investment in equities by the Israeli public as a percentage of total financial assets has historically been low compared to other developed nations. According to data from the developed nations' Organization for Economic Cooperation and Development (OECD) and from the European Statistical Office (EUROSTAT), the rate in Israel for 2017 was 14%, compared to 18.8% in Australia, 22.8% in France, 23.2% in Norway, 25% in the U.K. and 35.4% in the USA.

In the Company's opinion, the relatively low investment rate in Israel is primarily due to two factors. First, Israeli investors prefer financial and property investments, and therefore do not fully understand equity investments. Second, there is a high rate of capital gains tax in Israel compared to many other developed nations. In the Company's opinion, the foregoing data indicates an inherent growth opportunity should the scope of activity in the capital markets, and particularly the equity markets, in Israel rise to approach the rates customary in other developed nations, in relation to the GDP and to the financial assets. This assumes that the Company's strategic plan is successfully implemented.

In recent years, the developed markets – particularly in the United States and in European countries – have seen a rise in trading executed by means of algorithm-based automated trading systems on behalf of players acting on their own behalf and electronic market makers and investment houses ("**High Frequency Trading**"). This has contributed significantly to the overall growth in trading volume. In the Company's opinion, the scope of High Frequency Trading on TASE is low relative to the United States and Europe. The Company's actions to integrate electronic market makers into the Tel-Aviv Stock Exchange are expected to contribute to growth in the High Frequency Trading volume. The Company believes that the investments it made during 2018 and 2019 to upgrade its trading and communications infrastructures, including co-location services and the enhancement of international connectivity, will support this trend by cutting the transmission times for data and orders, which constitute a major element in High Frequency Trading. According to the Company's data, quote generators, including market makers, had an 18% share of the Stock Exchange trade in 2019, compared to 12% in 2018.

Key local factors that have affected the activities at TASE, in the Company's opinion[6]

1.6.1.1 **<u>Interest rate of the Bank of Israel</u>**

In November 2018, the interest rate of the Bank of Israel was raised for the first time since May 2011 by 0.15% to a level of 0.25% starting from December 2018. In 2019, the economy's interest rate was left unchanged at a level of 0.25% and, according to the Bank of Israel's forecast, it is expected to remain unchanged at the level of 0.25% or to fall to 0.1% by the end of 2020.

Inflation in 2018 and 2019 was at rates of 0.8% and 0.6%, respectively. These rates are lower than the target threshold of 1% for inflation set by the government.

In the Company's opinion, the low interest rate has contributed to an increase in the companies' profitability, has encouraged local and foreign issuers to take advantage of comfortable market conditions and to issue bonds at relatively low interest rates, and encouraged stock market investors to invest in equities.

1.6.1.2 **<u>Israel's credit rating</u>**[7]

Israel's international credit rating was raised in 2016 by Fitch from an A rating to an A+ rating with a "positive" outlook, which is similar to the rating given to Israel by the international rating companies S&P and Moody's.

In 2017, S&P affirmed Israel's rating (A+) and raised the outlook from "stable" to "positive." In 2017, Fitch also affirmed Israel's rating (A+) while maintaining the outlook as "stable," which is similar to the rating given by Moody's.

In July 2018, Moody's raised Israel's rating outlook from "stable" to "positive" and in August 2018, S&P raised Israel's rating to a high of (AA-) with a "stable" outlook. This rating became a regular update at the end of January 2019 and was reaffirmed in August 2019 and, subsequently, in January 2020. In March and August 2019, Fitch affirmed the State of Israel's A+ credit rating with a "stable" outlook.

In the Company's opinion, Israel's credit rating primarily affects the ratings of government debt instruments (government bonds, treasury bills ("Makams"), etc.) traded on TASE. In addition, it projects onto the credit ratings of Israeli companies, whose operational environment is in Israel, and thereby also affects the demand and pricing of debt instruments issued by Israeli companies. In the Company's opinion, Israel's credit rating is a positive factor for companies interested in issuing or listing, and for foreign investors when deciding in which markets they should operate. On the other hand, a reduction in the government debt reduces the country's need to raise new debt to finance its activities. This has been reflected in recent years by a decrease in the amount of new issues of state bonds versus the redemptions of similar bonds in those years.

---

[6] Macro data relating to Israel has been sourced from the websites of the Central Bureau of Statistics, the Bank of Israel and the Ministry of Finance, while the macro data relating to activities abroad has been taken from the websites of the economic press and economic reviews by Bank Hapoalim.

[7] https://mof.gov.il/AG/FinancingAndCredit/TheCreditRating/Pages/IsraelsCreditRating.aspx.

1.6.1.3 **The effects of changes in exchange rates**[8]

In 2018, the US dollar exchange rate strengthened by 8.1% against the NIS. In 2019, the US dollar exchange rate weakened by 7.8%.

In 2019, the euro exchange rate weakened by 9.6% against the NIS after having strengthened against the NIS by 3.4% in 2018.

In the Company's opinion, in many cases, exchange rates affect the value of companies, their results of operations and the value of dual-listed companies traded on foreign markets, and they affect the choice of debt-raising channels of the companies.

Main factors at the international level that, in the Company's opinion, have affected the activities at TASE

1.6.1.4 In 2018, the NASDAQ 100 Index fell by 1% and the S&P 500 Index fell by 6%. The drop in the NASDAQ Index by a total of 18% in the last third of 2018 (a drop of 9% in December 2018) led to a decrease in the prices of all the leading stock exchanges around the world as well as in Tel Aviv[9]. In 2019, the NASDAQ 100 Index and the S&P 500 Index soared by 38% and 29%, respectively.

1.6.1.5 In the Company's opinion, differences in interest rates and the expectations of interest rate cuts in some markets, along with the lack of certainty, may affect investors' preference in choosing the markets in which they operate, the scope of their activities, and may affect the level and nature of the fund raising by companies listed on TASE.

At the end of 2019, 55 companies whose shares were also traded in the United States or in London had shares traded on TASE. The value of these companies, which have direct exposure to the foreign markets, amounted to NIS 269 billion at the end of 2019, and their average daily trading volume at the end of 2019 came to NIS 284 million a day (not including off-exchange transaction), constituting 29% of the daily trading volume in the stock market (not including off-exchange transaction, and excluding ETFs).

1.6.2 **Regulation and taxation**

The capital market in Israel is characterized by multiple oversight and regulatory arrangements, both in matters relating to the activities of the TASE Group (for details, see Section 1.32 below), and in matters relating to the companies traded on TASE. Future regulatory changes relevant to the capital market as a whole, and to the TASE Group in particular, may have major effects on the Company's results and on its activities.

In addition, changes in the tax arrangements, both for the various investors in TASE and for the companies traded on TASE, may affect the activities of these entities in the capital market, and may thereby affect the Company's results and its activities.

1.6.3 **The equity market**

1.6.3.1 In 2019, trading on the Tel-Aviv Stock Exchange was characterized by price rises, as was also the case on the world's leading stock exchanges. The price rises, which began as a correction of the steep falls that world markets suffered in December 2018, were supported mainly by low to negative interest rates and the expansionary monetary policies of some of the world's central banks.

For the whole of 2019, the TA-35 Index rose by 15%, after having fallen 3% in 2018 and having risen by 3% in 2017, reaching a level just 2% below the record set in 2015. In NIS terms, the TA-35 Index rose by 15% in 2019, compared to a rise of 27% on the NASDAQ 100 Index and an average rise of up to 13% on the leading European indices, including a rise of just 7% on the FTSE 100.

---

[8] https://www.boi.org.il/he/markets/foreigncurrencymarket/pages/average.aspx.

[9] https://finance.yahoo.com.

1.6.3.2 A securities index is a number that expresses the changes that have occurred over time to the value of a certain group of securities. Changes in securities indices reflect the return for investors in the securities included in the index, according to the weighting of each security in the index. They measure these changes both during the trading day and over time.

1.6.3.3 Reform of the equity indices commenced on February 9, 2017, under which the maximum weighting of the large stocks was reduced, among other things, in the TA-35 Index. This moderated the negative impact of the drop in the prices of pharmaceuticals stocks on the yield of this index. For details regarding the reform of the equity indices, see Section 1.16.2.2 below.

1.6.3.4 The following table shows the numbers of public offerings and total proceeds in the equity market in 2018 and 2019:

	Number of Offerings					
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Public offerings	60	64	(6.3%)	17	14	21.4%
Public offerings of new companies (IPOs) included in public	7	11	(36.4%)	1	2	(50%)
Private	98	74	32.4%	20	22	(9.1%)
Exercise of	-	-	-	-	-	-
Total	**158**	**138**	**14.5%**	**37**	**36**	**2.8%**

* The number of new companies does not include companies that were dual-listed and issued only bonds.

	Amounts Raised (NIS millions)					
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Public offerings	8,314	3,663	127%	3,742	298	1,156.8%
Public offerings of new companies (IPOs) included in public	3,206	1,844	73.9%	500	173	189.0%
Private	4,196	2,092	101%	1,713	409	318.8%
Exercise of	780	908	(14.1%)	487	391	24.6%
Total	**13,290**	**6,663**	**99.5%**	**5,941**	**1,097**	**441.6%**

In the years 2018 and 2019, 11 and 7 new companies, respectively, joined through their respective IPOs, varying both in their businesses and their size. In addition, in each of 2018 and 2019, 3 companies were dual-listed and began trading in parallel on TASE. At the same time, in 2018 and 2019, 24 and 17 stock companies, respectively, were delisted. For further details see Sections 1.10.5 and 1.10.6 below.

Since June 2017, TASE has enabled the issuing of preferred shares, which grant a preference in the receipt of dividends but do not grant a right to vote. In November 2017 through Reporting Date, NIS 800 million was raised in a single offering of preferred shares.

The following table shows the yields of the main equity indices in 2018 and 2019 (percentages):

	Rate of change			Market Cap as of December 31		
	Q4 2019	2019	2018	2019 (NIS billions)	2018 (NIS billions)	
Market Cap Indices						
TA-35	4%	15%	(3%)	519.6	470.5	A share index of the 35 companies with the highest market capitalization on the exchange that meet the index criteria.
TA-90	9%	40%	(3%)	205.0	146.0	A share index of the 90 companies with the highest market capitalization on the exchange, that are not included in the TA-35 Index, and that meet the index criteria.
TA-125	6%	21%	(2%)	724.6	616.5	An index that includes all the shares in the TA-35 and TA-90 Indices.
TA-SME60	5%	10%	(23%)	27.7	22.1	An index that includes the 60 shares with the highest free float market capitalization on the exchange, out of the shares that are not included in the TA-125 Index, that meet the index criteria.
Sector Indices						
TA-Tech-Elite …………………	6%	40%	(2%)	145.2	120.2	An index that includes all the shares includes in the TA-Global-BlueTech Index (an index that includes all the shares from the technology and biomed sectors that are included in TAMAR) with a minimum market capitalization of at least NIS 75 million.
TA-Finance …………………	2%	24%	(0.3%)	166.3	147.3	An index that includes all the shares includes in the following 3 sectors: banks, insurance and financial services, which meet the index criteria.
TA-RealEstate …………………	11%	73%	(11%)	170.1	116.1	An index that includes the shares included in the real estate and construction sector, which meet the index criteria.
TA-Oil & Gas …………………	7%	(1%)	4%	28.4	28.3	An index that includes all the shares included in the oil and gas exploration sector, which meet the index criteria.

For details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.6.4 **The bond and Makam (treasury bills) market**[10]

1.6.4.1 All the bond indices of corporate bonds and government bonds experienced price increases of approximately 8% - 9% in 2019, apart from variable-rate shekel bonds that remained unchanged. In the Company's opinion, the price increases took place against the background of the yield-to-maturity of 10-year U.S. treasury bonds falling to 1.9% at the end of 2019, a 32-month low. With the interest rate cuts along with the expansionary monetary policies being implemented by the world's central banks, including the U.S. Federal Reserve, which cut the interest rate by 0.25% three times in the second half of 2019 to a level of 1.5% - 1.75% and also announced massive purchases of government bonds starting from October 2019, and the European Central Bank (ECB), which cut the interest rate on deposits by 0.1% to a level of -0.5% and announced that it would be purchasing government bonds starting from November 2019, expectations grew that interest in Israel would remain unchanged in 2019 or might even be cut.

The Tel Bond-Global Index, which includes bonds of foreign real estate companies, rose by 15% in 2019 after falling by 13% in 2018.

1.6.4.2 The following table shows the yields of the main bond indices (corporate and government) in 2018 and 2019 (in percent):

	Annual Yield 2019	Annual Yield 2018	Q4 Yield 2019	Q4 Yield 2018	
Government Bonds					
CPI-Linked Government Bonds (Galil)	10.3%	(1.4%)	0.9%	(1.6%)	A fixed-rate CPI-linked index - government bonds, consists of all the government bonds traded on TASE that are linked to the Consumer Price Index and that pay fixed interest.
Non-Linked, Fixed Interest, Gov. Bonds (Shahar)	9.7%	(1.4%)	1.1%	(0.5%)	A shekel fixed-rate government index consisting of all the government bonds that are not CPI-linked and that are traded on TASE and pay fixed interest.
Corporate Bonds*					
CPI-Linked Corporate Bonds	7.9%	(0.8%)	0.3%	(2.5%)	A CPI-linked corporate index that consists of all the corporate bonds linked to the Consumer Price Index that are traded on TASE.
Prominent Indices:					
Tel Bond 20	8.2%	(1.1%)	(0.1%)	(2.4%)	The index consists of the 20 CPI-linked fixed rate corporate bonds with the highest market capitalization of all the CPI-linked bonds included in the Tel-Bond Universe and that meet the index criteria.

10 The data were taken from the reports of the rating companies for TASE.

	Annual Yield 2019	Annual Yield 2018	Q4 Yield 2019	Q4 Yield 2018	
Tel Bond 40	6.5%	(0.4%)	0.0%	(1.8%)	The Tel Bond 40 Index consists of the 40 CPI-linked fixed-rate corporate bonds, with the highest market capitalization of all the bonds of this type that are not included in the Tel Bond 20 Index and are included in the Tel-Bond Universe and that meet the index criteria.
Tel Bond CPI-Linked SmallCap	6.9%	(0.5%)	0.1%	(2.1%)	The Tel Bond CPI-Linked SmallCap Index consists of all the CPI-linked fixed-rate corporate bonds not included in the Tel Bond 60 Index but included in the Tel-Bond Universe and that meet the index criteria.
Tel Bond-Yields	8.6%	(4.6%)	1.3%	(4.3%)	The Tel Bond-Yields Index consists of all the CPI-linked, fixed-rate corporate bonds, with a Maalot credit rating of between (BBB-) and (A) or a Midroog credit rating of between (Baa3) and (A2), which are included in the Tel-Bond Universe and that meet the index criteria.
Shekel - Prominent Indices:					
Tel Bond-Shekel	8.6%	(4.3%)	1.3%	(3.0%)	The Tel Bond-Shekel Index consists of all the non-CPI-linked fixed-rate corporate bonds included in the Tel-Bond Universe and that meet the index criteria.
Tel Bond Floating	1.3%	0.8%	0.6%	(0.4%)	The Tel Bond-Floating Index consists of floating rate corporate bonds that are included in the Tel-Bond Universe and that meet the index criteria.
Currency-Linked Bonds Corporate Bonds	2.5%	5.1%	3.0%	0.2%	The Currency-Linked Bonds - Corporate Index consists of all the currency-linked corporate bonds traded on TASE.

* Does not include TACT Institutional bonds or financial instruments.

1.6.4.3 Gross government[11] proceeds from the bond market increased in 2019 and totaled NIS 70 billion, compared to NIS 46 billion in 2018. In addition, in 2019, the Ministry of Finance raised NIS 13 billion on overseas stock exchanges. Most of the above sum, in an amount of NIS 10.5 billion was raised in January 2019 in a government bond offering (by means of two series of euro-linked government bonds at low interest) in London, compared to NIS 7 billion raised in 2018.

The amount raised by the government in Israel and abroad in 2019 totaled NIS 82.8 billion, compared to a total of NIS 53.4 billion in 2018.

[11] https://govbondsquery.mof.gov.il/reportmgr/33.

The bond issues by the Ministry of Finance in recent years have been accompanied by significant redemptions. The following table shows details of government bond redemptions in 2018 and 2019 (NIS billions):

Scope of Government Bond Redemptions						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Shekel bonds	51.5	35.0	47.1%	15.8	15.1	4.6%
CPI-linked bonds	18.8	15.0	25.3%	9.9	-	NA
Total redemptions	70.3	50.0	40.6%	25.7	15.1	70.2%

1.6.4.4 The following table shows details regarding corporate bond issues in 2018 and 2019 (NIS millions and percent):

	2019		**2018**		**Q4 2019**		**Q4 2018**	
Total raised through corporate bonds	78,611		68,163		27,498		16,871	
Corporate bonds*	72,373	100%	61,358	100%	26,106	100%	15,751	100%
Sectoral classification								
Financial sector:	31,506	44%	18,052	29%	12,313	47%	7,951	50%
Within the financial sector – banks	22,356	31%	11,286	18%	8,249	32%	4,468	28%
Non-financial sector:	40,868	56%	43,306	71%	13,793	53%	7,800	50%
Within the non-financial sector - real estate	26,033	36%	26,676	45%	8,416	32%	2,778	18%
Energy and gas exploration	1,905	3%	5,861	10%	16	0.1%	1,705	11%
TACT institutional – debt raised overseas	-		3,516		-		-	
Structured bonds	3,268		2,370		474		634	
Non-listed bonds and the exercise of warrants	2,970		919		918		485	

* Includes TACT Institutional.

1.6.4.5 In the last quarter of 2019, the debt raised by the business sector jumped to NIS 27 billion, compared to the average of NIS 17 billion that was raised in each of the first three quarters of 2019 and in the last quarter of 2018. In the Company's opinion, the jump in debt offerings in the last quarter of 2019 has contributed to higher prices on the equity and bond markets, as well as to heightened expectations of a cut in the economy's interest rates.

In 2019, the total debt raised from corporate bonds (including exchange tender offers and structured bonds) amounted to NIS 78.6 billion, compared to NIS 66 billion in 2018 (excluding debt raised abroad).

In the Company's opinion, based on the redemptions forecasts at the beginning of the year, redemptions of traded corporate bonds (in the financial and non-financial sectors) amounted to NIS 43 billion in 2019, following redemptions of NIS 34 billion in 2018. Redemptions are expected to rise in 2020 to NIS 52.5 billion, with most of the increase – NIS 8 billion – being from bonds in the financial sector.

For details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.6.4.6 The wave of debt offerings in the corporate bond market by foreign companies (primarily income-yielding real estate companies) began in 2013 and slowed in the last quarter of 2018. At the same time, issuances by foreign real estate companies ceased. From 2013 to 2019, 36 foreign companies joined, raising NIS 16.2 billion from their issues on the bond market. These companies took advantage of low interest rates in the Israeli economy. Half of the new companies (18) joined between 2017 and 2019, and raised NIS 7.9 billion in their first corporate debt issue on TASE (15 real estate companies and 3 companies that provide credit to medium-sized businesses (Business Development Company), that issued bonds on TASE and also listed their shares in a dual-listing on this stock exchange). In 2019, just one foreign real estate company executed an initial issuance of bonds on the Tel Aviv Stock Exchange in which it raised NIS 0.5 billion.

1.6.4.7 The downward trend in the activity of foreign companies (new and old), which began in 2018, continued in 2019, when the scope of the debt raised through corporate bonds amounted to NIS 3.8 billion (of which NIS 1.5 billion was raised in each of the third and fourth quarters of 2019). In 2018, the scope of the debt raised by the foreign companies amounted to NIS 6.6 billion.

Debt raising by foreign companies on the bond market on TASE (NIS billions):

Debt Raising by Foreign Companies on the Bond Market on TASE (NIS billions)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
New companies	0.5 (1 company)	2.9 (7 companies)	(83%)	-	0.7 (2 companies)	(100%)
Old companies	3.3	3.7	(11%)	1.5	-	NA
Total	3.8	6.6	(42%)	1.5	0.7	114%

1.6.4.8 The financial sector increased the pace of debt raised through corporate bonds and raised NIS 12.3 billion in the last quarter of 2019 and NIS 31.5 billion in the whole of 2019, compared to NIS 18 billion raised in 2018.

For the first time, in 2016 the financial sector completed issues of “CoCo corporate bonds” on TASE (bonds that are convertible into shares and/or that include a mechanism for writing down the principal on the occurrence of a “default event”). As part of these issues, NIS 6 billion was raised in 2019, compared to NIS 3.6 billion in 2018 (of which NIS 1.1 billion was from bonds listed on the TACT Institutional platform).

1.6.4.9 In 2019, debt was raised for the first time by means of “bonds repayable in shares”, which enables the issuer to pay the principal and interest by means of its shares, instead of in cash. The issuer, whose shares are included on the TA-35 Index, offered two new series of shekel bonds in August 2019, thereby raising a total of NIS 602 million. NIS 201 million of this amount was from the first series of bonds on TASE that is payable in shares. Both of the above series have the same average duration of 7.5 years and are rated with an (AA-) rating by Maalot. The bonds repayable in shares bear interest at 2.66%, while the regular bonds bear interest at 2.41%.

1.6.4.10 Total corporate bond issues with a high rating from the A group and above increased in 2019 to 93% of the total raised from issues of corporate bonds to the public, compared to 91% in 2018.

1.6.4.11 In 2019, offerings of structured bonds backed by deposits at domestic banks raised NIS 3.3 billion, compared to NIS 2.4 billion in 2018.

1.6.4.12 In 2019, the average daily trading volume of treasury bills, not including off-exchange transactions, amounted to NIS 290 million, approximately 16% higher than the average daily trading volume in treasury bills in 2018.

In 2019, the yield-to-maturity fell to 0.2%, compared to 0.4% in 2018.

In 2019, public holdings in treasury bills rose to NIS 120 billion, compared to NIS 106 billion in 2018. In the Company’s opinion, most of the increase in 2019 was due to purchases by the Israeli public (amounting to NIS 10 billion), with purchases by foreign investors making up the balance.

1.6.5 **ETNs and ETFs**[12]

1.6.5.1 In October 2018, the reform spearheaded by the Israel Securities Authority (pursuant to Amendment No. 28 to the Joint Investment Trust Law) to convert exchange-traded notes (ETNs) to tradable exchange-traded funds (ETFs) (which operate in the format of mutual funds) got underway. Before the reform, 714 ETNs were traded on TASE, which became 610 ETFs traded on TASE, after 64 ETNs were converted to open-ended mutual funds not traded on TASE, more than 100 ETNs were merged, 29 ETNs were redeemed in early redemptions and 20 currency ETNs were converted into money market mutual funds (with the exception of one ETN that transferred to be traded on the bond market). Conversely, the Migdal insurance group issued 48 new ETFs – these ETFs replace tradable tracking funds, and 16 kosher ETFs (ETFs with a rabbinically issued halakhic certification) were issued.

At the end of 2019, 559 ETFs (of which approximately two thirds invest on the equity market) were traded on TASE, following the issuance of 23 new ETFs and the delisting of 59 ETFs that were liquidated and 20 ETFs that became mutual funds.

The following table shows details of the market capitalizations of ETFs (NIS billions):

	31.12.2019	**31.12.2018**
ETFs on shares indices in Tel Aviv	25.7	19.3
Of which, primary indices:		
TA-125	9.2	7.3
TA-Banks 5	6.7	3.9
TA-35	5.3	4.5
TA-90	2.6	2.1
ETFs on international share indices	38.4	40.7
Of which, primary indices:		
S&P 500	11.6	10.8
NASDAQ 100	5.2	5.0
MSCI AC WORLD	3.0	2.4
EURO STOXX 600	1.9	2.5
ETFs on bond indices	28.9	26.0
Of which, primary indices:		
Tel-Bond 60	6.0	5.4
Tel-Bond 20	4.1	4.1
Tel Bond-Shekel	3.9	3.8
Fixed-rate government NIS	1.7	1
Total value of ETFs	**93.0**	**86.0**

12 For further details regarding the ETN reform and the transition to ETFs, see Section 1.16.3 below. The data has been taken from the reports of the ETN Association.

1.6.5.2 The following table shows details of net purchases and sales of ETNs/ETFs by the public (NIS billions):

	2019	Q4 2019	1-9/2018*
ETNs on share indices in Tel Aviv	2.3	(0.4)	(2.9)
ETNs on foreign share indices	(8.8)	(3.3)	(3.7)
ETNs on traded bond indices	0.6	0.2	(0.1)
Currency ETNs	-	-	(0.8)
Total	(5.9)	(3.5)	(7.5)

* Due to the ETN reform, there are no data regarding the public activity in the last quarter of 2018.

1.6.6 **The derivatives market**

1.6.6.1 In 2019, the scope of trade in monthly options on the TA-35 Index amounted to an average of 67 thousand units being traded daily, compared to an average of 100 thousand units traded daily in 2018.

1.6.6.2 In addition, in 2019, activity in weekly options on the TA-35 Index fell at a more gradual pace with an average of 30 thousand units being traded daily, compared to an average of 34 thousand units of weekly options on the TA-35 Index traded daily in 2018.

1.6.6.3 In 2019, the average daily trading volume in dollar options amounted to 43 thousand units, compared to an average of 56 thousand units daily in 2018. It should be noted that the trading volume rose from 38 thousand units daily in the first half of 2019, to 45 thousand units daily in the third quarter and to 53 thousand units daily in the fourth quarter of 2019. The fall in trading volumes in the first half of the year occurred in parallel with the discontinuation of dollar purchases by the Bank of Israel, while the rise in trading volumes in the second half of the year was supported by the interest rate cuts made by the U.S. Federal Reserve.

1.6.6.4 The following table shows details of daily trading volumes in the derivatives market (in thousands of units, and not including derivatives on individual shares and euro/shekel options):

Daily Trading Volumes on the Derivatives Market (in Thousands of Units, and Not Including Derivatives on Individual Equities and Euro/Shekel Options)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Monthly options on the TA-35 Index	67	101	(34%)	59	107	(45%)
Weekly options on the TA-35 Index	30	42	(29%)	26	34	(24%)
Monthly dollar/shekel options	43	56	(23%)	52	49	6%

1.6.6.5 Starting from March 29, 2018, "long-dated" futures on the TA-35 Index started to be traded on TASE for a period of 15 months. The Company will also enable the trading in options on this index for similar periods.

1.6.6.6 For details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.6.7 **Mutual funds**

According to Bank of Israel data, as of November 30, 2019, mutual funds constituted 8.5% of the total financial assets held by the public. During the period from January 1, 2018 through December 31, 2019, the volume of creations and redemptions of mutual fund units amounted to NIS 451 billion, of which NIS 235 billion was in 2018 and NIS 216 billion was in 2019. At the end of 2019, the aggregate value of mutual fund units amounted to NIS 258 billion, broken down as follows: 68% – mutual funds that invest in bonds traded on TASE; 8% – mutual funds that invest in equities traded on TASE; 7% – mutual funds that invest in equities traded on foreign stock exchanges; 3% – mutual funds that invest in bonds traded on foreign stock exchanges; and 14% – mutual funds that invest in other investment instruments. At the end of 2019, there were approximately 1,570 mutual funds.

The following table shows details of net purchases and sales of mutual fund units by the public (NIS billions):

Net Purchases and Sales of Mutual Fund Units by the Public				
	2019	**2018**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**
Funds investing in shares in Tel Aviv	1.6	(2.2)	1.4	(1.7)
Funds investing in bonds in Tel Aviv	11.9	(15.5)	4.3	(10.1)
Shekel funds	(1.4)	(4.1)	-	(0.9)
Money market funds	7.2	6.1	1.3	3.9
Funds investing in foreign securities	0.6	3.8	0.3	(1.0)
Total	19.9	(11.9)	7.3	(9.8)

Part Three - Description of the Company's Business

1.7 General Information

1.7.1 Trading on TASE

As stated above, the Company's main area of activity is the trading and settlement of transactions in securities.

A public offering is one of the principal methods used by companies, the government, and the Bank of Israel to raise funds from the public via shares, bonds and other financial instruments.

Companies that require financing for growth and development, and in order to diversify sources of financing for their activities, approach TASE and raise funds in two main ways: (a) share issuances – the investing public purchases shares of the public company and becomes a partner in the company; and (b) corporate bond issuances – companies raise funds from the public via the issuance of bonds, a type of loan that the public grants to the issuing companies.

The government also raises funds on TASE, both through the issuance of government bonds and treasury bills by the Bank of Israel, and through the privatization of governmental companies via a sale of their shares to the public.

Trading on TASE in various securities and derivatives is carried out using a method known as "order driven," and is executed using the "TACT" (Tel Aviv Continuous Trading) System, an automated system for continuous and simultaneous trading that allows the TASE members to send purchase and sale orders continuously and in real time. Trading on TACT is carried out between the various TASE members[13], which send trading instructions for themselves or on behalf of their clients electronically, via computers that are directly connected to the trading computer. The TACT System includes various mechanisms for protecting the investing public, including a mechanism for monitoring extreme fluctuations in the prices of securities in real time ("fluctuation moderator"). These mechanisms mitigate fluctuations resulting from errors or abnormal trading activity, as is common practice at stock exchanges worldwide.

Pursuant to the terms of its license, the Company instituted the TASE Rules (recognized in case law as a regulation with legislative effect) that were intended to ensure the proper and fair management of TASE. The TASE Rules include the following: rules concerning membership of TASE, rules for the listing of securities for trading on TASE, rules concerning trading on TASE, obligations that apply to a company whose securities are listed, rules concerning the suspension of a security from trade and its delisting, rules concerning the TASE indices, rules concerning the publication of information, and rules concerning commissions charged by the Company. For further details, see Section 1.32.4 below.

The TASE Rules are published on the TASE website. Any amendment to the TASE Rules that has received the approval of the authorities as required under the Securities Law is published on the TASE website.

1.7.2 TASE members

As stated, trading on TASE is conducted only through TASE members, who send buy and sell instructions to TASE's computer on behalf of their clients and/or on their own behalf. As a result, the financial stability and trustworthiness of the TASE members is important.

The TASE members are banks and foreign banks, non-bank members ("NBMs"), such as brokers, and remote members. The NBMs are corporations whose core business is securities transactions on behalf of others (the execution of trading transactions on TASE, investment consultancy, investment marketing, and more) (collectively, "**TASE Members**").

Close to the publication date of this Report, the number of TASE Members stood at 24, of which 14 were banks (including the Bank of Israel and 3 banks incorporated outside of Israel that operate in Israel with the status of a "foreign bank"), 7 Israeli brokers (of which 2 are subsidiaries of international investment houses), and 3 remote members (as stated in Section 1.7.2 below).

---

[13] For details regarding the TASE members, see Section 1.7.2 below.

The Company's supervision, pursuant to the TASE Rules, of the TASE Members that are banks, the TASE Members that are "foreign banks" and the remote member is focused on issues related to proper and fair trading and the fairness of their dealings with their clients, as far as securities activity on TASE is concerned. The authority to supervise the financial stability of these TASE Members is granted to other regulatory entities and the Company does not supervise their financial stability. However, the Company's supervision of the Israeli NBMs, pursuant to the TASE Rules, includes, in addition to issues related to proper and fair-trading and the fairness of their dealings with their clients, their financial stability and their conduct in issues related to corporate governance.

The rules concerning membership of TASE are included in the TASE Rules, and the supervision over compliance with these rules is conducted by means of internal supervisory mechanisms.

The main qualification conditions with which the various TASE Members are required to comply, according to the TASE Rules, are as follows:

1.7.2.1 TASE Members that are banks in Israel

In order for an Israeli bank that is a public company to qualify for membership of TASE, the head of the securities department at the bank must have training and knowledge in Israel's capital markets. In addition, the bank must have adequate insurance. Moreover, an Israeli bank that is not a public company is required to inform TASE of the identities of its ultimate owners, as set forth in the TASE Rules.

1.7.2.2 TASE Members that are foreign banks

In order for a foreign bank (a bank incorporated outside of Israel) to qualify for membership of TASE, the head of its securities department must have training and knowledge in Israel's capital markets. In addition, a foreign bank is required to have adequate insurance, to appoint an internal auditor to the branches of the bank in Israel, and to have a mechanism, means, information systems and professional personnel to facilitate its activity in TASE.

1.7.2.3 TASE Members that are brokers[14]

As stated, the Company's supervision over brokers also extends to a variety of other areas and, accordingly, the qualification conditions applicable to Israeli brokers are more comprehensive and relate to several areas: corporate governance, stability, and operating aspects. In the area of corporate governance, the controlling shareholder at the broker is required to be a person who has not been convicted of an offense involving moral turpitude and has not declared bankruptcy. There are requirements relating to the appointment of members of the Board of Directors and its Audit Committee, a requirement to obtain approval for changes of ownership or control, and requirements relating to the appointment of officers and various reports on this subject. In the area of stability, the broker is required to meet minimum threshold conditions relating to equity and liquidity, and it must have adequate insurance. In the operational spheres, the broker is required to have mechanisms, means, information systems (trading system, back office system, bookkeeping system) and professional personnel.

---

[14] It should be noted that there is no broker-dealer legislation as of the Reporting Date. However, on September 16, 2018, the Israel Securities Authority published a draft bill for the Regulation of Broker-Dealer Activities, 2018 (the "**Bill**"). The core of this bill is the regulation of brokerage activity in Israel and the activities of dealers that do not operate as trading platforms and are not subject to supervision and regulation. According to the Bill, the regulation of the activities of financial brokers is required because they are the connecting entities between the public and the capital market that ensure its proper operation, and because of their considerable influence on the public's faith in the capital market, and on the stability of the financial system as a whole. According to the Bill, it was proposed that broker-dealer activities will only be permitted after receipt of a license from the Israel Securities Authority, according to defined conditions, with the exception of limited parties proposed to be exempt from the licensing obligation, such as banking corporations that are regulated and supervised by the Supervisor of Banks. In addition, recommendations were set forth regarding the application of corporate governance provisions similar to the obligations that apply to fund managers and certain portfolio management companies. Among other things, it was proposed to set forth corporate governance rules with a narrower scope for a small license holder in terms of the scope of their activity or the number of clients. In addition, in August 2019, an interim report by a joint team of the Antitrust Authority and the Israel Securities Authority was published to increase brokerage competition. The interim report includes a list of recommendations to encourage competition in this area, and to strengthen the stability of these entities. The implementation of the recommendations requires legislation.

1.7.2.4 NBMs operating solely for their own account (nostro)

On September 8, 2019, the Israel Securities Authority issued its approval of an amendment of the TASE Rules, whereby the NBMs that operate solely for their own account (Israeli entities that have no clients and that operate solely for their own account, including as market makers) may join as new TASE members. Within this framework, the reduction of the required minimum capital amount that an NBM must have to NIS 15 million was approved.

1.7.2.5 Remote member

In order for a corporation to qualify as a remote member of TASE, it must meet the following conditions: its country of incorporation must be one of the countries included in a specified list of countries, it must be a member of a stock exchange that is recognized abroad (pursuant to those listed in the TASE Rules), it must be subject to the supervision of a competent authority abroad, and it must meet the minimum equity conditions. It is further required to have adequate insurance, a mechanism, means, information systems and professional personnel to facilitate its activity on TASE. Pursuant to the TASE Rules, a remote member is prohibited from lobbying Israeli clients to work through it on TASE.

1.7.2.6 In light of the fact that some of the TASE Members (banks in Israel, foreign banks and remote members) are supervised by other regulators and are subject to different regulatory requirements, among other things, on matters of financial strength, liquidity, corporate governance, and other topics, the threshold criteria for TASE membership for these TASE Members is lower than the threshold criteria for the Israeli brokers.

It should also be noted that most of the TASE members are also Clearing House members. TASE members that are not Clearing House members clear their activity through existing Clearing House members.

1.7.3 **Activities of the Clearing Houses**

As described above, within the framework of TASE and during the trading, members enter into transactions in the securities and financial instruments listed on TASE. After the transactions have been entered into, they are completed by way of clearing at the various clearing houses. By virtue of the transitional provisions prescribed within the framework of Amendment No. 63, the Clearing Houses are considered entities that have been granted a clearing license, pursuant to the provisions of the Securities Law.

1.7.3.1 TASE Clearing House

The main activity of TASE Clearing House is the clearing of transactions in securities. TASE Clearing House serves as a central counterparty (CCP) for transactions executed as part of the trading on TASE, or as part of the trading on the MTS[15] System and for the transfer of custody of securities subsequent to these transactions. This ensures the proper execution of transactions pursuant to the provisions set forth in the bylaws of TASE Clearing House. The Clearing House thereby takes upon itself the responsibility for the risk that one of the parties will not complete its side of the transaction.

TASE Clearing House also privates central custodian services for securities (Central Securities Depository – CSD), including the execution of services for the payments of dividends, interest, redemptions, allocations of rights, bonus shares etc. from the issuing company to the holders of the securities, the clearing of transactions in securities of dual-listed companies, and various services for the Ministry of Finance and the Bank of Israel.

TASE Clearing House provides clearing and custody services for securities that are not listed for trade on TASE (NLTs). The services of the Clearing House that are provided for NLTs are similar to the clearing services provided for securities that are traded on TASE, except that the securities registered as NLTs are not listed on TASE and therefore transactions in them are not executed on TASE.

The majority of the securities that are registered as NLTs are bonds. At the end of 2018, the Clearing House started registering participation units in investment funds that are incorporated as non-tradable limited partnerships as NLTs.

---

[15] For details regarding the MTS system, see Section 1.33.2 below.

For details about the additional services supplied by TASE Clearing House, see Section 1.1.1.3 above.

As stated above, TASE Clearing House manages collateral provided by its members with respect to their share in the default fund established by TASE Clearing House. TASE Clearing House has 18 members. Of these, the Bank of Israel serves as a Clearing House member but is not required to deposit collateral in the default fund, while Euroclear serves as a custodial member and is also not required to deposit collateral in the default fund, following a recent amendment of the TASE Clearing House bylaws enabling membership of TASE Clearing House with the status of custodial member. This allows the custodial member to engage in custodial activity and to provide settlement and asset servicing services for its clients that are listed on TASE, despite it not providing TASE trading services.

For further details, see the Company's immediate report from August 12, 2019 (reference no. 2019-01-068877). The information presented in the aforesaid report is included herewith by way of this reference.

1.7.3.2 MAOF Clearing House

MAOF Clearing House is engaged in activities involving derivatives traded on TASE. These are constituted of options and futures, financial instruments traded on TASE, the value of which is derived from the price of another asset, known as the underlying asset.

MAOF Clearing House provides clearing services as a central counterparty for transactions in derivatives executed on TASE, provided that the conditions set forth in the MAOF Clearing House bylaws have been fulfilled. MAOF Clearing House, thereby, takes upon itself the responsibility for the risk that one of the parties will not complete its side of the transaction, similar to TASE Clearing House.

The revenues of MAOF Clearing House arise from commissions that it charges members on the creation of derivatives and their transfer between MAOF Clearing House members during trading.

MAOF Clearing House receives and manages collateral from the MAOF Clearing House members (9 banking corporations in Israel and another member) and monitors the state of the collateral of the members in real time via the collateral control system ("**MABAT**").

1.7.3.3 Exposure to the risks of the Clearing Houses

The activities of the TASE Group are accompanied by exposure to various financial risks, mainly: credit risk, liquidity risk and market risks. However, it is also accompanied by exposure to settlement risk and other risks (e.g., business risk, operational risk, and so forth), which, if materialized, could result in a loss and a material reduction in the Group's capital.

Because of the commitment of the Clearing Houses as a central counterparty in securities or derivatives transactions, as applicable, each Clearing House has a material exposure to counterparty credit risk. This is the risk that a Clearing House member will not be able to fulfill its side of the transaction toward the Clearing House on the agreed upon date or at any time in the future. Subsequently, the Clearing House will be required to fulfill the obligations of the defaulting Clearing House member toward the other Clearing House members, as stated. MAOF Clearing House will also be required to attend to the open derivative positions of a defaulting Clearing House member with respect to derivative transactions that it had executed. For these purposes, transactions in securities also include transfers to custody (on TASE) and transactions in securities executed as part of trading on the MTS system.[16]

Members of TASE Clearing House and members of MAOF Clearing House are required to deposit collateral (funds, government bonds and treasury bills) in the default funds of the Clearing Houses, and the members of MAOF Clearing House are also required to deposit margins with respect to the transactions that they have executed for the exposure resulting from those transactions.[17]

---

16 For details regarding the MTS System, see Section 1.33.2 below.

17 The margin requirements at MAOF Clearing House are calculated according to results from a model of a variety of scenarios, as specified in MAOF Clearing House's bylaws. These are used to assess the maximum cost required to close a portfolio that

The default fund is updated each quarter for each of the Clearing Houses, but is monitored on a daily basis and can be updated at times other than those set forth in the bylaws of each of the Clearing Houses at the discretion of the relevant Clearing House and subject to the terms and conditions set forth in its bylaws. The methodology for determining the size of the default fund and the manner of allocating it among all the members is set out in the bylaws of each of the Clearing Houses.

For details regarding the total collateral provided in favor of the Clearing Houses, see note 4 A (2) (b) to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

The assets serving as collateral are charged in favor of the Clearing Houses, where, pursuant to the Securities Law, a charge on securities or funds, which serve to guarantee the obligations of a Clearing House member toward the Clearing House, is also valid toward other creditors of the Clearing member. The charge will be deemed 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 Securities Law. In addition, the law states that the realization of a charge in favor of the Clearing Houses can be performed by the Clearing House itself, without an order from the court or the head of the Execution Office, subject to the terms set forth in the Securities Law. In the event of a member's default, TASE Clearing House and MAOF Clearing House, as applicable, may make use of the assets deposited as collateral in order to fulfill all the obligations of the defaulting Clearing member, pursuant to the collateral realization order prescribed in the bylaws of each of the Clearing Houses, as applicable, pursuant to the rules of the Israel Securities Authority to ensure the proper conduct of TASE Clearing House and MAOF Clearing House, and pursuant to international regulation. For details regarding the risk inherent in this for the Clearing Houses, see Section 1.38 below.

1.7.3.4 Nominee Company

On October 25, 2017, the Nominee Company (a wholly owned subsidiary of the Company), which is a nominee company within the meaning of the term in the Securities Law, was established. It commenced operations in January 2018. The Nominee Company registers securities in its name in the securities registers of issuing companies, deposits them with TASE Clearing House, and engages in the day-to-day handling of the rights attached to the securities.

To the best of the Company's knowledge, three additional nominee companies that serve as nominee companies for corporate securities currently operate in Israel. All the units of the ETFs traded on TASE are registered in the name of the Nominee Company. Likewise, approximately 24% of all the companies whose securities are listed on TASE (shares or bonds) make use of the services of the Nominee Company.

1.8 **Structure of the Area of Activities and Changes Occurring Therein**

Beyond the above, while trading in various financial instruments in other parts of the world is carried out on various trading platforms, the majority of the common financial instruments at the Company, including shares, convertible securities, government and corporate bonds, treasury bills, ETFs, options and futures, are traded on the same trading platform. The concentration of the trading in one place makes the management and operation more efficient and enables investors to trade all the products in one place.

1.9 **Restrictions, Legislation, Regulation and Special Constraints**

For details regarding a review of some of the significant legal provisions that apply to the TASE Group in general, and to its areas of activity (the trading and clearing of transactions in securities) in particular, which in the Company's opinion have or may have a material effect on the Company's activities and its business results, see Section 1.32 below.

---

includes options and futures because 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.

1.10 **Changes in the Scope of the Operations in the Area, and in Its Profitability**

1.10.1 The following table sets forth data on the trading and clearing services in 2018 and 2019:

Market Capitalizations of the Securities Listed for Trade and Clearing (NIS billions)			
	As of 31.12.2019	**As of 31.12.2018**	**% change**
Shares	820	703	16.6%
Bonds*	944	870	9.2%

* Includes structured bonds.

1.10.2 The following table sets forth data regarding changes in the number of companies with shares listed on TASE in 2018 and 2019:

	2019	**2018**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**
Companies listed at the start of the period	**448**	**457**	**445**	**452**
New companies added				
IPOs	7	11	1	2
Dual-listing	3	3	1	2
Other*	1	1	-	-
Total	**11**	**15**	**2**	**4**
Companies that were delisted				
Tender offers and mergers	10	11	5	7
Non-compliance with maintenance rules	2	8	-	-
Dual-listed companies delisted from TASE only	4	5	-	1
Companies in settlement/liquidation proceedings	1	-	-	-
Total	**17**	**24**	**5**	**8**
No. of companies listed at the end of the period	**442**	**448**	**442**	**448**

* A company that became a stock company following a settlement, or a split from a public company.

1.10.3 As of the end of 2019, 442 companies were traded on the stock exchange.

During 2019, 11 new companies were added, including 7 companies that completed IPOs. In addition, in the aforesaid period, reverse mergers were completed for 8 companies that had no material business activity. These additions were offset, in said period, by 17 companies being delisted.

1.10.4 As of December 31, 2019, 55 dual-listed companies were traded on TASE, whose shares are also traded in the United States or the United Kingdom within the framework of the dual-listing arrangement. The market capitalization of these companies, as of the above date, amounted to NIS 269 billion, while the average daily trading volume of their shares during 2019 amounted to NIS 284 million. One other company is traded both in Tel Aviv and abroad outside of the dual-listing framework. This compares to 2018 when there were 56 dual-listed companies as of December 31, 2018 and two other companies that are traded both in Tel Aviv and abroad outside of the dual-listing framework. Dual-listed companies constitute 33% of the market capitalization and 29% of the total trading volumes in TASE's equity market (excluding ETFs). Likewise, during 2019, the total trade in shares of dual-listed companies executed on TASE constituted 39% of the overall trade in the shares of the dual-listed companies (on TASE and on overseas stock exchanges).

In 2018 and 2019, six companies completed dual-listings. During 2018, dual-listings were completed by – the international company IFF (which acquired Frutarom and was listed in its place and has a market capitalization of NIS 53 billion), Energean (which has a market capitalization of NIS 5 billion) and Medley Capital (which has a market capitalization of NIS 663 million). During 2018, dual-listings were completed by – Enlivex (which is an Israeli immunotherapy company at the clinical trial stage and has a market capitalization of NIS 305 million), Powerfleet (which is a US company that, in a three-way reverse merger process, absorbed within it Pointer – a provider of telocation and vehicle fleet management services, which is traded both on TASE and on NASDAQ and the US company, I.D. Systems, which is traded on NASDAQ, and which has a market capitalization of NIS 643 million), and BATM Advanced Communications (which is engaged in the production of communication systems and medical equipment and is traded on the primary London Stock Exchange and has a market capitalization of NIS 752 million).

In 2019, the aggregate value of the three dual-listed companies that voluntarily delisted from TASE amounted to NIS 605 million (not including Pointer that was merged with Powerfleet). It should be noted that the delisting of a dual-listed company from TASE is generally performed pursuant to a decision taken by the Company. There are usually no significant obstacles to delisting a dual-listed company from TASE.

1.10.5 In 2018 and 2019, 24 and 17 companies, respectively, were delisted from TASE (of which 11 and 10, respectively, were because of tender offers and mergers). It should be noted that contributory factors, among others, to the aforesaid delistings were the provisions of the Concentration Law, which prescribe that, by the end of December 2019, publicly-traded control groups must complete the removal of the third control layer (a shares company or a bonds company). Two large mergers were performed for the purpose of complying with the requirements of the Concentration Law for the removal of the third layer by the end of December 2019: JOEL was merged with Equital and Direct Insurance was merged with Zur Shamir.

1.10.6 It should be noted that, in 2018, five dual-listed companies were delisted (not including Frutarom, which was merged with IFF that is dual-listed on TASE), while, in 2019, the aforementioned three dual listed companies delisted (not including Pointer that was merged with Powerfleet that is dual-listed on TASE).

1.10.7 The following table sets forth the average daily trading volumes in the equities market in 2018 and 2019 (NIS millions):

Average Daily Trading Volumes in the Equities Market						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Equities excluding ETNs	1,081	1,124	(4%)	1,200	1,165	3%

In 2019, the average daily trading volume (excluding ETNs) amounted to NIS 1.1 billion, just 4% lower than the average daily trading volume in 2018. In the first quarter of 2019, the daily volume amounted to NIS 0.9 billion – due to the impact of fears of price falls on the world's equity markets following the steep drops in December 2018. However, in all the subsequent quarters of 2019, in parallel with the price rises, daily trading volumes also rose to NIS 1.1-1.2 billion.

One of the factors affecting the trading volume on TASE is the "free float", namely, the holdings of shares by the public. In recent years, sales of shares by interested parties, mainly controlling shareholders, have grown. In 2019, interested parties sold shares to the public with a value of more than NIS 5.5 billion, which led to the average rate of public holdings of shares rising to 63.5%. In the preceding years, sales by interested parties were primarily the result of the TASE equity indices reform, the last stage of which was completed in February 2018, and sales by interested parties reached a record of NIS 13 billion in 2018. In the Company's opinion, approximately half of the sales executed in 2019 were due to the Concentration Law, since the controlling shareholders and the companies had to comply with the final stage of said law by the end 2019.

According to Bank of Israel data, foreign residents sold shares on TASE in a net amount of NIS 0.7 billion, from January through November 2019. This followed the increase in the purchases of shares on TASE by foreign residents, which rose to NIS 10.8 billion during 2018.

1.10.7.1 The following table sets forth the average daily trading volumes in bonds in 2018 and 2019 (NIS millions):

Average Daily Trading Volumes on the Bonds Market						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Government bonds*	2,619	2,647	(1%)	2,365	2,624	(10%)
Corporate bonds excluding ETNs*	798	906	(12%)	898	931	(4%)
Treasury bills	413	431	(4%)	421	638	(34%)

* ETNs/ETFs.

The average daily trading volume in corporate bonds (including structured bonds, but not index products) amounted to NIS 798 million in 2019, 12% lower than the record set in 2017 and 2018. The trading volume in government bonds was stable in 2019, with the trading volumes of government shekel bonds amounting to NIS 1.8 billion and government CPI-linked bonds amounting to NIS 0.8 billion.

Foreign investors sold government bonds totaling NIS 7.9 billion, net, on TASE from January through May 2019, and purchased government bonds totaling NIS 4.1 billion, net, on TASE from June through November 2019. Overall, from January to November 2019, foreign investors sold government bonds totaling NIS 3.8 billion, net, with this following the purchase of government bonds totaling NIS 6 billion by foreign investors in 2018.

1.10.7.2 The following table sets forth the daily trading volumes from trading in ETNs/ETFs[18] in 2018 and 2019 (NIS millions):

Daily Trading Volumes from Trading in ETNs/ETFs (NIS millions)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
ETNs/ETFs on equity indices	219	[19]282	(22%)	231	296	(22%)
% of trading volume in equities	17%	20%	(15%)	16%	20%	(20%)
ETNs/ETFs on bond indices	95	138	(27%)	103	150	(31%)
% of trading volume in corporate bonds	11%	13%	(15%)	10%	14%	(29%)

* The trading turnover in 2018 does not include exceptional off-floor transactions carried out during the last quarter of 2018, as part of the reform to convert ETNs into ETFs.

In 2019, the downturn in trading volumes in ETFs in the equity market continued, a trend that began in 2016. The daily trading volume in ETFs on the equity indices (domestic and international) fell to NIS 219 million, 22% lower than the volume in 2018 when trading volume totaled NIS 282 million[19].

In 2019, the activity in ETFs on bond indices again declined and the average daily volume amounted to NIS 95 million, which was 27% lower than the volume in 2018, which amounted to NIS 138 million on average.

1.10.7.3 The decline in trading volumes in 2019, in contrast to the previous year, was not accompanied by a decline in public holdings. A contributory factor to the decline in 2019 was the rise in the holdings of institutional investors, which are long-term holders, in parallel with massive sales of ETFs on international equity indices by the public. The holdings of institutional investors rose from NIS 43 billion at the end of 2018 to NIS 49 billion at the end of November 2019, according to Bank of Israel data.

1.10.7.4 In January 2019, the Company launched the CPI-Linked Government Bonds 15+ Index. This index is aimed at investors that prefer solid outlooks and anticipate growing inflation, and investors pursuing exposure to long-duration instruments.

In July 2019, TASE launched two new equity market indices – the TA-Energy Utilities Index and a volatility index – the VTA35 Index. On February 9, 2020, three new real estate indices were launched – the TA-Construction Index, the TA-Investment Properties in Israel Index and the TA-Investment Properties Abroad Index. The launch of the new indices is intended to enable investors seeking to invest in investment property companies, the ability to differentiate between investment properties in Israel and investment property abroad as well as enabling them to invest in a collection of companies in the real estate development sector.

1.11 <u>Developments in the Markets of the Area of Operations or Changes in the Characteristics of the Customers</u>

For details regarding an examination of the possibility of establishing a dedicated stock exchange for small and medium-sized companies in Israel, see Section 1.21.3 below.

In April 2019, FTSE Russell, one of the three largest indices companies in the world, announced that the State of Israel meets the threshold conditions for the inclusion of its government bonds in the World Government Bond Index (WGBI). During September 2019, approval was received for the government bonds of the State of Israel to be included in two

---

18 For details of the ETN reform, see Section 1.16.3 below.

19 This amount includes exceptional off-exchange transactions resulting from the ETN reform. The daily trading volume in ETFs, which includes the aforesaid exceptional transactions, amounted to NIS 470 million in 2018.

global indices of government bonds – the FTSE World Government Bond Index (WGBI) and the FTSE World Inflation Linked Securities Index (for unlinked and linked bonds, respectively), with this resulting from meeting the threshold conditions for inclusion in these indices. It should be noted that some of the government bonds are expected to be included in these indices starting in April 2020.

The Company estimates that the entry of Israel's government bonds into the WGBI index may lead to an increase in demand for bonds included in the WGBI index on the part of foreign investment houses and international institutional investors, which trace the above index and will thus contribute to an increase in trading volumes.

For details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.12 **Critical Factors that May Affect the Success in the Area of Operations and the Changes in These Factors**

In the Company's opinion, critical success factors are the attractiveness and relevance of the capital markets in Israel, the existence of communications infrastructures, and trading and settlement systems that support the products of the Company's operations, high quality control and monitoring systems, professional and experienced personnel, the ability to analyze market processes and to provide a response to changes in the capital market and to the requirements of traded companies, and the presentation of service features at the high standards practiced globally.

The factors that, in the Company's opinion, may adversely affect its success in the future in its areas of operation are the impact of the state of the Israeli economy on the capital markets, the extent of regulation in all matters relating to the Company's activities, the activities of the traded companies and the activities of the traders, a lack of professional and experienced personnel, the absence of a communications infrastructure and trading and clearing systems that support operations, and the state of the financial markets globally that may have an impact of the capital market in Israel.

1.13 **Key Entry and Exit Barriers of the Area of Operations**

The primary barrier to entry into the Company's operations is the Securities Law requirement to obtain a stock exchange license and a clearing house license. For further details, see Section 1.32.1 below. Other barriers include the establishment of the infrastructures for the trading and clearing activities in the format of a stock exchange, which are designed to ensure a high degree of reliability both in the closing and clearing of the transactions. Such establishment would require a considerable monetary investment and special expertise. These are considerations that may also constitute a restriction for entry into this area of operations.

Pursuant to provisions of Section 50 of the Securities Law, a stock exchange may not decide to cease the operations of the trading system for more than one business day without the permission of the Minister of Finance.

1.14 **Substitutes for the Products in the Area of Operations and the Changes that are Occurring Therein**

Substitutes in Israel for the products in the area of operations are limited because the Company is the only stock exchange in Israel. In the Company's opinion, it has an advantage over existing and potential competitors, as a platform for raising equity and debt and as the only alternative in Israel that provides access to trading on the stock exchange. However, the Company sees a potential competitive threat arising from accelerated globalization processes and from the direct participation of investors in trading outside the stock exchange in Israel.

In order to increase the sectors that are financed by funds raised through TASE, the Company is promoting processes for the financing of infrastructures and small businesses through public offerings. The Company has therefore set guidelines for the registration of trading units for limited partnerships, whose area of operations is research and development, which have recently become effective after receiving the approvals required by law.

For further details regarding the possibility of trading in the derivatives market by means of trading platforms, see Section 1.21.2 below.

1.15 **Structure of the Competition in the Area of Operations and the Changes that are Occurring Therein**

For details regarding the structure of the competition in the area of operations, see Section 1.21 below.

1.16 **Products and Services**

The Company's main groups of products and services in its area of operations are as follows:

1.16.1 **Trading and clearing of securities**

1.16.1.1 As part of this service, the Company enables the execution and settlement of transactions in a variety of securities and financial instruments, including shares, convertible securities, corporate bonds, government bonds, ETFs, Makams (treasury bills, issued by the Bank of Israel for a period of no more than one year) and derivatives, as well as clearing services for the creation and redemption of units of mutual funds. The Company recently approved guidelines for listing hybrid bonds, which are long-term bonds the payment of interest on which may be deferred by the issuing corporation for a period of up to six years without such action being treated as a default. It should be noted that, as of Reporting Date, these guidelines had not yet been approved by the Israel Securities Authority.

1.16.1.2 In December 2018, the Company expanded the NLT services provided through TASE Clearing House and began providing these services also to investment funds that are incorporated as non-tradable limited partnerships. As of December 31, 2019, four such non-tradable limited partnerships were registered as NLTs, while as of Reporting Date there were five.

1.16.1.3 For details on the scope of the activities at TASE in 2018 and 2019 in shares, convertible securities, corporate bonds, government bonds and Makams, see Section 1.17.5 below.

1.16.2 **Securities indices**

1.16.2.1 The Company edits and calculates three "families" of investment indices: (a) equity indices; (b) corporate bond indices (Tel Bond indices); and (c) government bond indices that are calculated once a day on the basis of closing prices. In addition, the Company edits and calculates several equity indices and several bond indices, which is also done once a day, using the closing price of the securities included in these indices.

Every year, in February and August (for the equity indices) and in May and November (for the Tel Bond indices), the composition of the indices is updated ("**Update Dates**"). Shares or bonds, as applicable, that do not meet the criteria for continued inclusion in a particular index are removed from it, and shares or bonds, as applicable, that were not previously included in a particular index and now meet the criteria, may be added to the relevant index on the Update Date. These criteria and the other rules of the indices are set forth in the TASE Rules, and in the resolutions of the Company's Board of Directors.

On July 16, 2019, the VAT35 Index was launched. The index reflects the implied standard deviation in the options on the TA-35 Index, for the next 30 days, in annual terms. The index is calculated based on the quoted prices of two near-the-money call options and two near-the-money put options, from the two series of options that are close to 30 days to expiration. The index constitutes an underlying asset for derivatives and, therefore, constitutes an additional risk management tool.

Various issuers offer financial instruments based on TASE's indices, such as ETFs that track changes in a particular index, mutual funds that track a particular index or derivative financial instruments based on a particular index. Accordingly, even though the direct revenues from the activity of editing and calculating indices are not material, they enable and encourage the creation of investment instruments that are traded and cleared by TASE and the Clearing Houses.

1.16.2.2 The February 2017 indices reform

In February 2017, a new indices methodology was launched, which was intended, among other things, to reduce the concentration of TASE's indices and to make their composition more stable. Pursuant to the reform, the number of shares participating in the Company's indices increased, and the maximum weighting of the shares in the indices was reduced. New rules were set that enable issuers of financial products to track the index's performance more accurately and that raise the bar for the minimum percentage of the public's holding (the "**free float**") as a condition for inclusion in the leading indices. With the intention to broaden the correlation between the variety of companies, with emphasis on small and medium-size companies, and the indices, the growth indices include shares that meet non-stringent criteria in the "Tamar Universe,"[20] while the flagship indices (such as TA-35 and TA-125) include the shares that meet the criteria of the "Rimon Universe".[21]

1.16.3 **ETFs**

1.16.3.1 Until October 2018, ETNs were traded on TASE. At the end of 2018, legislative reform was completed, pursuant to which the ETNs were converted into ETFs.

1.16.3.2 ETFs are mutual funds that are traded on a stock exchange and grant to their investors the right to receive a return derived from the change rate in the price of an index or commodity.

As of Reporting Date, there are various types of ETFs, including: (a) ETFs on an index – funds that track indices; (b) commodity ETFs – funds that track the value of an underlying asset, which is a commodity traded on a commodities exchange; (c) inverse ETFs – funds with performance inversely related to the performance of an index comprising a basket of securities that serve as the underlying asset; (d) leveraged ETFs – funds for which, pursuant to their investment policy, the leverage on the index which serves as an underlying asset is greater than 1; (e) balancing ETFs – leveraged funds for which fixed dates are set for the issuer to execute a purchase and/or sale of securities in order to maintain the leverage ratio that has been established in the terms of the security.

For further details regarding ETFs and the ETN reform, see Section 1.6.5 above.

---

20 The "**Tamar Universe**" includes all the shares that meet basic threshold criteria (for shares that are not included in "Tamar" – a minimum free float rate of 15%, a minimum average free float value of NIS 40 million, and a minimum average price of NIS 0.50) for inclusion in TASE's investment indices. It includes more than 300 shares traded on TASE. The shares that are not already included in the "Tamar Universe" must meet different threshold criteria from those required for entry into the universe.

21 The "Rimon Universe" includes 200 shares that meet the stringent criteria (for shares that are not included in Rimon – a minimum free float rate of 35%, a minimum average free float value of NIS 100 million, and a minimum average daily trading volume of NIS 50 thousand or median daily trading volume of NIS 10 thousand) of the Tamar Universe. The trading conditions apply only if there are more than 150 shares in the Rimon Universe and there are additional criteria, such as the share is not included on the list of illiquid securities. The shares that are already included in the "Rimon Universe" must meet different threshold criteria from those required for entry into the universe.

1.16.4 **Derivatives**

Derivatives are financial instruments whose value is derived from the price of another asset, also known as the "underlying asset." Two types of derivatives can be listed on TASE: options and futures.

All of the derivatives on TASE are written by MAOF Clearing House and are cleared by it. Presented below are the main derivative products that can be listed on TASE.

1.16.4.1 Derivatives on share indices

Options and futures on the TA-35 Index, the TA-125 Index and the TA-Banks5 Index.

1.16.4.2 Derivatives on foreign currency

Options and futures based on the exchange rates between the Israeli shekel and the US dollar, as well as between the shekel and the euro, which allow the investing public to hedge against volatility in exchange rates.

1.16.4.3 Options on shares

Options on shares listed on TASE were introduced in 2009. Options are currently listed on 26 shares, which are included on the TA-35 Index.

For further details regarding the derivatives market, see Section 1.6.6 above.

1.16.5 **Mutual funds**

A mutual fund is a financial instrument that unites individuals for the purpose of jointly investing in listed securities. Investment in a mutual fund is made by purchasing participation units, which entitle their holders to participate in the mutual fund's profits. The mutual fund's investment portfolio is managed by professional managers who charge management and trust fees, which are deducted from the return on the investment.

The Israel Securities Authority supervises the mutual funds pursuant to the Joint Investment Trust Law, 1994, which prescribes the legal framework for the establishment and operation of mutual funds. A mutual fund is not a legal entity and its operation is based on a trust agreement that is agreed and signed between the fund's trustee and the fund manager.

As compared to a direct investment in securities, a mutual fund allows diversification of investments, which reduces the risk involved in each individual investment.

1.16.6 **Clearing House services**

The Company provides additional services such as trading and clearing services in securities that were sold to institutional investors not pursuant to a prospectus. The Company also handles securities that are listed overseas and in Israel that are cleared both by TASE Clearing House and also by an overseas clearing house through the Company's accounts at DTC and Euroclear, including the provision of custodial services and handling company events. For further details regarding the activities of the Company's nominee company, see Section 1.7.3.4 above. For details regarding activity in connection with the NLT services provided by TASE Clearing House, see Section 1.7.3.1 above.

1.16.7 **Distribution of trading and other data and connectivity services**

As part of its ongoing business, the Company engages with various data distributors and financial corporations, which purchase real-time data from the Company regarding its activities. This data is supplementary to the public information that appears on the TASE website.

A data distributor is an Israeli or international entity whose expertise is in the distribution of financial data (e.g., Kav Manche, Bloomberg, Refinitiv, etc.) and that enters into a data distribution agreement with the Company for the purpose of distributing such data from the trading systems either in real time or with a delay, to end-user clients. Data distributors specialize in the field of data distribution, among other things, by means of dedicated systems, and offer their clients various additional services, such as data distribution from international trading systems, sophisticated analysis tools based on complex mathematical models and unique projects customized to the client's needs.

Connectivity services (co-location)

In June 2019, the Company launched a new service targeting TASE members, their clients and the data distributors. The service includes hosting the clients' servers at the Company's data center and providing a direct and faster connection to trading servers, as compared to the current connection to the Company's servers. As of December 31, 2019, the overall investment amounted to NIS 14 million, including the capitalization of labor costs. In connection with such investment, the Company leased a data farm with 17 racks for rental to customers as individual units or half units. It should be noted that the fees for the co-location service were approved by the Israel Securities Authority. As of Reporting Date, the Company had entered into co-location agreements with five customers and six of the racks had been rented; the Company is continuing its efforts to rent out additional racks.

1.16.8 **Listing and examination fees and annual levies**

Pursuant to the TASE Rules, the Company charges the following fees to companies that are candidates for a TASE listing and those that are listed on TASE: prospectus examination fees, listing fees with respect to the listing of the securities and an annual fee. All such fees are set in accordance with mechanisms established in the TASE Rules, are applied based on the characteristics of the issuing companies and are published in TASE's list of fees. For details regarding the across-the-board updating of TASE's tariffs that took place in 2019, see Section 1.17.3 below.

1.17 **Breakdown of Revenues and Profitability from Products and Services**

1.17.1 **General**

As of Reporting Date, the Company collects from its members, among other things, trading and clearing commissions on buying and selling securities and collects from issuers its review fees for reviewing prospectuses for private offerings, as well as listing fees for listing securities and annual fees from the listed companies. In addition, the Company collects payments from data distributors with respect to the data distributed by them.

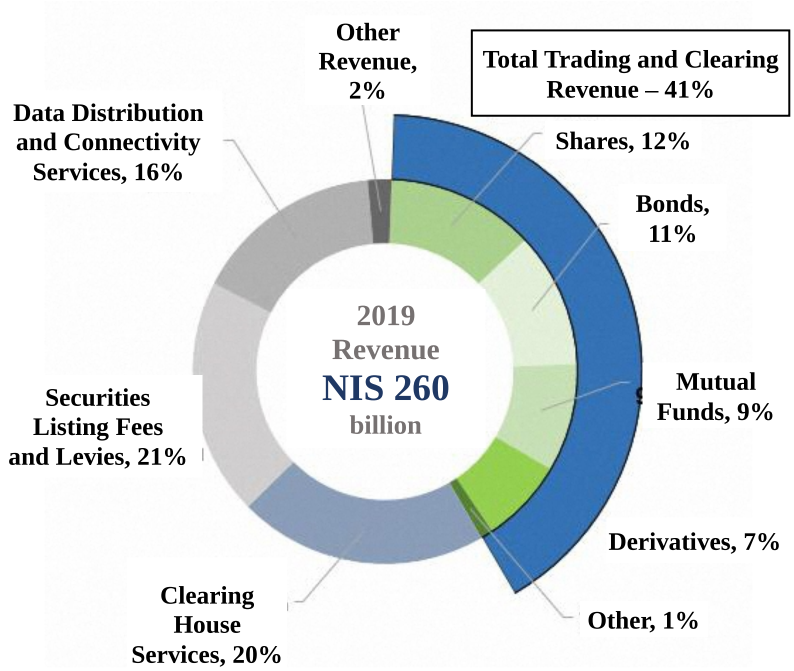
Revenue from the TASE Clearing House, in addition to revenue from clearing transactions both on- and off-the exchange, is generated from the creation and redemption of units in mutual funds, custodian fees, company events, principal and interest payments and dividends, and from services provided to the Ministry of Finance and to the Bank of Israel.

Revenue of MAOF Clearing House is generated from the commissions it collects from members of MAOF Clearing House for clearing derivatives and for the transfer of derivatives between members of the MAOF Clearing House.

In general, the Company's various revenues cover its operating expenses, including expenses involved in operating its trading and clearing systems. A portion of the Company's revenues are retained for investment to enhance the trading and clearing systems and to establish reserves for unexpected events.

For details regarding a change in accounting standards in relation to how revenue is recognized, see note 2 N to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

During 2019, the Company's revenue from trading and clearing operations and from operations other than those relating to trading (such as the distribution of data, other Clearing House services, listing fees and annual levies) amounted to NIS 260 million, which was broken down as follows:



1.17.2 **Revenue, expenses and profit distribution model**

The Company, the Clearing Houses and the Nominee Company are closely interconnected. Pursuant to agreements between the Company and the Clearing Houses, with effect from January 1, 2014, all of the Group's revenue from its operations is calculated and recorded in the financial statements of the Clearing Houses and of the Company and such revenue is divided in accordance with the mechanism established in an agreement for distributing the Group's revenue from trading and clearing commissions (the "**Distribution Model Agreement**").

In formulating the distribution model, an allotment was made of three main categories: revenue, expenses and the distribution of the Group's profits among the Group companies. The distribution is performed by identifying and assigning the relevant revenue and expenses to each Group company. Any revenue and expenses that have not been identified are classified as mixed common revenue and expenses and are allocated pursuant to the distribution key prescribed in the Distribution Model Agreement. The distribution of profit between the parties to the Distribution Model Agreement is performed using a profitability index generally accepted in the financial sector.

On December 1, 2017, the Nominee Company also joined the distribution model. As of Reporting Date, the Company provides the Clearing Houses and the Nominee Company with their required operational infrastructure, such as information technology, human resources, management, etc. Pursuant to the agreements among the Company and the Clearing Houses, each of the Clearing Houses and the Nominee Company is responsible for its proportionate share of the expenses attributed to its operations. Within the Distribution Model Agreement, a mechanism is prescribed for distributing the profit between the Company and the Clearing Houses.

Pursuant to the Distribution Model Agreement, the Company collects payments from the Clearing Houses and the Nominee Company with respect to specific services provided by the Company, as well as initiation fees for creating a market for the subsidiaries within which they can operate. Pursuant to provisions of the Distribution Model Agreement, the Company and its subsidiaries make an accounting settlement for each quarter, and a final accounting settlement at the end of each calendar year and after closing the Company's consolidated financial statements. The Distribution Model Agreement is automatically renewed for successive one-year periods, unless one of the parties to the Agreement requests that the distribution model be reviewed.

For further details in connection with the distribution model, including determining the manner in which the revenue and expenses are allotted, as well as in connection with the mechanism for distributing the profits among the Group companies, see note 23 C (2) (a) to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.17.3 **TASE's tariffs**

As of Reporting Date, the Company has four main product categories, each of whose revenues in 2019 were greater than 10% of the Company's total revenue: (a) commissions from trading and clearing in connection with securities, derivatives and financial instruments that are traded on TASE (including the clearing of mutual funds)[22]; (b) listing and examination fees and annual fees; (c) Clearing House services; and (d) fees for the distribution of trading and other data (including authorization to use data).

In general, pursuant to the Securities Law, arrangements for commissions, listing fees and handling fees for the Company's services are required to be set forth in the TASE Rules. Consequently, the processes for determining the various commissions, including changes thereto, are subject to the regulation mechanism that applies to the TASE Rules, approval by TASE's Board of Directors and by the Israel Securities Authority, and the possibility of involvement by the Minister of Finance in the amendments to the Stock Exchange Regulations.

[22] For further details regarding the breakdown of the revenues from trading and clearing in 2018 and 2019, see Section 1.1 of the Board of Directors' Explanations, which are included in this Periodic Report.

1.17.4 **<u>Presented below is a breakdown of the Company's revenue from the above product groups in 2018 and 2019 (NIS millions):</u>**

	2019		2018		For the three months ended 31.12.2019		For the three months ended 31.12.2018	
	Revenue	% of Company's total	Revenue	% of Company's total	Revenue	% of Company's total	Revenue	% of Company's total
Trading and clearing commissions	107	41%	119.4	47%	26.3	40%	33.5	48%
Listing fees and levies	54.7	21%	46.5	18%	14.2	21%	14.1	20%
Clearing House services	52.3	20%	49.6	19%	14.2	21%	13	18%
Distribution of data and connectivity services	42.4	16%	35	14%	10.7	16%	8.6	12%
Other	3.6	2%	5.2	2%	1	2%	1.1	2%
Total	**260**	**100%**	**255.6**	**100%**	**66.4**	**100%**	**70.3**	**100%**

1.17.5 **<u>Presented below are summary data in connection with the markets in which the Company operates along with data in connection with the Company's revenue from its product groups and services:</u>**

1.17.5.1 <u>Trading and clearing commissions</u>

Market Capitalization of the Securities Listed on TASE, including ETNs / ETFs (NIS billions)			
	As of 31.12.2019	As of 31.12.2018	% change
Shares	884	763	15.9%
Corporate bonds	440	407	8.1%
Government bonds –- shekel	316	248	28.8%
Government bonds – linked	216	236	(9.6%)
Treasury bills	120	108	11.2%

Market Capitalization of Mutual Funds (NIS billions)			
	As of 31.12.2019	As of 31.12.2018	% change
Mutual funds	259	220	17.6%

Average Daily Trading Turnover /Average Value of Creations/Redemptions, including ETNs/ETFs (NIS millions)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
No. of trading days	244	245	(0.4%)	59	64	(7.8%)
Shares(1)	1,300	1,594	(18.4%)	1,431	2,180	(34.3%)
Corporate bonds	893	1,059	(15.7%)	1,001	1,163	(13.9%)
Government bonds – shekel(2)	1,722	1,741	(1.1%)	1,541	1,794	(14.1%)
Government bonds – linked(3)	897	907	(1.1%)	824	831	(0.8%)
Treasury bills	413	431	(4.1%)	421	638	(33.9%)
Mutual funds	883	960	(8%)	907	1,038	(12.6%)

(1) During the fourth quarter of 2018, the ETN reform was implemented, a process that included exceptional activity in the creation of mutual fund units, resulting in the data for said period not being indicative.
(2) Including "Shahar" fixed-interest shekel bonds and short-term government bonds.
(3) Including CPI-linked bonds and "Gilon" variable-interest shekel bonds.

Average Daily Volume of Contracts (thousands of units)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Derivatives on the TA-35 Index	97	134	(28.1%)	85	141	(39.7%)
Derivatives on foreign currency	45	59	(22.4%)	54	51	6.3%
Derivatives on individual shares	3	3	4.4%	3	2	38.1%
Total derivatives	**145**	**196**	**(25.7%)**	**142**	**194**	**(26.6%)**

Revenue from Trading and Clearing/Creations and Redemptions (NIS thousands)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Shares	32,434	33,976	(4.5%)	8,389	9,124	(8.1%)
Corporate bonds	15,116	17,998	(16%)	4,000	4,992	(19.9%)
Government bonds – shekel (*)	8,052	8,105	(0.7%)	1,752	2,159	(18.8%)
Government bonds – linked (**)	6,367	6,431	(1.0%)	1,414	1,515	(6.7%)
Treasury-bills (***)	2,581	3,622	(28.7%)	617	2,786	(77.9%)
Mutual funds (****)	23,716	23,900	(0.8%)	5,849	6,276	(6.8%)
Other	187	281	(33.6%)	28	56	(49%)
Derivatives on indices	13,751	19,158	(28.2%)	2,923	5,232	(44.1%)
Derivatives on foreign currency	3,990	5,169	(22.8%)	1,154	1,180	(2.2%)
Derivatives on individual shares	806	715	12.7%	211	173	22.3%
Total revenue from trading and clearing	**107,000**	**119,355**	**(10.4%)**	**26,339**	**33,494**	**(21.4%)**

* Including "Shahar" fixed-interest shekel bonds and short-term government bonds.
** Including CPI-linked bonds and "Gilon" variable-interest shekel bonds.
*** The amount for 2018 includes a collection of NIS 1.5 million with respect to previous years.
**** During the fourth quarter of 2018, the ETN reform was implemented, a process that included exceptional activity in the creation of mutual fund units, resulting in the data for said period not being indicative.

Average Commission on Trading Value/on Value of Creations/Redemptions (percent)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Shares	0.01022%	0.00900%	13.6%	0.00994%	0.00654%	51.9%
Corporate bonds	0.00694%	0.00694%	-	0.00677%	0.00671%	1%
Government bonds – shekel	0.00192%	0.00190%	0.8%	0.00193%	0.00188%	2.5%
Government bonds – linked	0.00291%	0.00289%	0.5%	0.00291%	0.00285%	2.1%
Treasury bills	0.00256%	0.00343%	(25.4%)	0.00248%	0.00683%	(63.6%)
Mutual funds	0.01100%	0.01016%	8.3%	0.01093%	0.00945%	15.7%

- The change in the effective commission rate on shares and on ETNs/ETFs on shares is due to the maximum commission allowed to be charged thereon with respect to on- and off-exchange transactions.
- The changes in the effective commission reflect the effect of the maximum commission on on-exchange transactions and the minimum commission on off-exchange transactions, as well as their effect on internal transactions charged with a fixed commission.

Average Commission per derivative (NIS)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Derivatives on indices	0.58	0.58	-	0.58	0.58	-
Derivatives on foreign currency	0.36	0.36	-	0.36	0.36	-
Derivatives on individual shares	1	1	-	1	1	-

1.17.5.2 Clearing House services

Market value of assets in custodianship (approximation, NIS billions)			
	As of 31.12.2019	**As of 31.12.2018**	**% change**
Asset value	2,639	2,310	14.2%

Revenue from Clearing House Services (NIS thousands)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Custodian fees	26,534	26,435	0.4%	6,970	6,502	7.2%
Clearing House services for members/company events	21,160	18,907	11.9%	6,039	5,472	10.4%
Other	4,637	4,263	8.8%	1,175	1,024	14.7%
Total revenue from Clearing House services	**52,331**	**49,605**	**5.5%**	**14,184**	**12,998**	**9.1%**

* The increase in 2019 is due to growth in Clearing House services for companies and members, inter alia, as a result of new services.

Average Commission from Custodian Fees (in percent and annualized)	
2019	**2018**
0.00105%	0.00105%

* Commission on custodian fees is charged monthly based on the value of the assets on the last day of each month.

1.17.5.3 Listing and examination fees and annual levies

Average Number of Companies/Funds Weighted Annually/for the Interim Period*						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Number of companies	541	563	(3.9%)	531	551	(3.6%)
Number of mutual funds and ETFs**	2,132	1,511	41.1%	2,119	1,479	43.3%

* The data include information as regards stock and bond companies (without institutional). The average weights the fact that new companies do not pay an annual fee in the first year of their being listed and that companies that are delisted do pay an annual fee through the date of their delisting.

** The increase in the number of funds is due to the ETN reform that led to a change in the charging basis for listing ETNs/ETFs, whereby each fund is charged individually rather than the fund manager being charged for all the funds under its management.

Revenue from Annual Levies (NIS thousands)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Annual levies from companies	10,198	7,236	40.9%	2,520	1,799	40.1%
Annual levies from mutual funds and ETFs	15,339	11,033	39.0%	3,827	3,115	22.8%
Annual levies of Nominee Company and others	2,530	1,883	34.3%	823	610	35.0%
Total revenue from annual levies	**28,067**	**20,152**	**39.3%**	**7,170**	**5,524**	**29.8%**

Average Weighted Revenue from Levies for the Period (NIS thousands)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Companies	19	13	45.1%	5	3	45.1%
Funds	7	7	-	2	2	-

Revenue from Listing and Examination Fees (NIS thousands)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Examination fees	5,416	7,985	(32.2%)	1,331	1,525	(12.7%)
Listing fees – companies – shares and bonds	20,958	16,922	23.9%	7,310	6,577	11.1%
Listing fees – government bonds	3,045	2,388	27.5%	660	684	(3.5%)
Listing fees – treasury bills	922	967	(4.4%)	252	335	(24.9%)
Bonds and examination fees from members	1,208	-	-	868	-	-
Other	746	774	(3.6%)	344	138	148.3%
Effect of implementing IFRS 15 on the listing fees	(5,684)	(2,660)	113%	(3,726)	(665)	460.3%
Total revenue from listing and examination fees	**26,611**	**26,373**	**0.9%**	**7,039**	**8,595**	**(18.1%)**

* The revenue from examination fees in the second half of 2018 includes one-time revenue with respect to implementing the ETN reform.

** Revenue from company listing fees in 2018 captures the effect of updating fees on corporate bond offerings with effect from August 2018, as well as the effect of implementing the ETN reform.

Issuance Volume and Swap Transactions (NIS millions)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Companies – shares and bonds*	91,415	74,661	22.4%	34,151	17,504	95.1%
Government bonds	86,115	59,709	44.2%	18,192	17,103	6.4%
Treasury bills	131,684	137,712	(4.4%)	35,948	47,850	(24.9%)

* The value of capital raising in private placements is calculated according to the reported value in the allocation report, whereas the collection of listing fees is determined according to the market value of the shares listed for trading.

Information on the Number of Issuances						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Number of Tel Aviv public offerings of shares	60	64	(6.3%)	17	14	21.4%
Number of new issuers of shares	7	11	(36.4%)	1	2	(50%)
Number of new (dual-listed) companies	3	3	-	-	2	(100%)

Information on Issuances and Volumes Raised (NIS millions)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Amount raised in share IPOs of new issuers	3,206	1,844	73.8%	500	173	189%
Amount raised in preferred share offerings	-	-	-	-	-	-
Number of corporate bond offerings to the public	160	142	12.7%	43	31	(38.7%)
Number of corporate bond offerings to the public by new companies	4	13	(69.2%)	1	1	-
Amount raised in bond offerings by new issuers	1,728	7,196	(76%)	120	241	(50.2%)

Average Revenue from Listing and Examination Fees (per period and in percent)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Companies – shares and bonds and ETNs/ETFs	0.0229%	0.0227%	0.1%	0.0214%	0.0376%	(43%)
Government bonds	0.0035%	0.0040%	(11.6%)	0.0036%	0.0040%	(9.3%)

1.17.5.4 Distribution of data and connectivity services

Use of Data – Revenue from Data Terminals (NIS thousands)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Data terminals in Israel charged monthly – business customers	15,527	17,438	(11.0%)	3,778	4,428	(14.6%)
Data terminals in Israel charged monthly – private customers	2,726	-	-	393	-	-
Data terminals overseas charged monthly	6,270	6,148	2.0%	1,574	1,579	(0.3%)
Quote generators	1,430	-	-	353	-	-
Data terminals according to extent of use and information files	5,793	8,342	(30.6%)	1,668	2,119	(21.3%)
Indices and data	3,019	3,026	(0.2%)	857	525	63.2%
Connectivity services	7,654	-	-	2,065	-	-
Total revenue from data distribution and connectivity services	**42,419**	**34,954**	**21.4%**	**10,688**	**8,651**	**23.6%**

Average Number of Data Terminals Charged Monthly per Period						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
In Israel – for business customers	7,274	8,073	(9.9%)	7,335	8,093	(9.4%)
In Israel – for private customers	6,489	-	-	4,426	-	-
Overseas	4,886	4,745	3.0%	4,987	4,844	3.0%
Quote generators	245	-	-	254	-	-
Total						

1.17.5.5 Other revenue

Other Revenue (NIS thousands)						
	2019	**2018**	**% change**	**For the three months ended 31.12.2019**	**For the three months ended 31.12.2018**	**% change**
Rent and Conference Center	2,208	2,091	5.6%	508	550	(7.6%)
Analysis Project	784	1,907	(58.9%)	474	302	56.8%
Other	581	1,168	(50.2%)	14	229	(93.3%)
Total other revenue	**3,573**	**5,166**	**(30.8%)**	**996**	**1,081**	**(7.8%)**

1.18 New Products

Close to the publication date of this Report, the Company is in various stages of developing significant new products and services, the principle of which are as follows:

1.18.1 Central lending pool

As of Reporting Date, securities lending activity is concentrated in the hands of a relatively small number of parties that provide custodian services, limiting competition in this sphere. Moreover, lenders usually operate through a small number of brokers and lending activity is done on the basis of telephone calls without a central automatic trading platform. The Company is working toward the launch of a product that will enable the TASE Clearing House members to conduct securities lending automatically, transparently and efficiently for their clients, as well as among themselves. Close to the date of this Report, the system is planned to be transitioned to Blockchain technology; however, considering that the development phase for this system is not yet complete, it remains uncertain that it will ultimately be based on this technology. The development cost as of Reporting Date is estimated at NIS 15 million, of which NIS 12.5 million had been invested as of Reporting Date. As of Reporting Date, the Company believes that the system's trial-run stage will begin in the second quarter of 2020 and, depending upon the success thereof, business operations will commence during the second half of 2020. In light of this, the Company anticipates that the revenue from the system during 2020 will not be material.

1.18.2 **Dual-listing of foreign ETFs**

In parallel with the process for amending the Securities Regulations with regard to the dual-listing of foreign ETF units in Israel, the Company has formulated a regulation infrastructure within the TASE Rules and adapted the TASE systems so as to enable an effective implementation of such dual-listing. Consequently, as of December 31, 2019, 23 foreign ETFs under Blackrock's management had listed on TASE. This notwithstanding, for the vast majority of foreign issuers and foreign funds, the commencement of making dual-listing arrangements depends on legislative changes, which have been delayed due to the disruption to the Knesset's activities during the past year, which has been operating as a provisional Knesset for an extended length of time.

1.18.3 **NLT clearing services for non-listed limited partnerships**

TASE Clearing House has extended the NLT clearing services, which until recently had been provided solely for listed securities, to alternative investment products such as investment funds and hedge funds, which are incorporated as non-listed limited partnerships. The participation units of five non-listed limited partnerships have to date been listed on the NLT platform. TASE Clearing House is expected to gradually extend the services to include alternative investment products, thereby allowing the submission of applications for the creation and redemption of participation units in investment funds and hedge funds through TASE members.

1.18.4 **Listing of limited partnerships active in the R&D field**

As part of its efforts to expand its range of investment products, with an emphasis on innovation and technology, the Company recently approved a new product, making it possible to list participation units of limited partnerships in the R&D field. In addition, the Company will allow limited partnerships that invest in a number of projects in the field, in the same way as for risk capital funds, to list on TASE subject to certain conditions.

1.19 **Customers**

1.19.1 The Company's main customers can be divided into (i) customers that are TASE members and/or Clearing House members and (ii) customers that are companies listed on TASE. In addition, the Company provides data distribution services and data services to data distributors and to various data users that do not have any set characteristics, including the Bank of Israel and the Ministry of Finance, as well as granting authorizations to various financial entities for the use of data.

For details regarding characteristics of the TASE members and the Clearing House members, see section 1.7.2 above.

1.19.2 Revenue from TASE members is primarily generated from trading and clearing commissions which TASE members pay for the trading and clearing services pursuant to the TASE Rules.

1.19.3 As of Reporting Date, the Company is not dependent on any single customer or on a limited number of customers, the loss of which would materially affect its operations or its financial condition. Nevertheless, government bonds, including treasury bills, constitute a common investment product which attract a high concentration of the trading on TASE. They also constitute one of the main components in the collateral arrays required from, and provided by, members of the Clearing Houses. Therefore, the State could be viewed as an issuer having a material effect on the Company's operations and on its financial condition.

In addition, apart from three TASE members referred to below, the Company has no other customers whose revenues constitute 10% or more of the Company's total revenue.

	2019		2018	
	Revenue – in NIS millions	**% of the Company's total revenue**	**Revenue – in NIS millions**	**% of the Company's total revenue**
TASE member A	32,980	12.68%	34,560	13.52%
TASE member B	32,928	12.66%	35,700	13.96%
TASE member C	32,062	12.33%	33,749	13.20%

The TASE members referred to above are banks and most of the revenue from them derives from trading and clearing commissions.

1.20 **Marketing and Distribution**

The Company invests resources in marketing and distribution, including in the field of marketing communications, press relations, complaints and questions from the public and operation of the Company's Conferences and Events Center. In this context, the Company launched an advertising campaign directed at the general public to encourage investment activity within the framework of the TASE. In May 2019, the TASE signed an agreement with the Administration of the Professional Football Leagues in Israel 2014 Ltd. (the "**Administration**") to be its main sponsor for a period of three seasons, beginning with the 2019/2020 season (as defined in the Israeli Football Association Regulations), and through the end of the 2021/2022 season, for a total of NIS 12.3 million, paid in installments over the period. In return for this, the Administration committed to a scope of advertising in various forms of media as detailed in the agreement.

During August 2019, promos for the Israel Professional Football Leagues began to be aired on the various sports channels, at the Company's initiative, as well as other advertising, at the initiative of the Leagues' Administration, which include exposure of the Company as the Title Sponsor of the Israel Professional Football Leagues.

1.21 **Competition**

The Company faces competition from the world's other stock exchanges in the domestic market and in the international market, in both the securities and derivatives activities.

1.21.1 **The securities markets**

The equity market

Companies considering making an issuance on a stock exchange do so for various reasons, including raising funds for development and expansion purposes or realizing and liquidating holdings of that company's controlling shareholders.

In the primary market, TASE faces competition over the listing of Israeli companies from foreign stock exchanges that offer a variety of trading platforms and regulatory regimes and access to a broad spectrum of investors. The Company's dual-listing arrangements assist in mitigating such competition risk by giving Israeli companies access both to local investors and to foreign investors, while retaining the advantages of listing on their "home-court" and averting the costs associated with having to comply with two different reporting regimes. On May 14, 2018, TASE signed a cooperation agreement with the Singapore Stock Exchange. For further details, see Section 1.34.1 below.

The Company believes that, for the purpose of motivating companies to dual-list on TASE, the following main advantages should be emphasized:

- increased public interest in investment activity on TASE and the opportunity to raise capital on TASE;
- inclusion in TASE's leading equity indices;

- the opportunity for continuous trading throughout the greater part of the day (particularly with regard to the United States, due to time differences between the two countries);
- reducing the burden of oversight arrangements and regulation to which reporting corporations in Israel are subject;
- recognition for tax purposes of the expenses associated with a public offering;
- efficiency and simplicity of implementation of the dual-listing arrangement.

In the secondary market, competition could also come from private investment funds, holding companies and multinational companies interested in investing in Israeli companies, thereby presenting them with an alternative to public investment. In the secondary market, there is direct competition in relation to trading in dual-listed securities, as well as competition coming from foreign stock exchanges, alternative trading platforms and alternative investment channels, which offer investment instruments that are not connected to Israel.

The corporate bond market

In the sphere of corporate debt raising, the Company faces competition in the domestic market from banks and institutional and financial corporations, as well as from private investment funds. In this market, competition from foreign stock exchanges is less intense. The Company believes that this is because Israeli investors have developed a greater affinity for debt instruments as they are significantly affected both by the high level of interest in the country of operation and by the legislative arrangements regarding pledges and insolvency which play a major part in protecting creditors' rights.

Competition in the corporate bonds primary market comes from banks, institutional bodies and private equity funds that are interested in providing funding to Israeli companies within the framework of bank credit or private institutional loans. TASE is still the primary player in this market in the case of major corporations, but it faces more intense competition over smaller corporations that might find it difficult to comply with the TASE listing rules, including disclosure and corporate governance obligations and are thus deterred by them.

Further intensification in competition, beyond its present level, could lead to slower growth and to lower trading volumes, which could negatively impact the Company's business results and profitability. In the short and medium-term, the Company believes that it has an advantage over its existing and potential competitors, as a platform for raising equity and debt and as the sole option for multilateral trading available in Israel. Moreover, TASE's Clearing Houses, pursuant to the Israel Securities Authority's announcement of June 29, 2017, are recognized as a Qualifying Central Counterparty and operate pursuant to the provisions of the Authority's "Clearing Houses' Stability Directive," which is based on international standards for financial infrastructures.

This recognition testifies to the Clearing Houses' stability, pursuant to such standards, a factor that ensures a major advantage over existing and potential competitors in the domestic market. However, the Company sees a potential competitive threat arising from accelerating globalization developments and from investors' direct participation in off-exchange trading in Israel. As part of its strategy, the Company is working to encourage companies to list on TASE through implementing regulatory changes that make it easier for companies to do so, increasing collaborative efforts for dual-listing, and considering the launch of new products that will broaden the range of products and services currently offered by TASE and the Clearing Houses, thereby increasing the attractiveness of TASE as compared to the other investment markets, channels and alternative products.

1.21.2 **The derivatives market - trading platforms and trading rooms**

The Company faces competition in the derivatives market, among other things, from trading platforms, which are computerized systems through which a platform buys financial instruments from its customers for its own account, or through which a platform sells financial instruments to its customers from its own account. Trading platforms operate in an organized, frequent and systematic manner ("**Trading Platforms**").

To the best of the Company's knowledge, the Trading Platforms were developed against the background of a low interest environment, which leads investors to seek alternative investment channels, a preferable user-experience that is offered by them, and leverage levels that enable their customers to increase the potential short-term gain or loss of the investment. Trading Platforms are defined in Section 44L of the Securities Law and are, in practice, computerized trading platforms with trading generally being conducted on the Internet. Trading Platforms allow investors to trade with their operators in a variety of financial instruments, typically foreign currency derivatives (FOREX), commodity derivatives or foreign securities derivatives.

Trading on the Trading Platforms takes place with the Trading Platform itself, as opposed to trading on TASE, which in essence is a market that allows a large number of independent parties to meet and determine the transaction price in accordance with supply and demand.

Trading Platforms are supervised by the Israel Securities Authority and are regulated by the Securities Law and the Securities Regulations (Trading Platforms for their Own Account), 2014.

To the best of the Company's knowledge, as of Reporting Date, there are four companies that have a permit to manage Trading Platforms. The trading turnover on the Trading Platforms is not officially published. Therefore, it is not possible to estimate the impact that the Trading Platforms have on TASE's trading volumes and, particularly, on its revenues. Nevertheless, the Company believes that at least part of the decrease since 2012 in TASE's trading turnovers in derivatives on the TA-35 Index, as well as the decline in the number of active accounts, can be attributed to traders moving from TASE to the Trading Platforms.

In addition, there is competition in the derivatives market, particularly in derivatives on foreign exchange rates, from the trading rooms of banks (both domestic and foreign), brokers and other financial institutions, which offer a variety of derivatives that are personalized specifically to the customers' needs, within the framework of direct over-the-counter trading between them, and from other derivatives exchanges. In the Company's opinion, competition in the derivatives sector is likely to increase due to the ETN reform, which allows mutual funds (including ETFs) to hedge currency exposures through the banks.

The Company is planning measures to stimulate activity in the derivatives market, in order to expand its distribution channels in Israel, using existing and new brokers.

1.21.3 **Study on the establishment of a dedicated stock exchange for small and medium-sized companies**

The report of the inter-ministerial team appointed to study the establishment of a dedicated stock exchange for small and medium-sized companies was published in June 2018 (the "**Inter-ministerial Report**")[23].

As part of the government's policy for small and medium-sized businesses, the Ministers of Finance and Justice appointed a team to study an initiative dealing with the establishment of a capital market for small and medium-sized companies (the "**Dedicated Stock Exchange**").

According to the Inter-ministerial Report, the establishment of a Dedicated Stock Exchange would (i) assist in increasing the exposure of the Israeli public to technology and emerging growth companies, which have - until now - not been a significant part of the capital markets, (ii) enable the creation of a springboard for growth companies through the primary markets, (iii) assist in promoting the economic interest of keeping these companies in Israel, and (iv) accordingly strengthen Israel's relative advantage as a technological power, contributing to the country's economic productivity.

In the Inter-ministerial Report, the inter-ministerial team recommended that, upon establishing a Dedicated Stock Exchange, a supervisory model should be implemented which would be based on the existing supervisory model in Israel. The companies will be supervised directly by the Israel Securities Authority, in line with the regulation that is proposed to apply to these companies, assisted by the appointment of a sponsor, which is an entity that would assist in examining the suitability of such companies for the public market and would provide assistance with the arrangements for an IPO from the regulatory and business aspects. However, the inter-ministerial team recommended that the legal arrangement

---

23 The above is based on the full Inter-ministerial Report which was published in Hebrew on the website of the Israel Securities Authority:
http://www.isa.gov.il/%D7%94%D7%95%D7%93%D7%A2%D7%95%D7%AA%20%D7%95%D7%A4%D7%A8%D7%A1%D7%95%D7%9E%D7%99%D7%9D/Reports/177/Documents/dohhavarotktanot.pdf

for the establishment of the Dedicated Stock Exchange be in a manner that would enable the Dedicated Stock Exchange to be established under the Company within the framework of a separate corporation, but as a separate branch of the Company (without rejecting the possibility that the Dedicated Stock Exchange would be established other than under the Company).

Additional recommendations that are presented in the Inter-ministerial Report relate to: not placing any restriction on the identity of the investors; requiring that listed companies have a minimum operating history of one year, but not placing a restriction or making requirements regarding the type of sector/industry; not setting any minimum financial conditions or a requirement for a company to maintain a business model; defining various thresholds in connection with capital raising scopes and diffusion of public holdings; providing reliefs to encourage companies to enter into market-making agreements; and, making modifications in order to allow the entry of e-brokers and to create an Internet system for participating in IPOs.

The inter-ministerial committee made recommendations in connection with: the transfer of listings between the exchanges; the types of securities to be listed on the Dedicated Stock Exchange; disclosure and reporting obligations that would apply to listed companies; and various provisions regarding corporate governance and transactions with interested parties.

With regard to the economic incentives recommended for listed companies, for institutional investors and for the controlling shareholders of the companies that will be listed, the committee expressed its opinion that this is likely to lead to a preference of companies which meet the requirements to be listed on the Dedicated Stock Exchange, rather than on TASE.

To the best of the Company's knowledge, a government bill on this subject passed its first reading in the 20th Knesset during 2018 and, as of Reporting Date, is being prepared for its second and third readings.

1.21.4 **<u>Trading services in securities</u>**

Section 49A of the Securities Law prescribes that trading services in securities are not to be offered using a system for trading in securities ("**Trading Services in Securities**") unless the system is managed by a licensed stock exchange. However, the Chairman of the Israel Securities Authority may allow Trading Services in Securities to be offered using a system managed by a stock exchange outside Israel, under set terms, if he has found that this will not damage the interests of the investing public in Israel. Pursuant to Israel Securities Authority's position paper from November 8, 2017, until such time as the terms for a general permit to offer Trading Services in Securities are published, the Israel Securities Authority shall refrain from taking enforcement measures due to a breach of the provisions of Section 49A of the Securities Law.

Furthermore, on June 6, 2019, the Israel Securities Authority published a paper with the text of the terms for a general permit to offer Trading Services in Securities, which took effect on July 30, 2019 (and as amended on November 11, 2019), in which are set forth the terms for granting a permit to offer Trading Services in Securities (the "**General Permit**"). The terms of the General Permit relate primarily to foreign stock exchanges or to a person acting on their behalf and restricts application to qualified corporations, which are included in the First Schedule to the Securities Law and to trading in securities that are not listed on the stock exchange in Israel (apart from securities that are dual-listed). The terms of the General Permit also referred to other parties that trade in securities and are subject to oversight and regulation in Israel (such as, a banking corporation, a TASE member, the holder of a consulting license or a holder of a marketing license) or that are subject to oversight and regulation in the fields of trading in securities and investments in the United States, in the nations of the European Union or in Switzerland ("**Non-Exchange Parties**"). In addition, the General Permit includes an alternative of a limited application, whereby the provision of Trading Services in Securities would be offered only to qualified investors, as listed in the First Schedule of the Securities Law, whether these be corporations or individuals (the "**Institutional Alternative**"). The terms of the General Permit require that an application be submitted and that the appropriate permit be received from the Authority for a party applying to act as such, other than in the case of a Non-Exchange Party acting within the framework of the Institutional Alternative. The terms of the General Permit do not preclude granting a specific permit to a party that wishes to do so other than in accordance with the terms of the General Permit.

1.21.5 **Trading platforms in cryptocurrencies and use of Distributed Ledger Technology (DLT)**

In March 2019, the Israel Securities Authority published the final report of the Committee for the Examination and Regulation of ICOs (Internet Coin Offerings). The following recommendations were included among the Committee's conclusions:

- A dedicated disclosure regime – ICOs should be subject to the Securities Law, with the disclosure requirements adjusted to the unique features of the activity of these companies.
- Exceptions and the creation of terms and conditions for activity in the form of a "regulatory sandbox" – the use of such a framework for ICO pilots should be permitted.
- A specially dedicated platform for trading in cryptocurrencies – the possibility of adapting the existing regulation should be examined with regard to creating a more appropriate regulatory infrastructure for such trading activity.
- A crowdfunding model for cryptocurrency initiatives – the application of a model with features similar to crowdfunding should be examined with regard to cryptocurrency initiatives that are securities.

In addition, during January 2020, the Israel Securities Authority published the final report of the Committee for the Advancement and Establishment of Digital Markets in Israel. As part of the report, the Committee highlighted the following insights:

- Identifying the potential – inherent in the DLT technology is the potential to promote the Israeli capital market.
- Risks – the deployment of such innovative technology, which is intended to serve as a component within the core systems, needs to proceed in a controlled and responsible manner. Accordingly, the development of the Israel Securities Authority's future steps in adopting these technologies is expected to take these risks into consideration and to address them, but without preventing their adoption.
- Neutral approach to technology – it is important that the Israel Securities Authority maintains a neutral approach regarding the specific technologies that its supervised entities choose to use.
- Regulatory issues – the licensing and supervision provisions prescribed in the Securities Law regarding TASE were shaped by the view that the exchange constitutes a "significant national exchange" that operates through its members. As a result, several of the regulatory requirements that apply to an exchange might impede the establishment of relatively small trading platforms.
- Proving the benefits inherent in the technology – many significant benefits have been attributed to the DLT technology, yet these are for the most part theoretical.

As of Reporting Date, the Company is examining the implications of the above recommendations of the Committee on its activity. At the same time, it is monitoring further technological development in the Blockchain and cryptographic securities field and in the DLT field, while considering the possibility and necessity of adopting such technology in its ongoing operations. With regard to this matter, it should be noted that the central lending pool is being developed, inter alia, based on blockchain technology. For further details, see Section 1.18.1 above.

1.22 Seasonality

The Company's sphere of activity is not characterized by seasonality that affects its operations in a material manner. However, the Company's revenue is affected by trading volumes on TASE and by revenues from listing fees. During the periods that include religious holidays, intermediate days or vacation, changes may occur in the Company's revenues due to a reduction in the scope of activity, due mainly to the dependence of daily trading volumes on the number of trading days and hours and the activity hours during such periods. This phenomenon was clearly felt, as an illustration, in the third quarter of 2018, during which summer vacation occurred, as well as the period of the Jewish High Holidays and Sukkot, which resulted in fewer trading days (and on the intermediate holiday days – to a reduction in the activity hours), along with the absence of many of the market participants that were on vacation. This was also the case in the fourth quarter of 2019, during which the period of the Jewish High Holidays and Sukkot occurred.

1.23 Operating Capacity

As of Reporting Date, the Company has operating capacity that can be activated immediately (or within a short preparation time) of up to 100 million orders per day on any of the markets in which the Company operates. Any increase above such amount would require the Company to make substantial investment in its trading infrastructure. In relation to 2019, the average number of daily orders on the continuous trading system amounted to approximately 7.3 million orders a day (with the number of orders on the most active day in TASE's history reaching almost 12 million), while on the derivatives market the number was considerably lower. In addition, despite a material increase in activity volumes, alternative operating methods are available to cope with such an increase without extensive investment being needed for replacing the infrastructures (e.g., reducing communication speed, etc.). The Company believes that, as of Reporting Date, there is no effective limit from this aspect.

Part Four - Additional Information at the Company and Group Level

1.24 Fixed Assets, Real Estate and Fixtures

1.24.1 In 2007, the Company entered into agreements for the acquisition of title, possession and usage rights, as well as leasing rights, in real estate for the purpose of erecting a new building for the Company in which its management, units and systems are housed (the "**TASE Building**"). In 2010, the Company signed a lease with the Tel Aviv Municipality for the lease of underground space for a term of 49 years, in effect from December 2009, with an option to extend the term for a further 49 years, and paid leasing fees of NIS 2.3 million, based on an appraiser's valuation. In 2018, the Company received a refund of NIS 1.8 million with respect to betterment levies. The total area of the TASE Building comprises 22,454 square meters, which includes 10 floors of offices with an overall area of 7,980 square meters, an events hall and Conference Center comprising an area of 1,249 square meters, and a parking lot of 7,003 square meters. As of Reporting Date, one of the floors is rented out under a medium-term lease, while an additional floor is kept vacant for future use.

1.24.2 The depreciated cost of the owned land and the TASE Building, which are classified as fixed assets in the Company's financial statements, amounted to NIS 223.9 million and NIS 219.2 million as of December 31 2018 and December 31, 2019, respectively (the owned land alone amounted to NIS 19.5 million). The depreciated cost as of December 31, 2018, includes the reversal in the period of the impairment provision of NIS 85.1 million. For further details, see note 11 A (1) to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.24.3 The depreciated cost of the right-of-use assets in the Company's books amounted to NIS 38.4 million and NIS 57.6 million as of December 31 2018 and December 31, 2019, respectively (including leased land amounting to NIS 38.4 million and NIS 38.2 million as of December 31 2018 and December 31, 2019, respectively, leases with respect to the backup facility, communication lines and motor vehicles) The depreciated cost of the equipment (which includes, among other things, IT systems, equipment systems and also furniture), in the Company's books, totaled NIS 73.7 million and NIS 68.4 million as of December 31 2018 and December 31, 2019, respectively.

1.24.4 It should be noted that, during January 2016, the Company pledged and/or charged all the rights to land on which the TASE Building stands with a charge in an unlimited amount for the benefit of a banking corporation with which it has entered into an agreement to receive a credit facility, as referred to in Section 1.30.1 below.

1.24.5 The Company owns various equipment, including storage systems, communications equipment, various control systems, multimedia systems, computer equipment, cooling systems, elevators, generators, etc.

1.24.6 For further details regarding the Company's fixed assets, see note 11 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.24.7 The Company has entered into a lease agreement in connection with a backup site for TASE's systems until April 30, 2025, for which the annual leasing fees amount to NIS 2.5 million. The site, which comprises 345 square meters, could be used as an operational site if needed, in addition to being a backup site.

1.25 Intangible Assets

1.25.1. The amortized cost of the Company's intangible assets in the Company's books amounted to NIS 106 million and NIS 112.4 million as of December 31, 2018 and December 31, 2019, respectively. The cost includes licenses, software and self-development costs of computer software for internal use. For further details regarding the possibility of commercializing developments and accumulated expertise belonging to the Company, see Section 1.37.3 below.

1.25.2 The following trade names are used by the Group and are registered with the registrar of trademarks in Israel: TASE and the names of some of the security indices. As of Reporting Date, the Company is in the process of registering additional trademarks. These names are important to the Company's operations as it is the only party within its industry in Israel.

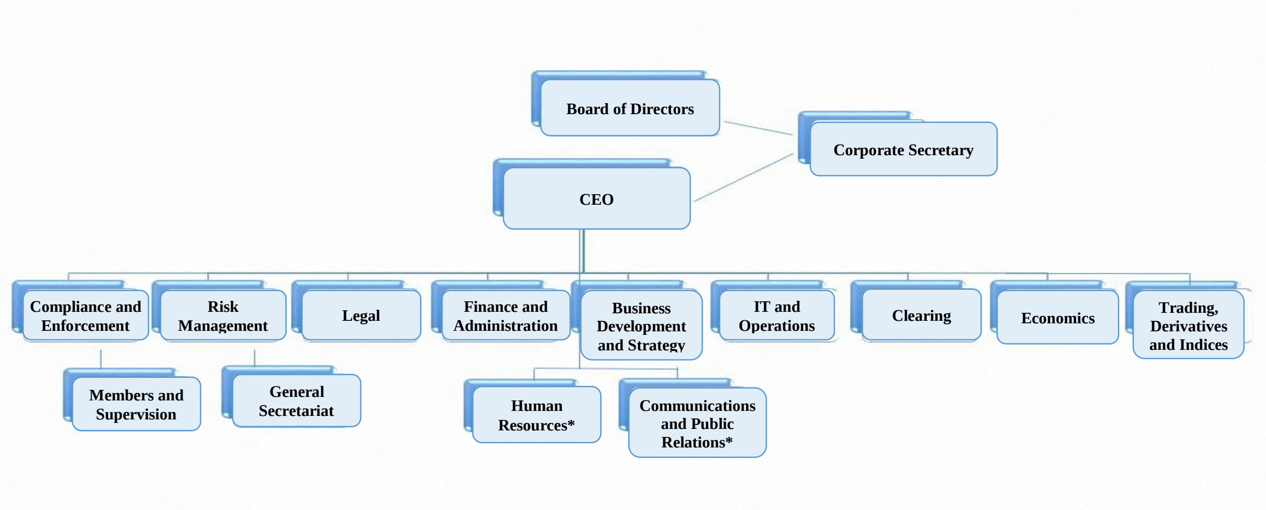
1.25.3 For further details regarding the intangible assets of the Company, see note 12 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.26 **Human Capital**

1.26.1 **General**

The Company views human capital as an important resource and therefore invests considerably in retaining and recruiting high-quality manpower with experience and expertise in the industry and with unique specializations relevant to the Company's operations – all the while bearing in mind the complexity associated with managing the trading and clearing of transactions in securities and in financial instruments in significant financial scopes.

1.26.2. **Presented below is an organizational chart of the TASE Group as of Reporting Date:**



* These report to the CEO but are not members of the Company's management.

The units included in the departments shown in the above chart are overseen by experienced managers who are in charge of professional work teams, as set forth below:

Department	Number of Employees as of	
	31.12.2019	31.12.18
Bureau of the Board Chairman and the CEO (*)	3	16
Corporate Secretary	2	2
Trading, Derivatives and Indices...	11	11
Economics...	25	25
Clearing and Listings	20	20
IT and Operations..	110	109
Strategy and Business Development..	7	7
Finance and Administration	29	31
Legal..	4	5
Risk Management (*)	21	10
Compliance and Enforcement at TASE and the Clearing Houses.	11	2
Membership and Supervision	-	9
Communications and Public Relations	3	3
Human Resources	4	4
Total	**250**	**254**

(*) During 2019, the General Secretariat was moved from the Bureau of the Board Chairman and the CEO to the Risk Management Department.

The above table does not include employees of external contractors, or seasonal employees.

1.26.3 The Company has policies and internal work procedures that govern its conduct with respect to such activities as: employees recruitment, selection and absorption; youth employment; employment termination; attendance and work; vacations and absences; participation in training, courses and day seminars; prohibition against receipt of benefits; refund of personal expenses; refund of expenses for work trips; etc.

1.26.4 During 2018, the Company adopted an ethics code, which applies to all of its employees and managers at all positions and at all comparable levels, as well as to the members of the Board of Directors (the "**Ethics Code**"). The Ethics Code is based on guiding principles by which the Company conducts its professional activity, as well as on rules of behavior and standards that ensure the core values that characterize the Company: human respect, honesty, initiative, professionalism and commitment.

1.26.5 **Investments in training, courses and human capital development**

The Company invests resources in the professional training of employees in order to improve their level of service pursuant to their duties, and, in a number of activities, to improve the employees' job-satisfaction.

1.26.6 **Compensation Policy**

On April 17, 2018, TASE's general meeting approved, after the Company's Board of Directors and its Audit Committee (serving as its Compensation Committee) had previously approved, the updated compensation policy for the Company's officers, pursuant to the provisions of the Companies Law, which shall be in effect for the years 2018 through 2020. On September 6, 2018, February 28, 2019 and May 1, 2019, updates to the compensation policy were approved at the Company's general meeting (collectively, the "**Compensation Policy**").

The Compensation Policy is multi-year and includes provisions regarding the fixed and variable components of the officers' compensation and their interrelationship, while prescribing parameters, threshold terms, ranges and ceilings for the compensation components, based on the Company's performance and the performance of the officers.

1.26.7 **Compensation Plans**

The Company compensates its employees in accordance with the provisions of a special collective agreement (as described in Section 1.26.10 below) and its senior officers in accordance with the compensation plans described below.

1.26.7.1 Compensation plan for the Chairman of the Board of Directors and the CEO of the Company for the years 2018 through 2020

On April 17, 2018, the Company's general meeting approved (after the Company's Board of Directors and its Audit Committee serving as its Compensation Committee had given prior approval), a compensation plan for the Company's CEO and for the Chairman of the Board of Directors, pursuant to the Compensation Policy (the "**Compensation Plan**").Pursuant to the Compensation Plan, the Company's CEO and the Chairman of the Board of Directors shall be entitled to an annual cash bonus (the "**Bonus**") of up to six monthly salaries (gross), as set forth below: (1) an annual Bonus in an amount that shall not exceed three monthly salaries (gross), which shall be determined on the basis of a company-wide, quantitative criterion; and (2) an annual Bonus in an amount that shall not exceed three monthly salaries (gross), which shall be determined based on qualitative criteria.

The Bonus entitlement terms include, as stated, a quantitative component, which is the "pre-tax profit" of the Company (as defined in the Compensation Plan) as per the Company's financial statements for the Bonus year. For the purpose of the quantitative component, the Compensation Committee and the Board of Directors may decide to eliminate exceptional profits or losses for the purpose of calculating the "pre-tax profit" of the Company.

If the "pre-tax profit" (as defined in the Compensation Plan) for a particular Bonus year is negative, then the decision of the Compensation Committee to grant an annual Bonus based on qualitative criteria, shall be conditioned on the consent of all the members of the Compensation Committee. In any event, the amount of the annual Bonus shall not exceed the maximum annual Bonus prescribed for the CEO and/or the Chairman of the Board of Directors.

On May 1, 2019, the Company's general meeting approved (after the Compensation Committee and the Board of Directors had given their prior approval) that – for the purpose of calculating the quantitative bonus to be paid to the CEO and the Chairman of the Board of Directors for 2018, pursuant to the compensation plan – in calculating the "pre-tax profit" (as defined in the compensation plan), the reversal of the TASE Building impairment will not be taken into consideration, despite being included in the Company's 2018 financial statements because this is a gain that did not arise from the Company's operating activities, does not involve cash flows and is non-recurring.

The entitlement of the Company's CEO and/or the Chairman of the Board of Directors to a Bonus for the qualitative component shall be determined based on assessments by the Compensation Committee and the Board of Directors, in relation to their fulfillment of qualitative criteria, such as: contribution to increasing the Company's profits and its success, risk management and compliance, leadership and staff management, professionalism, character, efficiency, initiative and people skills, the advancement and implementation of processes, and so forth. The actual grant of the Bonus amount for the qualitative component is subject to the approvals required in the Compensation Plan.

The Compensation Plan also includes a mechanism for the repayment of the annual Bonus in the event that the data on which the Bonus is granted is found to be erroneous. Moreover, the Board of Directors may reduce the amount of the annual Bonus that shall be paid to an officer, even determining that an officer shall not be paid a Bonus for a particular Bonus year at the discretion of the Board of Directors.

For details regarding the bonuses for 2019 approved for the Company's CEO and for the Chairman of its Board of Directors and also regarding the retention plan for the Company's CEO, see Article 21 of Part Four – Additional Details Regarding the Company.

Equity Compensation for the Company's CEO

On May 1, 2019, the Company's general meeting approved (after the Compensation Committee and the Board of Directors had given their prior approval) a retention program for Mr. Ittai Ben Zeev, the Company's CEO. Among the matters covered by this approval, it was agreed to allocate 4,250,000 non-listed options to a trustee for the calendar years 2019 through 2023 (inclusive). Each option is exercisable into one ordinary share of the Company, up to a total of 4,250,000 ordinary shares of the Company, subject to adjustments[24], at an exercise price of NIS 12 per share. The cost of the benefit inherent in the options for the CEO allocated as aforesaid, based on the fair value on the date of their allocation, amounted to NIS 2.743 million. For further details, including with regard to the method of calculating the fair value and of recognizing the expense, see note 15 A (c) to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.26.7.2 Compensation plan for Company officers who report to the CEO of the Company for the years 2018 through 2020

On March 29, 2018, the Company's Board of Directors (after the Audit Committee serving as the Compensation Committee had given their prior approval) approved a compensation plan for Company officers who report to the CEO, pursuant to the Compensation Policy, which includes a cash bonus and long-term equity compensation, as set forth below (the "**Compensation Plan**").

Pursuant to the Compensation Plan, each of the officers shall be entitled to an annual cash bonus (the "**Bonus**"), for each of the years 2018, 2019 and 2020 of up to three monthly salaries (apart from a Head of the Clearing Houses who shall be entitled to a Bonus of up to five monthly salaries). The entitlement of the officer to the Bonus, shall be determined based on assessments by the Compensation Committee and the Board of Directors, in relation to the officer's fulfillment of qualitative criteria, such as: contribution to increasing the Company's profits and its success, risk management and compliance, leadership and staff management, professionalism, character, efficiency, initiative and people skills, the advancement and implementation of processes, among other things. The CEO's opinion regarding each of the officers shall be brought before the Compensation Committee and the Board of Directors for approval.

If the "pre-tax profit" (as defined in the Compensation Plan) for a particular Bonus year is negative, the decision of the Compensation Committee to grant an annual Bonus, shall be conditioned on receiving the consent of all the members of the Compensation Committee. In any event, the amount of the annual Bonus shall not exceed the maximum annual Bonus prescribed for the officer. The entitlement of a Head of the Clearing Houses to an annual Bonus, for a particular Bonus year, shall be determined on the basis of a company-wide, quantitative criterion, which is the "pre-tax profit" of the Company per the Company's financial statements for the Bonus year. The Compensation Committee and the Board of Directors may decide to eliminate exceptional profits or losses for the purpose of calculating the "pre-tax profit" of the Company for a particular Bonus year.

For the purpose of calculating the Bonus of a Head of the Clearing Houses, quantitative goals have been set for the Company's performance in the Compensation Plan. The Compensation Plan also includes a mechanism for the repayment of the annual Bonus if the data on which the Bonus is granted is found to be erroneous. The Board of Directors may reduce the amount of the annual Bonus that shall be paid to an officer,

[24] It should be noted that the allocation of the full number of ordinary shares stemming from the exercise of the options for the CEO (the "**CEO's Exercised Shares**") is purely theoretical, since – in practice – the full number of the CEO's Exercised Shares will not be allocated to the CEO but only shares in an amount that reflects the amount of the monetary benefit inherent in the options for the CEO as of the exercise date.

including determining that an officer shall not be paid a bonus for a particular Bonus year, at the discretion of the Board of Directors.

1.26.7.3 Equity compensation for officers who report to the CEO

As part of the compensation plan, on March 29, 2018, the Company's Board of Directors approved the grant of options, for no consideration, to officers of the Company who report to the CEO, in a total amount of up to 4,179,797 non-listed, registered options in three annual batches. The options are exercisable into up to 4,179,797 ordinary shares of the Company with no par value, subject to adjustments, at an exercise price of NIS 5.75 per share, subject to adjustments[25]. The cost of the benefit inherent in the options allocated as aforesaid, based on the fair value on the date of their allocation, amounted to NIS 4.54 million. For further details, including with regard to the method of calculating the fair value and of recognizing the expense, see note 15 B to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.26.8 **Allotment of Shares to the Company's Employees and to its Service Providers**

For details of an allotment of shares to the Company's employees, as part of the collective agreement that applies to the Company's employees, see Section 1.3.1 above.

1.26.9 **The Company's Senior Officers**

1.26.9.1 For details regarding the Company's senior officers as of Reporting Date, see Article 26A of Part Four – Additional Details Regarding the Company.

1.26.9.2 For details regarding the terms of service and employment of Mr. Ittai Ben Zeev, who serves as the Company's CEO (including details of the retention plan for the CEO) and for details regarding the terms of engagement with the Chairman of the Company's Board of Directors, Mister Amnon Neubach, see Article 21 of Part Four – Additional Details Regarding the Company.

1.26.10. **Collective labor relations at the Company**

The Group's labor relations (except with respect to the Chairman of the Board of Directors, the CEO and the vice presidents who are employed under personal contracts) are based on special collective labor agreements that were signed between the Company's management and the Histadrut (the New General Federation of Labor in Israel) - the Tel Aviv-Jaffa Workers' Council and the employees committee (collectively, the "**Collective Agreement**"). The Collective Agreement is intended to govern the obligations and rights of the employees (other than senior officers who, as stated, are employed under personal agreements), define the disciplinary rules and the manner in which these are applied and resolve labor issues at the Company. Details relating to the Collective Agreement are presented below:

1.26.10.1 The basic Collective Agreement has existed at the Company since 1974 and governs the work conditions and pay terms at the Company, including organizational aspects relating to the absorption of employees at the Company and their employment. This includes defining the status of temporary employees and permanent employees, dealing with disciplinary breaches and prescribing arrangements regarding the termination of employees' employment and consultation with the employees committee (the "**1974 Agreement**").

[25] It should be noted that the allocation of the full number of ordinary shares stemming from the exercise of the options for the officers (the "**Officers' Exercised Shares**") is purely theoretical, since – in practice – the full number of the Officers' Exercised Shares will not be allocated to the officers but only shares in an amount that reflects the amount of the monetary benefit inherent in the options for the officers as of the exercise date.

1.26.10.2 Over the years since the 1974 Agreement was signed, additional collective agreements have been signed, from time to time, which update the pay of the Company's employees and also define benefits and related conditions for the employees (e.g., one-time annual bonuses, special bonuses, pay increments, pension arrangements, vehicle running costs, leasing, professional literature, clothing, and so forth). These pay agreements are registered as special collective agreements and constitute addendums to the 1974 Agreement.

1.26.10.3 On May 7, 2017, as the Company was completing a change in its ownership structure, a collective agreement was signed for a five-year period, through 2021 (the "**2017 Agreement**"). This agreement is the most recent collective agreement and is applicable to the Company's employees as of Reporting Date.

The 2017 Agreement includes several special arrangements resulting from the TASE restructuring arrangement. First and foremost, there is a safety net against collective dismissals due to cutbacks and cost savings, under any conditions, during the five years following the date of the TASE restructuring arrangement. In addition, the 2017 Agreement establishes the right of the Company's employees to receive equity compensation in an overall scope of 6% of the Company's issued share capital (for details see Section 1.3.1 above). Moreover, the 2017 Agreement sets out various provisions relating to vacation days and regulates and places restrictions on the accumulation and redemption of vacation days during the term of the employees' employment. Furthermore, the 2017 Agreement defines a mechanism for an annual salary increase for the Company's employees at a rate of 3.5% of their salary or at the rate of the increase in the Consumer Price Index with the addition of 1.5%, whichever is the greater of the two, as compared to the annual salary increase that was customarily paid in the past at a rate of 4.6% of the employees' salary or at the rate of the increase in the Consumer Price Index with the addition of 2.25%, whichever was the greater of the two. The 2017 Agreement also contains provisions regarding an annual bonus for the Company's employees for the period up to and including 2021.

If the parties are unable to reach an understanding within 12 months from the month of April of the year following the year for which the bonuses are being paid, the employees shall be entitled to declare a work dispute and to impose sanctions in relation to the annual bonus under discussion. For example, after the parties failed to reach an agreement regarding the annual bonus for 2017, the employees committee declared a work dispute. On May 20, 2019, notice of a labor dispute from the Histadrut was delivered to the Company and to the Director of Labor Relations at the Ministry of Labor. In addition, for information regarding a labor dispute declared by the Company's employees committee, in connection with their claims relating to the sale agreement with Manikay and the Additional Investors (as referred to in Section 1.3.2 above), see Section 1.35 below. In accordance with the provisions of the Settlement of Labor Disputes Law, 1957, in light of the delivery of the said notices regarding labor disputes, Company employees are entitled to strike. In addition, against the background of these and other disputes between the Company's employees and its management, various sanctions were imposed by the Company's employees during 2019, which, on one day, even led to the opening of trading on TASE being delayed by several hours.

1.26.11 **Officers' Liability and Professional Liability Insurance Policies**

The liability of the officers and the directors (the "**Officers**") of the Company and of its subsidiaries has been insured over the years under an Officers' liability insurance policy. In addition, the Company and the subsidiaries are insured under a professional liability insurance policy.

As of Reporting Date, the Company has entered into professional liability and Officers' liability insurance policies, as set forth below.

On September 6, 2018, the Company's general meeting approved (after the Company's Board of Directors and its Audit Committee had given their prior approval) the Company, the Clearing Houses and the Nominee Company to engage an insurance company, as set forth below:

An Officers' liability insurance policy from August 1, 2018 through July 31, 2019, with a liability limit of US $50 million per event and in total for the insurance period, in consideration for a premium totaling US $50 thousand (the "**Current Policy**"), as well as a professional liability insurance policy from August 1, 2018 through July 31, 2019, with a liability limit of US $50 million per event and in total for the insurance period, in consideration for an annual premium totaling US $134 thousand.

The amount of the deductible on the Current Policy and on the professional liability policy is US $20 thousand and US $50 thousand, respectively.

With the closing of the sale of the Company's shares to Manikay and to the Additional Investors, as set forth in Section 1.3.2 above, it was prescribed that the Current Policy would be converted into a policy in a "**Run Off**" format for an insurance period of seven years from the closing date, to cover past activity up to the closing date, with a liability limit of US $50 million per event and in total for the insurance period, in consideration for payment of a premium for the full seven year insurance period, in an amount of US $107 thousand.

Simultaneously, on the closing date, an Officers' liability insurance policy was arranged to cover the activity from the closing date through July 31, 2019, with a liability limit of US $50 million per event and in total for the insurance period, in consideration for an annual premium of US $50 thousand. The premium will be calculated proportionately to the actual insurance period.

Following the IPO and the Company becoming a public company, the premium of the Officers' liability insurance increased by 15%, calculated pro rata for the remaining insurance period, and a number of adjustments were made to the coverage terms and to the amounts of the deductible. Under the terms of this policy, the Officers will have preference over the Company in receiving insurance compensation.

Each of the Clearing Houses and the Nominee Company shall bear a proportionate part of the premium in accordance with the principles of the distribution model agreement (as referred to in Section 1.17.2 above).

In addition, the Board of Directors and the Company's general meeting have approved that the Company takes out Public Offering of Securities Insurance (POSI) with regard the public offering of securities of the Company, for an insurance period of 7 years, with a liability limit of US $30 million per event and in total for the insurance period, in consideration for a premium totaling US $95 thousand for the entire 7-year insurance period and with a deductible of US $250 thousand. Under the terms of this policy, the Officers will have preference over the Company in receiving insurance compensation.

Taking into account the termination dates of the insurance period of the policies described above and also in light of the Company becoming a public company, on July 31, 2019 the general meeting of the Company's shareholders approved entering into collective policies for professional liability insurance and for Officers' liability insurance. Also on July 31, 2019, each of the general meetings of the shareholders of the Clearing Houses and the Nominee Company approved their entering into collective policies for professional liability insurance, Officers' liability insurance and a layer of additional cover for the Clearing Houses under the Officers and directors' liability insurance policy (over and above the existing insurance cover) of up to US $10 million (per incident and in total) above and beyond the liability limit of the collective policy, in consideration for an annual premium of US $22 thousand.

Taking into consideration the significant changes that have taken place in the insurance market for professional liability insurance and for officers' liability insurance for institutions and entities in the finance sphere, since the aforementioned engagement terms were approved on September 6, 2018 and also in light of the Company becoming a public company and thereby assuming additional exposures, the premium rates of the above insurances have risen in relation to those paid and/or approved in prior years and the amounts of the deductible on officers' liability insurance have also increased. Accordingly, the premium for the Current Policy to run from August 1, 2019 through July 31, 2020 amounts to US $77 thousand with a liability limit of US $50 million per incident (not including the US $10 million layer of additional cover for the Clearing Houses under the officers and directors' liability insurance policy described above), while the annual premium for professional liability insurance for the period from August 1, 2019 through July 31, 2020 totals US $175.5 thousand, with a liability limit of US $50 million per incident.

1.26.12 **Indemnification and exemption for Officers**

Letters of indemnity for events

On January 25, 2001, the Company’s general meeting approved (after the Company’s Board of Directors and its Audit Committee had given their approval) the grant of letters of indemnity to the directors and officers of the Company (the “**Indemnification Decision**”). The Indemnification Decision has been amended at the Company’s general meeting, from time to time, among other things, in order to update the list of events for which the officers and directors are entitled to indemnification. The amount of the indemnification that the Company shall pay (in addition to the amounts to be received from an insurance company, if any, based on the insurance purchased by the Company) with respect to a liability, as set forth in the letter of indemnity, together with the indemnification amounts that the Company shall pay with respect to a liability pursuant to the rest of the letters of indemnity that were granted and/or shall be granted , to all the Company’s officers, in aggregate, with respect to one or more of the events set forth in the addendum to the letter of indemnity, shall not exceed an aggregate amount in shekels, equivalent to US $20 million, subject to the conditions in the letters of indemnity.

For details regarding the approval at the Company’s general meeting for the grant of previous letters of indemnity to the Company’s officers serving as directors or other officers of the Company, see note 17 A to the Company’s consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

On July 3, 2019, the Company's general meeting approved (after receiving the approvals of the Audit Committee serving as a Compensation Committee and the Company’s Board of Directors) an amended version of the letter of undertaking for indemnification (the “**2019 Indemnity Letter** ") issued to any officer of the Company (as defined in the 2019 Indemnity Letter), who serves or will serve from time to time, (including with respect to his office and his activities as a service provider to the Nominee Company). The 2019 Indemnification Letter replaces the letters of indemnification granted in the past by the Company to officers of the Company serving on the date of the approval of the 2019 Indemnity Letter at the General Meeting. In this instance, the replacement of the letter of indemnity given in the past by the Company to officers of TASE Clearing House (the “**Existing TASE Clearing House Indemnity Letter** ") was also approved. officers of TASE Clearing House will receive in exchange a new letter of indemnity directly from TASE Clearing House, as detailed below. However, the Existing TASE Clearing House Indemnity Letter will continue to remain valid with respect to officers of TASE Clearing House who not serving in TASE Clearing House on the date of the approval of the 2019 Indemnification Letter at the general meeting.

The maximum amount of indemnification to be paid pursuant to the 2019 Indemnification Letter, with respect to a monetary liability imposed on an Officer against another person pursuant to all the indemnification letters granted or to be granted by the Company to all officers, cumulatively, for one or more of the events specified in the 2019 Indemnification Letter (a “**Monetary Liability to a Third Party**”) shall not exceed a cumulative amount equal to 25% of the Company's shareholders' equity, according to its most recent financial statements published prior to the date of the actual payment of the amount of the indemnification (in addition to the amounts paid pursuant to an insurance policy and/or indemnification to be paid by a third party other than the Company). In addition, pursuant to the 2019 Indemnification Letter, indemnification amounts will be paid with respect to reasonable legal expenses for investigation proceedings and legal or administrative proceedings, including reasonable litigation expenses, compensation payments to victims of administrative violations and any other liability or expense that may be legally indemnified.

Immediately prior to the approval of the 2019 Indemnification Letter 9, taking into account the subordination of the TASE Clearing Houses as part of Amendment No. 63 of the Securities Law to the provisions applicable to bond companies and other regulation provisions designed to ensure the separation of the Company from the TASE Clearing Houses, the general meetings of the TASE Clearing Houses (after obtaining the approval of their audit committees and their boards of directors) approved letters of indemnification for their officers, on the basis of principles similar to those of the 2019 Indemnification Letter, with certain adjustments taking into account the differences in the activities of these companies (the “**2019 TASE Clearing House/MAOF Clearing House/Clearing Houses Indemnity Letter**”).

Nevertheless, the aggregate maximum amount of indemnification with respect to a Monetary Liability to a Third Party under the 2019 TASE Clearing House Indemnity Letter was the higher of the following two alternatives: (a) NIS 10 million or (b) 25% of the TASE Clearing House's shareholders' equity with the addition of the total tier II capital (consisting mainly of balance sheet or off-balance sheet instruments, which are added to the accounting capital of TASE Clearing House to calculate the qualifying capital of TASE Clearing House, as will be approved from time to time pursuant to the resolutions of the Company's Board of Directors and the regulation of the Clearing Houses), according to TASE Clearing House's latest financial statements published prior to their actual payment. The maximum amount of the indemnity, cumulatively, with respect to a Monetary Liability to a Third Party according to the 2019 MAOF Clearing House Indemnity Letter was the higher of following two alternatives: (a) NIS 5 million or (b) 25% of the shareholders' equity of MAOF Clearing House according to its latest financial statements published prior to the actual date of payment. The maximum indemnity option set with respect to a Monetary Liability to a Third Party was determined in each of the 2019 Clearing Houses Indemnity Letters, taking into consideration the relatively low shareholders' equity of the TASE Clearing Houses at the present time, and the desire to assure the officers of the TASE Clearing Houses certainty in the existence of an indemnity amount (even if low) and to thus meet the objectives of the indemnification tool, which is intended to enable the proper functioning of the officers of the TASE Clearing Houses, while taking calculated business risks.

Taking into consideration the existence of a letter of indemnification issued in the past by MAOF Clearing House to TASE officers, the 2019 MAOF Clearing House Indemnity Letter cancels the existing MAOF Clearing House indemnity letter, except for officers not serving at MAOF Clearing House on the date of approval of the 2019 MAOF Clearing House indemnity letter at the general meeting.

1.26.13 **Exemption**

On May 2, 2001, the Company's general meeting approved, subject to the provisions of the Companies Law, an exemption for the directors and officers of the Company from liability for any damage caused or to be caused due to a breach of their duty of care toward the Company. A similar exemption was given to the officers of the TASE Clearing Houses.

As a result of the changes that have occurred in the corporate governance provisions that apply to the Company and the TASE Clearing Houses as a result of Amendment No. 63 of the Securities Law, during the second half of 2019, the general meetings of each of the Company and of the TASE Clearing Houses (after the Audit Committee and the Board of Directors of each of them had given their approval), including the Nominee Company, approved exemptions from liability for damage resulting from a breach of the duty of care for the officers in each of these companies, subject to the provisions and restrictions prescribed by law.

1.27 **Raw Materials and Suppliers**

The Company is not dependent on specific suppliers and it has a number of suppliers for all raw materials. The raw materials that the TASE Group procures are standard products and the TASE Group would have no major difficulty in replacing suppliers pursuant to price, quality, availability and other considerations.

1.28 **Working Capital**

Presented below are additional details relating to the Group's working capital:

1.28.1 As of December 31, 2019, the Group's current assets – excluding assets relating to clearing operations with respect to open positions – amounted to NIS 329 million, compared to NIS 260 million as of December 31, 2018. Assets relating to clearing operations with respect to open positions as of the above dates amounted to NIS 352 million and NIS 895 million, respectively. The change in the total as of December 31, 2019, relative to December 31, 2018, is primarily due to the "Cash and cash equivalents" item and to the "Financial assets at fair value through profit or loss" item. For further details, see Section 1.3.1 of the Board of Directors' Explanations for 2019, which are included in this Periodic Report.

1.28.2 As of December 31, 2019, the Group's current liabilities – excluding liabilities relating to clearing operations with respect to open positions – amounted to NIS 82 million, compared to NIS 65 million as of December 31, 2018. Liabilities relating to clearing operations with respect to open positions as of the above dates amounted to NIS 352 million and NIS 895 million, respectively.

The change in the total as of December 31, 2019, relative to December 31, 2018, is primarily due to the "Current maturities of lease liabilities" item (see note 2 U to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report) and the "Short-term liabilities for employee benefits" (for further details, see Section 1.3.1 of the Board of Directors' Explanations for 2019, which are included in this Periodic Report.

1.28.3 The working capital from the Group's operating activities as of December 31, 2019 and December 31, 2018, amounted to NIS 247 million and NIS 195 million, respectively.

1.28.4 The working capital ratio – excluding assets and/or liabilities relating to clearing operations with respect of open positions – as of December 31, 2019 and December 31, 2018 was approximately 4.

1.29 Investments

Loans and credit facilities in favor of subsidiaries

On December 8, 2015, the Company entered into an agreement with TASE Clearing House, through which the Company granted a NIS 60 million loan to TASE Clearing House. The loan is linked to the Consumer Price Index, bears annual interest of 4.25% per year and is for a period of 10 years.

In 2004, the Company approved the grant of a loan to TASE Clearing House in an amount not to exceed NIS 50 million, in the event that TASE Clearing House required such funds to meet its liabilities. It was also resolved to authorize a committee of the Board of the Directors (in this section, the "**Board Committee**") 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 the Company and TASE Clearing House.

In early 2009, the Company approved the grant of a loan to MAOF Clearing House in an amount that would not exceed NIS 50 million, and provided that the total loan to MAOF Clearing House and to TASE Clearing House, as above, would together not exceed NIS 50 million, in the event that MAOF Clearing House required such funds in order to meet its liabilities. It was also resolved to authorize the Board Committee 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 the Company and MAOF Clearing House.

As of Reporting Date, the Company has not made loans by virtue of the decisions listed above. It should be noted that the Company has no obligation to the Clearing Houses to provide loans pursuant to the aforesaid decisions.

For further details regarding the activity of the Clearing Houses and the Nominee Company, see Section 1.7.3 above.

1.30 Financing

The Group's operating activities are financed by means of working capital and, as necessary, by means of bank credit (short and long term), by means of financial institutions and the fees that the Company collects from TASE members, the Clearing Houses and from the listed companies.

1.30.1 **Reportable credit**

2015 agreement for receipt of a credit facility

On December 31, 2015, the Company 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 Agreement**"). It was agreed between the parties that the credit facility would be automatically renewed each time for additional one-year periods, as long as one of the parties does not give notice of its desire to cancel it. Any loan made available pursuant to the Facility Agreement shall be repaid no later than the end of 12 months from the date of it being made available, and no later than the date of the Facility Agreement's termination.

As of Reporting Date, no loans had been made available to the Company pursuant to the Facility Agreement.

It should be noted that, as of December 31, 2019, the above credit facility had been reduced – at the Company's request – to NIS 30 million and consequently the credit reporting obligation is no longer applicable.

Against the provision of the credit facility, the Company created a charge in favor of the banking corporation on all its rights in the land on which the TASE Building stands.

It has been agreed between the parties that the banking corporation will give its consent for a mortgage to be placed on the land, for a lien to be placed on the contractual rights and for a notation to be registered on the land, for the purpose of securing additional credit, which the Company might incur from the banking corporation or from another financial institution (the "**Other Lender**"). All these will be first-ranking (pari passu) and for an unlimited amount, provided that the total amount of the Company's indebtedness and liabilities to the banking corporation and to the Other Lender shall not exceed 65% of the value of the land according to an updated valuation to be furnished by the Company to the banking corporation at each relevant examination date.

The provisions of the Facility Agreement include customary clauses regarding the immediate repayment of a loan granted pursuant to the Facility Agreement, including in a situation where the Company is required to settle the debts and/or obligations, which it owes and/or which it will owe, to other creditors that are banking corporations, financial institutions and bond holders by way of an immediate repayment and/or by way of any other form of repayment not pursuant to the original repayment schedule (including a repayment schedule that has been revised by mutual agreement).

For further details, see note 23 B to the Company's financial statements as of December 31, 2019 that are included in this Periodic Report.

1.31 **Taxation**

For details regarding the taxation of the Company, see note 16 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report. The Company and its subsidiaries – MAOF Clearing House and TASE Clearing House have received tax assessments that are considered final up to and including the 2014 tax year.

1.32 **Restrictions on and Supervision over the Company's Activity**

Company and the Clearing Houses activities are governed directly within the framework of the Securities Law and are impacted indirectly by various legislative considerations – as is the case for all business activity in Israel. As of Reporting Date most of the arrangements to which TASE is subject result from Amendment No. 63, which was devoted to TASE's restructuring, with the aim of separating the TASE members' ownership of TASE from their activity on its platform, while shifting the regulatory center of gravity away from the direct involvement of governmental parties in the Company's bodies toward supervisory arrangements customary in the financial segment, along with a strengthening of the corporate governance mechanisms. An additional supervisory tier over the Company's activity is incorporated in the self-regulation of the activity of the Company and the Clearing Houses, whose establishment (as opposed to its planning) is obligatory pursuant to a requirement in the Securities Law, and is set forth in the TASE Rules and the Clearing Houses' Rules, alongside the establishment of an internal supervision and control array.

Presented below is a summarized review of some of the Law's principal provisions which apply to the TASE Group, in general, and to its sphere of activity – trading and clearing of transactions in securities, in particular, which, in the Company's opinion, have or might have a material impact on the Company's activity and on its business results.

1.32.1 **Licensing of TASE and the Clearing Houses**

Pursuant to Section 45 of the Securities Law, no person shall open or operate a system for trading in securities except under a license granted to him for this purpose (a "**Stock Exchange License**"). The Minister of Finance, after consulting with the Israel Securities Authority and with the approval of the Knesset Finance Committee, may grant a Stock Exchange License to a company, for which all the following are true:

1.32.1.1 it, and any corporation that it controls, is engaged only in the activities permitted for a stock exchange (see Section 1.32.2 below);

1.32.1.2 its articles of association do not include provisions that might affect its sound, proper and fair management;

1.32.1.3 it has made rules as stated in the Securities Law and the rules have been approved by the Israel Securities Authority and the Minister of Finance;

1.32.1.4 it has the technical expertise and the appropriate means to operate a system for trading in securities that will ensure the stability of the system, its reliability, availability and security of information;

1.32.1.5 it has paid the fees set for this purpose;

1.32.1.6 it meets the requirements concerning equity, insurance, deposit and guarantee determined by the Minister of Finance.

In a similar manner, Section 50A of the Securities Law prescribes that no person may open or manage a clearing system (as this term is defined in Section 44.EE of the Securities Law) except under a license (a "**Clearing House License**").

The Minister of Finance, after consulting with the Israel Securities Authority and with the approval of the Knesset Finance Committee, may grant a Clearing House License to a company, if it meets the conditions set by the Minister of Finance and regulations, including with regard to equity, insurance, deposit and guarantee, and if it has paid the fees prescribed for this purpose.

The Chairman of the Israel Securities Authority may cancel or suspend a Stock Exchange License or a Clearing House License in a decision explained in writing, if any of the circumstances set forth in the Securities Law exist with regard to the stock exchange or the clearing house. This includes circumstances in which a license was granted based on false or erroneous information, if any of the conditions for granting the license has ceased to exist, if insolvency proceedings are being taken against the license holder, if there exist with regard to the license holder (including its controlling shareholder or one of its senior officers) circumstances testifying to a flaw in its reliability, or if the license holder has breached any of the provisions under the Securities Law or any directive or guideline of the Israel Securities Authority and has not rectified the breach within the period set for doing so.

Under the transition provisions prescribed within the framework of Amendment No. 63 of the Securities Law, the Company and the Clearing Houses are deemed to be persons that have been granted a Stock Exchange License and a Clearing House License, as the case may be, pursuant to the provisions of the Securities Law.

1.32.2 **Restrictions on the activity of a stock exchange and a clearing house**

A stock exchange or a company which a stock exchange controls may engage only in managing a system for trading in securities, as well as in clearing services of transactions in securities, in securities custodian services or in other ancillary services, which do not raise a real concern of a conflict of interests or which are essential to the stock exchange's engagement in the management of a system for trading in securities and if the Israel Securities Authority has approved this. A stock exchange must operate in a sound, proper and fair manner while protecting the public interest.

A clearing house or a company in which a clearing house holds the means of control may engage only in managing a clearing system or in ancillary services, connected to the engagement in the management of a clearing system, subject to restrictions similar to those that apply to a stock exchange in relation to ancillary services.

A stock exchange may not carry out a transaction in securities for its own account except with permission from the Israel Securities Authority. On October 30, 2017, such a permit was received whereby the Company may carry out transactions for its and its subsidiaries' account, subject to all the transactions being carried out in securities issued by the government or the Bank of Israel, by way of managing a securities portfolio kept by a licensed portfolio manager, with certain restrictions on giving orders to the portfolio manager, and in accordance with the investment policy and the monitoring rules that will be set by the Company's Board of Directors, from time to time.[26] In addition, the Securities Law establishes the various restrictions with regard to the activity of employees and directors in securities on their own accounts. The restrictions specify that members of the Company's Board of Directors, as well as the Company's employees, may not conduct transactions in securities, other than with the permission of the Minister of Finance (such permission may be with respect to securities in general or with respect to specific classes of securities). In addition, the members of the Board of Directors and the Company's employees must give notice to the Chairman of the Israel Securities Authority and the Chairman of the Board of Directors, within one week of their appointment, regarding the securities held by each one of them.

TASE must publish on its website (and in any other way that the Israel Securities Authority may prescribe) the commissions that TASE members collect from their clients, including trading commissions and clearing commissions, as well as any changes to these commissions, and all in a manner that will allow for comparison to be been made between the commissions. For this purpose, TASE members must report to the Company the commissions that they collect from their clients, as well as any changes to commissions. In addition, an obligation has been imposed on the Company to report on this matter to the Knesset Finance Committee.

A stock exchange will not discontinue the operations of a system for trading in securities except if, in its opinion or in the opinion of the Minister of Finance, doing so will be for the benefit of the investing public, and it shall not decide to discontinue the system's operations for more than one business day, except with the approval of the Minister of Finance, pursuant to the Securities Law. Within the framework of the TASE Rules, arrangements are prescribed for the suspension of trading on TASE in certain circumstances and for a limited length of time, with the principal cause being exceptional movements in the prices and indices of securities.

In September 2012, TASE activated a real-time monitoring mechanism of extreme fluctuations in prices of securities, aimed at moderating fluctuations caused by errors or exceptional trading activity.

A Clearing House will allow any stock exchange or Clearing House member and any other person to obtain services from it and will not unreasonably refuse to provide its services. The Chairman of the Israel Securities Authority may exempt a certain Clearing House from providing service to any of the above parties, under certain terms and conditions.

---

[26] The above terms do not apply to the Clearing Houses, in connection with carrying out transactions in securities as a CCP, which are intended to guarantee the transaction's performance for the parties thereto.

1.32.3 **Legislative arrangements in connection with clearing activity**

The activity of clearing transactions in securities is primarily based on performing a transfer of funds against a transfer of securities between Clearing House members, pursuant to a clearing order timely received at the Clearing House, pursuant to the Clearing House Rules. Due to the importance of certainty that a clearing order will be fulfilled, particularly in instances of a Clearing House member's default, specific arrangements are prescribed in the Securities Law to ensure the finality of the clearing at the Clearing House, including provisions that apply in cases of a Clearing House member's default, including against the background of insolvency proceedings against a Clearing House member.

Within this framework, validity is granted in the Securities Law to the arrangements prescribed in the Clearing House Rules with regard to a Clearing House member's default, with regard to early termination of transactions or activity performed at the Clearing House and with regard to settlement between the Clearing House and the Clearing House member or between Clearing House members with each other. These arrangements are also recognized for the purpose of applying the provisions of the Financial Agreements Law.

For details regarding the collateral that Clearing House members shall provide for the benefit of the Clearing House, see Section 1.33.1 below.

1.32.4 **Self-regulation of stock exchange and clearing house activity**

As stated above, one of the conditions for obtaining a Stock Exchange License is the prescription of rules and regulations, in which the rules for the sound, proper and fair management of TASE are prescribed (the "**TASE Rules**"), among which the following may be prescribed:

1.32.4.1 rules regarding TASE membership (including, among other things, eligibility terms for TASE membership and a procedure for accepting members; the permitted fields of activity for TASE members; obligations of TASE members toward TASE and toward its members, including disclosure, record keeping and reporting obligations; rules of conduct of TASE members toward their clients, including disclosure, record keeping and reporting obligations; TASE's supervision and control over compliance with the TASE Rules and Regulations, by its members; disciplinary offenses and disciplinary jurisdiction over TASE members; and terms and procedure for suspending a TASE member and for revoking membership);

1.32.4.2 rules for listing securities on TASE (including, among other things, the characteristics of a company that may list its securities, the characteristics of the securities that may be listed, the manner of performing an IPO and the means of allotting the securities, the prevention of transactions or activity in securities for a period to be prescribed, and setting a minimum rate of public holdings);

1.32.4.3 rules regarding trading on TASE (including, among other things, trading times, the terms and procedure for the temporary suspension or restriction of trading in a security or a group of securities, the restriction of trading to TASE members and to other parties, and publication of trading results);

1.32.4.4 obligations of a company whose securities are listed (a "**Listed Company**") (including, among other things, continued compliance with the rules prescribed as conditions for listing, even after listing, trade breaks and significant events);

1.32.4.5 terms and procedure for suspending trading in a security or for the delisting of a security, including delisting at the request of the Listed Company;

1.32.4.6 rules regarding the publication of data by TASE, including information relating to trading, to TASE members and to Listed Companies;

1.32.4.7 commissions, listing fees and handling fees for TASE's services;

1.32.4.8 the application of the above rules to a corporation that is not a company and to units of a joint investment trust fund.

The Company's Board of Directors may amend the TASE Rules. An amendment requires the approval of the Israel Securities Authority. If the Israel Securities Authority approves the change, notification of the change in the TASE Rules will be sent to the Minister of Finance and the change will take effect ten days after the notification's delivery, unless the Minister of Finance gives notice prior to the end of the period that he objects to the change. In addition, if the Israel Securities Authority believes that, for the sound, proper and fair management of TASE, the TASE Rules need to be changed, the Israel Securities Authority will notify TASE of such a decision. If TASE does not change the TASE Rules pursuant to the notification within the period prescribed therein, the Israel Securities Authority may make the change. Furthermore, TASE'S Board of Directors may prescribe, with the approval of the Israel Securities Authority, regulations that include details, terms and conditions regarding the provisions of the TASE Rules, where this is expressly authorized in the TASE Rules.

In accordance with the Securities Law and the directives of the Chairman of the Israel Securities Authority, the TASE Rules will be published by being deposited, together with any change, with the Registrar of Companies. In addition, TASE publishes the TASE Rules, and any changes to the TASE Rules, on its website.

In addition to the above, TASE is required to prescribe, in order to regulate its operation, procedures on certain topics, such as, ensuring its compliance with the terms and conditions of the Stock Exchange License, the technical resources needed for its operations, supervising the compliance of TASE members and its employees with the prescribed Rules and procedures, with respect to identifying and handling a conflict of interests in its operations, and with respect to engaging with a clearing house for the purpose of clearing transactions in securities (the "**Operating Procedures**").

A clearing house is responsible for fulfilling the terms and requirements to which it is subject pursuant to the Securities Law, including, among other things, prescribing rules to ensure the stability, efficiency and sound and proper functioning of the clearing house or the clearing system (the "**Clearing House Rules**"), including in connection with membership of the clearing house (with rules regarding clearing house membership needing the approval of the Authority), rules regarding commissions, listing fees or handling fees for the clearing house's services, risk management, their prevention or their mitigation, and the existence of backup arrangements in the clearing system in the event of an emergency.

1.32.5 **Corporate governance at a stock exchange and at a clearing house**

The Securities Law imposes unique requirements on a stock exchange and on a clearing house with respect to corporate governance requirements. These supplement the provisions of the Companies Law in this area in a separate chapter dedicated to this topic (the "**Corporate Governance Chapter**").

The appointment of a TASE officer, who is a director, Chief Executive Officer, internal auditor, legal counsel (and any other office holder that the Chairman of the Israel Securities Authority determines to be an officer for this purpose, but not more than seven such office holders) is subject to advance notice to the Chairman of the Israel Securities Authority, who may give notice of his objection to the appointment. In doing so, attention will be paid to the considerations prescribed in the Law in connection with the suitability of the candidate for the proposed post, including his business experience, his integrity, his honesty, the manner in which he fulfilled his duties in the past at TASE, if the candidate was previously employed at TASE, his connections, of all types, with TASE and with parties related thereto, and if the candidate had previously served as an independent director. The employment and other businesses of the candidate will also be taken into account, as will the appropriateness of the board of directors' composition to its spheres of activity (the "**Advance Approval Process**").

An employee of a stock exchange or anyone employed by a stock exchange or by a company associated with a stock exchange, apart from employment as a director in the company, is not eligible to serve as a director of the stock exchange.

Additionally, the Corporate Governance Chapter includes strengthened eligibility requirements in relation to an independent director over and above those prescribed in the Companies Law, the principal of which is a prohibition against appointing a person as an independent director if, at the time of the appointment or during the preceding two years, he is a stock exchange member or a controlling shareholder of a stock exchange member, he is an interested party by virtue of being a shareholder in a Listed Company, he is an interested party in a stock exchange or in a stock exchange member, he is a relative of a stock exchange member, of an officer of the stock exchange or of a stock exchange member of a controlling shareholder of the stock exchange or of a stock exchange member or of anyone that regularly provides services against consideration to any of the aforesaid, or if he has an affiliation (as defined in Section 240 of the Companies Law) to a stock exchange member, to an officer of a stock exchange member, to a corporation under the control of the stock exchange member or to a controlling shareholder of a stock exchange member or to anyone who regularly provides services against consideration to any of the above or to a stock exchange. Nevertheless, service as a director either of a stock exchange or of a clearing house will not be considered, in and of itself, as impairing the eligibility of a person to serve as an independent director in any of these corporations (an "**Independent Director**").

It is further prescribed that the board of directors of a stock exchange shall comprise 15 directors at the most, that a majority of its members will be Independent Directors, and that at least three of the Independent Directors will be appointed at the general meeting of the stock exchange pursuant to the recommendations of an external nominating committee ("**Recommended by the Nominating Committee**"), established in accordance with the provisions of the Securities Law (and whose members are a judge, the chairman of the board of directors and a representative from academia) (the "**Nominating Committee**"). If the stock exchange is required to appoint external directors pursuant to the provisions of Section 239(a) of the Companies Law (an "**External Director**"), they shall be appointed from the candidates Recommended by the Nominating Committee.

The service term of an Independent Director Recommended by the Nominating Committee will be the same as that of an External Director (up to three terms of service, each of which shall be for three years). The term of service of the chairman of the board of directors of a stock exchange will be five years, and he may be reappointed for an additional term of three years (and, if he is an Independent Director Recommended by the Nominating Committee, the service term as chairman of the board of directors will be deemed the service term of a director Recommended by the Nominating Committee).

In addition, unique arrangements have been prescribed for terminating the appointment of Independent Directors Recommended by the Nominating Committee, and with regard to the obligation to include one such Director on every committee of the board of directors that is authorized to exercise any of the board of directors' powers.

In accordance with the Corporate Governance Chapter, in addition to its duties pursuant to Section 92 of the Companies Law, TASE's Board of Directors is responsible for the Operating Procedures and for ensuring their implementation, including, among other things, establishing control and supervision measures to ensure the sound, proper and fair management of TASE and to ensure the TASE members' compliance with the TASE Rules, for approving the TASE Rules, and for appointing an internal auditor for TASE. Moreover, TASE's Board of Directors will appoint from its members an Audit Committee and a Compensation Committee) including the Audit Committee which will serve as a Compensation Committee).

The members of TASE's Board of Directors and TASE's employees are subject to restrictions to conducting transactions in securities similar to the restrictions that apply to the Authority's employees.

The provisions of the Corporate Governance Chapter, as described above, also apply to a clearing house, with appropriate changes, except that there is no requirement for the appointment of Independent Directors Recommended by the Nominating Committee, no requirement for the majority of the clearing house's board of directors to be Independent Directors (although it must have at least three Independent Directors) and no obligation to establish an Advance Approval Process for the appointment of a clearing house's officers by the Israel Securities Authority. It is also prescribed that the clearing house's board of directors may declare a distribution only if, by doing so, no harm will be caused to the stability of the clearing house or to its sound, proper and fair management.

1.32.6 **The Israel Securities Authority's supervision of the activity of TASE and the Clearing Houses**

Pursuant to the Securities Law, the Israel Securities Authority supervises the sound, proper and fair management of TASE and exercises control over the stability and efficiency of the Clearing Houses, as stated in Section 10 of the Payment Systems Law, 2008, and over the suitability of the Clearing Houses Rules.

If the Israel Securities Authority believes that TASE is operating in a manner contrary to the prescribed procedures or contrary to the provisions of its rules or regulations or in any manner that might impair its sound, proper and fair management, it must inform TASE and instruct it on the proper course of action. A similar power is granted to the Israel Securities Authority if a Clearing House is not fulfilling any of its obligations pursuant to the Securities Law or is operating in a manner contrary to its procedures or the Clearing House Rules or in a manner that might impair its sound, proper and fair management.

It is also prescribed in the Securities Law that TASE and the Clearing Houses shall send to the Israel Securities Authority reports regarding their operations, on the dates and with the details and in the manner that the Israel Securities Authority prescribes, and shall send to it, upon request, information regarding its affairs, as well as financial reports.

Pursuant to the powers granted to it, the Israel Securities Authority has made rules to ensure the sound and proper operation of the TASE Clearing Houses, which prescribe, among other things, provisions regarding the following: the establishment of a Board of Directors' committee for risk management and its duties; the appointment of a compliance officer; the identification, management and handling of conflicts of interest; the clearing operations; setting risk management policy; margin requirements, their receipt, their management and their realization, as well as the creation of a default fund to guarantee the obligations of the Clearing House members; management of a Clearing House member's default event; and the membership requirements for Clearing House members; outsourcing of some of a Clearing House's operations and services; reporting to the public and to the Israel Securities Authority; and, the equity requirement for insurance purpose.

In June 2017, the Israel Securities Authority published a pronouncement regarding implementation of the principles for financial market infrastructures at the Clearing Houses. Pursuant to this pronouncement, it is implementing at the Clearing Houses, on an ongoing basis, local laws and rules, consistent with international principles and standards for the operations of entities in the capital market. Such laws and rules have been defined as financial market infrastructures, as presented in the report of a special international committee on payments and settlements, acting on behalf of the Bank of International Settlements and the International Organization of Securities Commissions, and which makes it possible to view the Clearing Houses as acting in accordance with these principles.

1.32.7 **The Concentration Law**

Pursuant to Amendment No. 63 of the Securities Law, the Law for Promotion of Competition and Reduction of Concentration, 2013 (the "**Concentration Law**") was also amended, whereby areas of operations for which a Stock Exchange License and a Clearing House License are required have been defined as essential infrastructure fields. Consequently, the Company and the Clearing Houses have been included on the list of centralized parties that has been drawn up pursuant to the provisions of the Concentration Law. Pursuant to the Concentration Law, at the time of conferring a right on a centralized party (e.g., a license, franchise or contract), the regulatory authority must also examine national economic concentration considerations, and these might amount to a reason for not conferring the above right. In addition, pursuant to the Concentration Law, the Competition Commissioner has declared that the grant of a Stock Exchange License by the Minister of Finance falls within the definition of a right whose grant requires consultation with her.

1.32.8 **Compliance and enforcement**

The function and status of the TASE Group requires it to be doubly meticulous in complying with the regulatory provisions to which it is subject. In June 2017, the Company's Board of Directors approved the TASE Group's policy for "**c**ompliance risk" management, with compliance risk being the risk of imposition of legal or regulatory sanctions, of a material financial loss, or of reputational damage, which the Group might sustain as a result of it not fulfilling the "compliance provisions", including the laws, regulations, regulatory directives and internal procedures, which apply to the operations of the TASE Group, as set forth in this Section 1.32 above. The policy is intended to define the compliance management format of the TASE Group, among other things, by means of the Company's compliance officer and its compliance department, and including by way of defining compliance functions within the TASE Group and defining the powers and spheres of responsibility of the parties involved in the compliance management process. Within the aforesaid framework, and taking into consideration the Company having become – as of Reporting Date – a reporting entity pursuant to the Securities Law, which is subject, inter alia, to the administrative enforcement powers of the Authority, the Company's Board of Directors has appointed the Company's Compliance Officer to the post of Internal Enforcement Officer of the securities laws and has also approved a program for the internal enforcement of the securities laws.

1.32.9 **Supervision of TASE members**

The Company has established an internal supervision and control system to ensure compliance with the TASE Rules, with emphasis on the obligations placed on the TASE members pursuant to the TASE Rules. This system is backed by authority to require an audit and to demand information, along with the organized mechanisms for disciplinary proceedings, prescribed in the TASE Rules. For further details see Section 1.7.2 above.

1.32.10 **Additional provisions in connection with the tax laws and tax treaties**

As part of the Clearing Houses' services, TASE Clearing House is active in making credits and debits (gross, before tax) in Israel, which relate to interest payments, linkage differences and dividend payments.

1.32.10.1 Income Tax Regulations (Implementation of a Common Reporting Standard and for Due Diligence on Financial Account Information), 2019

On January 2, 2019, the Knesset Finance Committee approved the Income Tax Regulations (Implementation of a Common Standard for Reporting and for Due Diligence on Financial Account Information), 2019 (the "**CRS Regulations**), which prescribe that Israeli financial institutions are required to furnish information to the tax authorities in Israel regarding accounts of foreign residents for the purpose of tax enforcement.

The CRS Regulations are the latest stage in assimilating international commitments for the automatic exchange of information within domestic statutes that Israel has taken upon itself and the adoption of the international standard for the exchange of information. Pursuant to this standard, financial institutions are meant to collect financial information on foreign residents and to furnish it to the tax authorities for it to be transferred to the countries of residency of the account holders. The reports are made automatically and on an annual basis. The standard relies to a considerable extent on the model developed within the framework of implementing the FATCA. The Clearing Houses have made preparations pursuant to the requirements of the Regulations, their bylaws have been updated and appropriate arrangements made with the Clearing House members, who are obligated, by themselves, to comply with the provisions of CRS regulations.

1.32.10.2 US taxation – the TASE Clearing House, a QI that is not a withholding agent

The securities registered with TASE Clearing House include those of companies that are subject to the tax laws of the United States ("**US Securities**").

The tax laws of the United States allow any foreign entity, which is not American, to enter into a QI agreement with the tax authorities in the United States (the IRS), which grants it the status of a QI (Qualified Intermediary). This status is essential for TASE Clearing House to be able to handle the clearing of US securities transactions, which occupy a significant share of the total volume of transactions cleared through TASE Clearing House. For details regarding the QI agreement that TASE Clearing House has entered into, see Section 1.34.2 below.

1.32.10.3 Documentation and reporting within the framework of the FATCA provisions

The State of Israel has signed an agreement with the United States for the improvement of international tax enforcement and for the implementation of the provisions of the FATCA legislation. The agreement governs the manner in which information is transferred to the IRS by the Israel Tax Authority, which obtains such information from the financial bodies in Israel. For FATCA purposes, TASE Clearing House is defined as an FFI (Foreign Financial Institution) and provides services solely to Clearing House members who are QIs, according to an approval from the IRS.

1.33 **Material Agreements**

1.33.1 **Facility agreements with the Bank of Israel – repo transactions**

In order to provide each of the Clearing Houses with liquidity in situations where a Clearing House member is unable to meet its obligations or where there is concern that a member will be unable to meet its obligations to the Clearing Houses (a "**Member's Default Event**"), facility agreements were entered into in July 2017 between each of the Clearing Houses and the Bank of Israel, for a set term of five years, for the receipt of liquidity against collateral in securities that the members of the Clearing Houses have deposited with respect to their contribution to the default funds of each of the Clearing Houses and as part of the margin requirements of the MAOF Clearing House. The outline for this is based on a mechanism of repo transactions, in accordance with standards published by CPMI and IOSCO as the PFMI and the Clearing Houses' Stability Directive issued by the Israel Securities Authority[27].

[27] As stated, as of the date of signing the Report, the Company has a credit facility with a banking corporation in Israel of up to NIS 30 million against a charge on the Company's rights in the land on which the TASE Building stands. In addition, the Company has a credit facility in favor of TASE Clearing House that has been provided by a banking

Upon the occurrence of a Member's Default Event, and in order to meet the obligations of the Clearing Houses as a Central Counterparty, the Clearing Houses may realize the collateral that the Clearing House member gave to secure payment of its contribution to the default funds of the Clearing Houses and, if necessary, they may realize the collateral given by the rest of the Clearing House members to secure payment of their contribution to the default funds, and all pursuant to the provisions of the Clearing Houses' bylaws.

Pursuant to the provisions of the facility agreements, if, on the occurrence of a Member's Default Event, the Clearing Houses have an immediate need for cash, the Clearing Houses can ask to carry out repo transactions in the securities that have been transferred to their ownership to exercise their right to the collateral, and this pursuant to the terms and conditions stipulated in the agreements.

Under the facility agreements, the Clearing Houses have undertaken to use the proceeds paid to them by the Bank of Israel, to carry out repo transactions, solely for the purpose of meeting their Central Counterparty obligations to the members resulting from a Member's Default Event.

The Clearing Houses are not obliged to realize the collateral by accepting ownership thereof and selling the securities to the Bank of Israel in repo transactions in accordance with the facility agreements, and they may realize the collateral by any means open to them in accordance with the law, at their discretion.

The total proceeds that the Bank of Israel shall pay to TASE Clearing House, with respect to the transactions covered by the facility agreement in instances of a Member's Default Event, shall not exceed NIS 1 billion or an amount equivalent to the amount of the default fund on the date of acquiring the first transaction executed under this agreement with TASE Clearing House, whichever is lower. Likewise, the total proceeds that the Bank of Israel shall pay to MAOF Clearing House, with respect to the transactions covered by the applicable facility agreement in cases of a Member's Default Event, shall not exceed NIS 2.3 billion for purchased securities owned by MAOF Clearing House, subject to the decision of MAOF Clearing House to realize the collateral in the defaulting fund, an additional amount of NIS 1.8 billion or an amount equivalent to the amount of the defaulting fund on the date of acquiring the first transaction executed under the Facility Agreement, whichever is lower.

1.33.2 **MTS agreement**

During 2006, TASE Clearing House entered into an agreement with EuroMTS Limited ("**EuroMTS**"). EuroMTS manages the "EuroMTS" system which is an electronic trading system for trading by means of market participants in government bonds that is managed and supervised by the relevant authority in the United Kingdom ("**United Kingdom Financial Services Authority**") (the "**MTS System**"). Pursuant to such agreement, TASE Clearing House has undertaken to provide services to EuroMTS for transactions that are executed on the MTS Israel System. EuroMTS is entitled to collect commissions from users of the MTS Israel System (as defined in the above agreement) and TASE Clearing House is entitled to collect commissions from the Clearing House members, with respect to the above-referenced clearing services. TASE Clearing House constitutes a Central Counterparty (CCP) for transactions that are carried out on the MTS Israel System pursuant to the rules prescribed in the agreement and in accordance with the Clearing House's bylaws. The above agreement is for a term of two years, after which the agreement will be renewed automatically, unless otherwise agreed and/or canceled by one of the parties by giving 180 days' advance notice.

1.33.3 For details regarding the distribution model agreement, see Section 1.17.2 above.

---

corporation. At the Clearing House's request and against the deposit, in a pledged designated account of the Clearing House with the banking corporation, of government bonds with a value of NIS 30 million which are charged in favor of the banking corporation, said banking corporation will provide the Clearing House with a credit facility of NIS 30 billion.

1.34 **Cooperation Agreements**

1.34.1 **Cooperation agreement with the Singapore Exchange**

On May 14, 2018, a strategic cooperation agreement for an unspecified term was signed between the Company and the Singapore Exchange (Singapore Exchange Limited (SGX)) (the "**Singapore Exchange**"). The objective of the agreement is to develop and expand access to the financial markets and to leverage the strategic advantages of both parties, including locating Israeli companies (or companies with links to Israel) that are engaged primarily in technology or pharmaceuticals, whose main operations are in Asia, and could potentially be listed both on TASE and also on the Singapore Exchange. Pursuant to the agreement, the parties have established a profit-sharing mechanism in the event of locating such companies which are then listed on one of the exchanges during the term of the agreement.

The two exchanges have begun searching for and holding meetings with companies suitable for simultaneous IPOs on both markets.

1.34.2 **QI (Qualified Intermediary) agreement with the US tax authorities (IRS)**

As described in Section 1.31.3 above, in 2002, TASE Clearing House entered into a QI agreement as a QI that is not a withholding agent. The QI agreement was renewed with the IRS until December 31, 2022. Pursuant to the QI agreement, TASE Clearing House is required to comply with various requirements, which include, among other things, extensive guidelines regarding the manner of customer documentation, deduction of current taxes and reporting to the IRS.

1.35 **Legal Proceedings**

1.35.1 **Labor disputes**

Following the closing of the sale of the shares with Manikay and the Additional Investors (as described in Section 1.3.2 above), on September 17, 2018, a labor dispute announcement was delivered, among other things, on the grounds that a collective agreement was to be signed to guarantee employees a "security net", economic rights, and the announcement will regulate the implications of the transaction on workers' rights, status and employment security. On October 8, 2018, the Company filed an ex parte motion in a collective dispute at the Tel Aviv Labor Tribunal against the Histadrut and TASE's employees committee, seeking declaratory relief. Pursuant to the motion, the above mentioned labor dispute, was declared to be unlawful and to be contrary to maintaining the industrial calm to which the employees committee had committed under the special collective agreement which had been signed between the parties on May 7, 2017. Subsequently, on December 1, 2019, the Regional Labor Tribunal rejected the aforementioned motion of the Company. On December 15, 2019, the Company filed an appeal against the above decision at the National Labor Court and, on March 3, 2020, within the framework of a hearing on the case, the parties acceded to the Court's recommendation to enter into mediation run by an external mediator regarding disputes between them that are unrelated to the dispute that is the subject of the appeal. Mediation proceedings are currently taking place. It should be noted that no date has yet been set to hear the merits of the appeal.

For further details regarding the labor dispute declared by the employees in April 2019, due to a failure to reach an agreement with the Company with regard to the annual bonus for 2017, see Section 1.26.10 above.

1.36 **Goals and Business Strategy**

1.36.1.1 The Company's operating strategy focuses on four central objectives aimed at increasing the economic qualities inherent in TASE's activity, thereby setting the Company on the path to long-term growth:

1.36.1.2 increasing the marketability and liquidity on TASE's main markets;

1.36.1.3 improving the way in which the Israeli economy is reflected on TASE, by increasing and diversifying the companies that are listed on TASE and that raise capital thereon;

1.36.1.4 leveraging TASE's capacity to offer additional services and products, that complement the main services provided by TASE; and

1.36.1.5 enhancing the infrastructures that are used in TASE's operations and making these more efficient.

1.36.2 **Five-year strategic plan**

In March 2017, the Company's senior staff presented a five-year strategic plan to the Company's Board of Directors. The Board of Directors approved the directions of activity and the work plans based on the strategic plan, the objective of which is described above. Subsequently, the Company began implementing some of the measures in the strategic plan and has also begun instituting other projects that align with the objectives of the strategic plan, including those set forth below:

On the basis of the Company's approved work plans, taking into consideration actions already taken as of Reporting Date for the implementation of the strategic plan and its goals, according to the Company's assessments, the cost of investment to maintain TASE's existing systems and other ongoing investments through 2021, including pursuant to the strategic plan is expected to total between NIS 40 million and NIS 45 million each year (other than in 2019, when the amount totaled NIS 35 million). This assessment falls within the definition of forward-looking information, which might not be realized, among other things, due to decisions to make investments in new technologies or in developing new products, that are not included in the strategic plan or due to decisions to change the strategic plan, including making changes to the order of priorities in implementing the plan's various components, taking into consideration – inter alia – the implications of the outbreak of the Novel coronavirus (with regard to this, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report), or due to changes in the costs needed for the above implementation.

As part of the efforts to increase marketability and liquidity in the main stock exchange markets:

1.36.2.1 the Company has updated the TASE and Clearing Houses membership model in order to allow the entry of new members and introduce new membership models. As part of the process, the acceptance terms and processes to join as local TASE members acting on behalf of customers, as local TASE members acting on behalf of themselves, as remote TASE members and as remote custodial members have been updated. In addition, following the announcement of a joint call by the Israel Securities Authority and the Company that sought to advance technological innovation in the retail brokerage sector in Israel, the eligibility and acceptance terms for TASE membership with respect to a non-bank TASE member have been updated. The entry of additional, new members is expected to diversify and improve the quality of the services provided to investors on TASE, thereby increasing the number of active investors and thus the liquidity on TASE's markets[28];

1.36.2.2 the Company values creating awareness of the possibility of investment in the stock exchange among the Israeli public, and to encourage it to examine activity within it. The Company first launched a digital campaign in 2018 and increased its presence on social networks in order to increase the accessibility of the stock exchange to new investors, with an emphasis on potential investors from the younger generation. In the first quarter of 2019, the Company launched a comprehensive campaign on television and digital media, which aims to stimulate discussion about the feasibility and importance of investing in the stock market, for all segments of the population and recently entered into an agreement to sponsor the Israel Professional Football Leagues. Prior to the campaign, an in-depth survey was conducted which examined attitudes among the Israeli public regarding the stock exchange and directed the main messages of the campaign. Concurrent with these steps, the Company launched new versions of the TASE website and its mobile application, which offer a better user experience and new services;

1.36.2.3 the Company has carried out a reform to increase the accessibility of its trade data to the general public and to potential foreign customers. As part of this, the Company has asked for public comments regarding its

[28] During 2019, Jefferies LLC and the technology company, Flow Traders B.V., joined TASE as remote members, while Euroclear Bank joined as a Clearing House custodial member.

intention to launch information products that are automatically produced and disseminated by means of Application Programming Interface (API) with this following on directly from the other processes that have been promoted recently as part of the development and enhancement of the information products sector (separate pricelists have been set for private and business customers, and the information displayed for customers has been split into two levels, the price for distributing derivative information has been set and arrangements have been made for the use of trade data by information-based quote generators or by means of other computers that receive non-display data);

1.36.2.4 co-location services were launched by the company in the second half of June 2019. This service enables trading servers to be located adjacent to the trading engine of TASE's systems, thereby providing these players with fast access to trading, at a consistent speed and without being dependent on external company factors. As of Reporting Date, several customers had connected to the service. The connection of additional customers will continue to contribute to the Company's revenue flows from such services and is expected to lead to the entry of foreign players, thereby increasing liquidity and marketability on the trading markets that TASE manages;

1.36.2.5 further to signing an agreement with an international communications company that deals, among other things, in the field of data communications infrastructure, which provides direct and convenient access between a central server center in London and the server center of the Company, the Company has begun marketing the new service and, currently several customers are enjoying direct access to the Company's server center via a dedicated interface. In the Company's estimation, this connection facilitates the activity of foreign members and traders on the TASE markets and could attract international electronic market makers to trade on TASE, thereby increasing the liquidity on the trading markets that TASE manages;

1.36.2.6 during 2019, the Company promoted the dual-listing and trading of foreign ETFs in Israel. This development resulted in a major international issuer of foreign ETFs entering the Israeli market, as well as an international market maker. To date, 23 foreign ETFs have listed on TASE;

1.36.2.7 on July 6, 2019, the Company launched a volatility index on the TA-35 index called VTA35, which reflects the expected 30-day volatility of the TA-35 index, which is derived from the price of options on this index;

1.36.2.8 the Company has been working to encourage the entry of new players into the Israeli stock market, including by means of a trading arena that has begun offering CFDs on shares included in the TA-35 index, partially covered by shares traded on the stock exchange. The Company expects to generate revenue from these sources, as well as from data distribution;

As part of its efforts to improve the manner in which the Israeli economy is reflected in the stock exchange:

1.36.2.9 the Company has made and continues to make major marketing efforts to attract new companies to make equity and debt offerings on the Israeli market. The Company has launched a service that publishes and markets the expected market offerings, and also enables participation in the offerings via the TASE website. As of Reporting Date, only two members allow direct access from the TASE website to their website. This measure is aimed at encouraging the general public to participate in offerings, and to attract additional companies to raise equity and debt on TASE;

1.36.2.10 the Company is also directing and has directed marketing efforts toward the dual-listing of shares for Israeli companies that are only listed overseas. The Company believes that, close to Reporting Date, more than 100 Israeli companies, with an aggregate market capitalization in excess of US$ 65 billion, are listed on overseas stock exchanges (and not in Israel). In order to further this aim and in order to reduce the risk of existing dual-listed companies de-listing, the Company has entered into an agreement with Entropy to make ISS company recommendations to institutional entities in relation to the dual-listed companies. As of Reporting Date, this agreement had been extended and will remain in force until the end of 2020. It should be noted that Entropy recently announced that it had decided to cease providing voting recommendation services to institutional entities until the end of the first half of 2020. The Company is examining the impact of this decision on the conduct of the institutional entities and on the aforementioned ISS agreement;

1.36.2.11 in parallel, the Company has set up an account at the Euroclear Clearing House and is acting to create mechanisms that will facilitate and improve the dual-listing arrangements with markets other than the United States – with London, Toronto, Hong Kong and Singapore topping the list. In addition, the Company is continuing to examine ways to form collaborations in order to enlarge the basket of products and services it is able to offer;

1.36.2.12 during 2019, the Company continued to promote strategic cooperation with the Singapore Stock Exchange, on the basis of the agreement signed between the parties in 2018, as referred to in Section 1.34.1 above;

As part of the efforts to leverage the Company's capacity to offer additional services and products that complement the primary services provided by the Company:

1.36.2.13 the Nominee Company started operating in 2018. As a result, competition in this sector has intensified, leading to reductions in the prevailing commissions in the nominee companies' market and to an improvement in the accepted level of service;

1.36.2.14 the Company has launched an alternative asset clearing service, such as investment and hedge funds based on the NLT system, which is intended to assist issuers and investors of these assets. As part of the service, alternative assets are registered at TASE Clearing House and the Company enables TASE members to present these assets, reflect their value, and process their payments for their clients;

1.36.2.15 during the year, the Company announced its intention to provide, through the Nominee Company, back-office services to private platforms for raising equity and debt. The services will include the allocation of the securities in the private placement, the transfer of the issuance proceeds, and the ongoing operation of the issued securities;

1.36.2.16 at the end of 2019, the Company began to offer clearing services for corporate actions made in US dollars and, at the beginning of 2020, in European currencies, with the aim of enabling companies making payments that fulfill the criteria prescribed in the TASE Clearing House Rules to clear corporate actions in US dollars and/or in European currencies, as appropriate;

1.36.2.17 during 2019, the Company began offering a service aimed at underwriters and issuance coordinators for the clearance of the issuance proceeds as part of its desire to offer a package of services in the primary market sector;

As part of the efforts to improve infrastructures used to operate the stock exchange and its operational efficiency:

1.36.2.18 during 2017, the Israel Securities Authority announced its adoption of the Principles for Financial Market Infrastructures ("PFMI") that it is implementing through local legislation and rules. It also announced that TASE Clearing House and MAOF Clearing House are to be considered as operating pursuant to these principles. The Israel Securities Authority's decision to recognize the Clearing Houses as operating pursuant to international standards is the culmination of a process that began in 2014 and during the course of which several measures were taken to improve extensive aspects of the Clearing Houses' operations – particularly the development and upgrading of the risk management system and deploying corporate governance arrangements that align with the standards and criteria generally found at the world's leading clearing houses;

1.37 Likely Developments in the Coming Year

As stated above, in the operating sphere, the Company's management intends to place emphasis on continuing to implement the strategic plan, including:

1.37.1 **As part of the efforts to increase marketability and liquidity in the main TASE markets:**

1.37.1.1 completing the development of a central lending pool for securities listed on TASE, aimed at stimulating liquidity and providing extensive services to the various market participants;

1.37.1.2 continuing to make it more attractive for foreign players to trade on TASE by aligning the trading infrastructures with international standards, and through examining changes in the protocols for data distribution and connectivity;

1.37.1.3 examining the possibilities of making adjustments to the TASE Rules with regard to futures on the TA-35 Index and/or on the TA-125 Index, as well as examining the possibility of launching futures on other underlying assets, with the aim of expanding the basket of products and services that TASE is able to offer;

1.37.1.4 examining the need to align with the accepted global standards aimed at limiting off-exchange transactions and bringing the TASE Rules into line with international standards. In addition, examining the need to promote a plan to incentivize market making on TA-35 Index equities, with this too being in line with accepted practice at the world's leading exchanges;

1.37.1.5 continuing to update the membership model for TASE and the Clearing Houses. In this connection and further to the announcement of a joint call by the Israel Securities Authority and the Company that sought to advance technological innovation in the retail brokerage sector in Israel, continuing with efforts to introduce TASE members that want to act as retail brokers in Israel, whether this is in securities trading or in mutual funds distribution, so as to enable the general public to benefit from direct trading services that are more sophisticated, cheaper and more easily accessible;

1.37.1.6 continuing to reach out to the Israeli public via traditional and digital media, in order to improve TASE's standing with the general public, improve the level of financial understanding and familiarity with the world of TASE investing, and increase the number of Israeli investors active on TASE. In this context, in 2019 the Company entered into an agreement to provide title sponsorship for the Israel Professional Football Leagues, as detailed in Section 1.20 above, in order to enable continuous access to broad segments of the population;

1.37.2 **As part of its efforts to improve the manner in which the Israeli economy is reflected in the stock exchange:**

1.37.2.1 continuing to pursue the listing of high-tech companies on TASE, while promoting the distribution of issuances intended for listing on the stock exchange to institutional entities outside Israel as well as the possibility of a simultaneous dual-listing and IPOs on two markets;

1.37.2.2 working with the government to encourage government-owned companies to undertake IPOs in accordance with the government's decision on the subject. In accordance with the government's 2014 decision, it intends to encourage several major government companies to offer between 20% and 49% of their issued share capital to the public[29];

1.37.2.3 offering services to other stock exchanges based on the knowledge and expertise accumulated by the TASE Group regarding various issues related to the operation of stock exchanges, including technological means to protect against cyber-attacks.

1.37.3 **As part of the efforts to leverage the Company's capacity to offer additional services and products that complement the main services provided by the Company:**

1.37.2.1 TASE Clearing House is acting to expand the service of clearing non-negotiable investment instruments such as investment and hedge funds, foreign mutual funds and other non-marketable securities. To this end, TASE Clearing House is examining various ways to enable the distribution of investment in these instruments through TASE Clearing House and the TASE members;

---

[29] As of Reporting Date, the aforementioned government decision had not been implemented. However, to the best of the Company's knowledge the Ministry of Finance is making progress regarding such offerings for several government companies.

1.37.3.2 the Company is examining various ways to raise its profile as an exposure platform for overseas investments, both by attracting foreign ETFs to list in Israel, as referred to above, and through offerings of debt and equity by foreign entities, as well as by other means;

1.37.3.3 continuing to act to expand the supply of data services provided by the Company by means of offering additional data services on the Company's website for a fee.

1.37.4 **As part of the efforts to improve the infrastructure used to efficiently operate the stock exchange:**

1.37.4.1 TASE and the Clearing Houses will continue to work to improve their compliance with PFMI principles;

1.37.4.2 continuing to carry out efficiency measures that include employee mobility and matrix management, incentivizing employees by means of differential compensation in accordance with the provisions of the Collective Agreement, and mechanization and automation projects;

1.37.4.3 continuing to examine the TASE price list and updating it in accordance with changing circumstances and market needs and, as such, creating incentives with the aim of encouraging market players to increase their trading activity on TASE, including by means of setting prices on the basis of the type of orders and the scope of activity.

The Company's assessments and plans, as set forth in this section above, are forward-looking information, which is based, among other things, on the Company's assessments and plans regarding the economic and business development of the Group, taking its past experience into consideration. It is possible that, in practice, the above assessments, plans and intentions will not be realized or will be realized in a manner different from that expected by the Company, as a result of various factors of which the Company is unaware as of Reporting Date, including, due to the materialization of any of the risk factors set forth in Section 1.38 below and/or due to implications of the outbreak of the Novel coronavirus (with regard to this, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report).

1.38 **Risk Factors Discussion**

As with every business activity, the activity of the TASE Group is – by its nature -susceptible to the impact of various risk factors. Described below are the principal risk factors that the Company believes affect the activity of the TASE group. For further details regarding the exposure to risks and their management, see Section 2 of the Board of Directors' Report, which is included in this Periodic Report, as well as note 4 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.38.1 **State of the economy and the state of the capital market and its image**

In general, while noting the Company's unique position as the sole stock exchange in Israel, which constitutes the central infrastructure in Israel of the financial market for making investments in securities and financial instruments and for raising equity and debt, its activity is not affected materially by normal changes in macro factors. Material changes in the capital market or in the state of the economy (for example, in the case of beneficial tax arrangements for alternative investment channels, a rise in the base interest rate or a global financial crisis (such as the 2008 credit squeeze)) could affect the appetite and preferences of the investing public, leading to a downturn in the scopes of investment trading activity in securities and financial instruments and/or to such activity being diverted to alternative investment channels.

Furthermore, the investing public's tastes and preferences might also be influenced by failure events with respect to parties in the investment-making field, particularly events arising from fraudulent acts and dishonesty, as has happened in the past (according to the media), with the result that, in the eyes non-professional market participants, such events could be deemed to have implications affecting the capital market's legitimacy and, consequently, could lead to their refraining from participating in trade on TASE, to an extent that could have a detrimental effect on the Company's scopes of activity.

For details regarding the possible implications of the coronavirus outbreak on the state of the economy and the state of the capital market and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.38.2 **Legal risk**

Legal risk is the risk of damage, loss or harm being caused to the Group's reputation as a result of an improper interpretation of the law, regulation or a binding statutory directive, to which the whole spectrum of the TASE Group's activities are subject, or as a result of a lack of clarity regarding the obligations applying to the Company by virtue of the provisions of the law. The Group conducts continual monitoring of judicial decisions, the rules of the Israel Securities Authority, and legislation passing through the Knesset, as well as by obtaining legal interpretations concerning the Group's rules. In addition, internal and external professional reviews are conducted of the principal exposures connected with legal claims. However, there is no assurance that such actions will identify all the Group's exposures to legal risks.

1.38.3 **Regulatory changes**

TASE's activity is closely regulated and supervised. The main capital market participants (such as public companies and bond companies, joint investment trust funds, investment consultants and portfolio managers, banks, insurers, and investment houses) are also subject to broad regulation and oversight. Furthermore, the activity of the TASE Group could be impacted to a certain extent by regulation deriving from a foreign country, even though TASE does not operate within such country's jurisdiction (such as, directives of the international clearinghouse organizations in connection with a clearing house's stability, the Basel rules that apply to banking corporations, including in relation to their activity as members of a stock exchange and a clearing house, and so forth). Overregulation of parties seeking to raise equity or debt from the public could drive them to other alternatives for the capital raisings described above. Similarly, due to the considerable amount of regulation to which the TASE Group is subject, considerable financial and managerial resources have to be invested in order to ensure compliance with regulatory provisions, including, investing in information systems and computerized processes, deploying procedures and controls, employee training and so forth – costs that have implications on the business results of the TASE Group. Consequentially, there is a risk of harm to the Group's revenues and/or capital arising from the legislative measures and/or the draft directives of the various regulatory agencies, which could result in changes to the Group's business environment. The Group monitors domestic and international regulation coming into being and implements damage-limitation measures wherever possible. However, there is no certainty that the monitoring measures will fully identify all the regulatory changes, or that the Group will be able to mitigate any detrimental impact.

1.38.4 **Credit risk**

Credit risk is the risk that a counterparty, whether a Clearing member, custodian bank, or other entity, is unable to meet fully its financial obligation when due, or at any time in the future. For further details, see note 4 (A) to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

With 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 House 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 House member toward the other Clearing House members, as stated. MAOF Clearing House will be required to also attend to the open positions of the defaulting Clearing House member with respect to the transactions performed on TASE. For details regarding the facility agreement with the Bank of Israel for the execution of repo transactions against the background of a member's default event, see Section 1.33.1 above.

The credit risk level could be affected by future consequences of the coronavirus outbreak. For further details regarding the possible implications of the coronavirus outbreak on the state of the capital markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.38.5 **Liquidity risk**

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 by one of the Clearing Houses' members, by virtue of each of them acting as a CCP, or for financing its ongoing activities. For further details, see note 4 (B) to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

The liquidity risk level could be affected by future consequences of the coronavirus outbreak. For further details regarding the possible implications of the coronavirus outbreak on the state of the capital markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.38.6 **Market risk**

Market risk is the risk of loss that will be caused to the Group from changes in market prices (such as exchange rates, the Consumer Price Index, interest rates, etc.), to the extent that these changes will cause a decrease in net profit or a loss that will lead to a decrease in the Group's shareholders' equity. For further details, see note 4 (D) to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

The market risk level could be affected by future consequences of the coronavirus outbreak. For further details regarding the possible implications of the coronavirus outbreak on the state of the capital markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.38.7 **Settlement risk**

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 being received simultaneously from the counterparty to such transaction. The materialization of settlement risk could cause a material increase in the credit and liquidity exposures of the Clearing Houses as a CCP. For further details, see note 4 (C) to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.38.8 **Concentration risk**

Concentration risk is the risk of a relatively high exposure to a specific risk factor (for example: the underlying asset price, the security price, an issuer, etc.) and/or to a Clearing House member and/or to a TASE member, which might lead to an increase in the overall exposure to other risks (such as credit risk, market risk and liquidity risk). The Group manages and minimizes its exposure to concentration risk by means of, inter alia, the Group's concentration risk management policy and the Group's investment policy.

1.38.9 **Wrong-way risk**

Wrong-way risk is the risk that the exposure to a particular counterparty will increase with a rise in the probability of that counterparty's insolvency in light of there being a link and/or a positive correlation between them. The Group manages and minimizes its exposure to wrong-way risk by means of, inter alia, the Group's wrong-way risk management policy, including TASE Clearing House not accepting securities issued by Clearing members as qualifying collateral.

1.38.10 **Operational risks**

Operational risk is the risk of loss and/or harm to the Group's ongoing activity as a result of the unsuitability or failure of internal processes, personnel and/or systems, including improper and/or ineffective use of the various resources activated by the Group or that are available to it (such as, software, IT systems, manpower, etc.), and also as a result of external events. The main areas of operational risks are:

A. IT and cyber risk

IT risk is attributable to the failure of technological factors, including system errors, insufficient backup of the IT systems, defects in the ongoing operation of the systems, obsolescence of existing technology and reliance on outdated systems. Materialization of operational risks relating to the IT systems, the central computer infrastructures, or the confidentiality, integrity, reliability and availability of the information connected therewith could cause economic and reputational harm to the Group.

As a critical infrastructure provider operating a stock exchange with global interphases, the Company faces a significant risk of cyber-attack and other cybersecurity risks, which could cause interruptions in its operations that could cause it to lose customers and trading volume, and result in substantial liabilities or expense to protect against, respond to, and recover from cyber-attacks or resulting investigations.

The Company's IT systems, those of its employees and those of its third-party service providers and its customers may be vulnerable to targeted attacks, unauthorized access, fraud, computer viruses, denial of service attacks, terrorism, "ransom" attacks, firewall or encryption failures and other security problems. Criminal groups, political activist groups and nation-state actors have targeted the financial services industry and TASE's role in the marketplace places it at greater risk than other public companies for a cyber-attack and other information security threats. While the Company has not experienced cyber incidents that are individually, or in the aggregate, material, it has experienced cyber-attacks of varying degrees in the past without significant impact. The Company has designed its cyber defense program to mitigate such attacks by preventative, detective, and responsive measures. However, the security measures that are being implemented may not be adequate, depending upon the attack or nature of the cyber threat posed. The Company does not purchase insurance coverage in respect of cyber damages.

There can be no assurance that unauthorized access, interruption in availability or reliability, or mishandling or misuse of information or the Company's IT systems, or cyber incidents will not occur in the future, and they could occur more frequently and on a more significant scale.

TASE is classified as a "critical information infrastructure body" and by virtue of this is supervised by the Israel National Cyber Directorate, a newly created governmental body. In this framework the Company is subject to strict instructions and audits in the area of data protection and cyber. As the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to TASE business, compliance with those requirements could also result in additional costs and may carry significant penalties for non-compliance.

B. Business continuity

Because the Company deploys a central financial market infrastructure, the Group needs to develop, establish and maintain an operative plan intended to ensure the continuity of its operations and the provision of its critical services (i.e., trading and clearing) upon the occurrence of operational failure events, a disaster event and/or emergency events. In accordance with guiding international standards and the Clearing Houses' Stability Directive, the Group is required to authenticate the recoverability of its critical systems and processes within two hours of a request, at the most. In light of TASE's central role in the Israeli financial market, damage to the continuity of its operations could lead to a material exposure to claims from market participants, to the involvement of the oversight and regulatory agencies and to harm to the Company's reputation.

The Group establishes an emergency backup site, the purpose of which is to provide a solution in situations where the Group's main site is not functioning and/or is damaged, and, by holding exercises in various scopes and at different intervals, in accordance with a multi-topic and multi-year plan, including a periodic exercise at to the backup site intended to test the Group's ability to recover activity within a short time. However, there is no assurance that the backup site will fully ensure the continuity of the Group's principal services.

On the backdrop of the coronavirus outbreak, the Company has an operational and technological solution in place that facilitates the operation of TASE and the Clearing House with a significantly lower number of employees that are required to be present at the sites of the Company for the operation of the core trading and clearing systems. For further details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

C. Human factor risk

The Group's activity is characterized by the large number and complexity of its operating processes (some of which are manual, such as publishing notices on behalf of the listed companies, updating the TASE indices and a whole range of other activities), which are essential to attaining its goals. The attainment of these goals is contingent to a large extent on the professional competence of the Group's employees and their commitment to performing the tasks entrusted to them reliably and honestly.

Human factor risks result from instances of negligence, incompetence, error, and lack of professionalism on the part of the human factor, as well as from incidents of fraud and embezzlement resulting from weaknesses in the internal control procedures.

The Group establishes an array of internal controls across the entire organization, including its processes and operations – in order to ensure that the Group's activity is efficient and effective, that information is complete, reliable and provided on time, and that the Group operates in accordance with the rules that apply to it. However, there is no assurance that this array of internal controls will identify all the human factor risks that might arise.

Moreover, the Group sets a human resources policy that includes prescribing principles that accompany an employee at every stage of his/her "lifecycle" within the organization, including employee recruitment, education and training in the various departments, promotion processes, compensation, and termination of employment.

In addition, the TASE Group has a professional liability insurance policy that covers the activity of all the Group's employees. However, there is no assurance that the insurance policy will fully cover all the actions or all the amounts that might be brought against the Group with respect to the human factor risks.

The human factor risk could be affected by the reduction of the workforce that is present at the sites of the Company, this as part of the measures implemented by the Company on the backdrop of the coronavirus outbreak. For further details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.38.11 **Custodian risk**

Custodian risk is the risk of loss or damage to the assets held in custody as a result of negligence, fraud, misuse of the assets, improper management, defective documentation or insolvency of the custodian or of its agent. Custodian risks arise in light of the fact that the Group holds its assets and the assets of the members of the Clearing Houses, which are deposited as collateral, with commercial banking corporations (cash and securities included in the investments portfolio), with central securities depositories (CSDs) and other entities. Therefore, the Group is exposed to risks that are imposed upon it by these entities. The Group manages and minimizes its exposure to concentration risk by means of maintaining the assets at the Bank of Israel and at supervisory agencies and by spreading the exposure through the use of several banking corporations.

1.38.12 **Model risk**

Model risk relates to a potential exposure to negative ramifications/outcomes for the Group (such as financial losses, reputational damage, etc.), mainly resulting from taking decisions based on an inaccurate/defective model and/or use of inaccurate/erroneous model results.

The Group manages and minimizes its exposure to model risk by means of model validation, model development/ upgrading in light of the validation recommendations and model authentication (backtesting).

1.38.13 **Compliance risk**

Compliance risk is the risk of the imposition of legal or regulatory sanctions, sustaining a material financial loss, or suffering reputational harm, which could arise as a result of the Group failing to fulfill the "compliance directives" as set forth in Section 1.32.8 above (including all the laws, regulations, regulatory directives and internal procedures to which the TASE Group is subject). The Group establishes control and oversight processes that are performed by the compliance officer, including periodically conducting a compliance survey. However, there is no assurance that these control and oversight processes will effectively ensure the full identification of all the compliance risks to which the Group is exposed.

Compliance with international sanctions regimes

Various governmental and intergovernmental authorities around the world – including the United Nations, European Union, United Kingdom, United States, Israel, and other jurisdictions – maintain economic sanctions that prohibit persons subject to the jurisdiction of these authorities from conducting activities or transacting business with certain countries, governments, entities, or individuals.

The Company is not aware of any companies listed on the TASE being identified on sanctions-related lists of designated persons maintained by the United Nations, European Union, United Kingdom, United States, or Israel, or otherwise being the target of any economic sanctions. That said, the Company cannot assure you that this will continue to be the case. While there are legal requirements and measures applicable to TASE members and that are implemented by them, which are expected to prevent a company that is the target of sanctions imposed by the Israeli government from listing on TASE, it is possible that, in the future, one or more companies listed on TASE will be the target of economic sanctions imposed by a governmental or intergovernmental authority outside of Israel.

While the Company believes that it has been, and continues to be, in compliance with applicable sanctions, the Company cannot assure that it will remain in compliance in the future. Non-compliance with international sanctions could subject the Company to adverse media coverage, investigations, and severe administrative, civil and possibly criminal sanctions imposed pursuant to foreign legislation, expenses related to remedial measures, and legal expenses, which could materially adversely affect the Company's business, results of operations, financial position and reputation.

1.38.14 **Business risk**

The Group's business risk is the risk of experiencing a steep decline in the scope of revenues, with management being unable to take immediate cost-cutting measures (due to the Company's predominantly rigid expenses structure) and, as a result thereof, an operating deficit will be created making it difficult for the Group to implement its strategy and to conduct its core activities. Among the possible causes of such a decline in the scope of revenues – a change in the public's tastes, onerous regulation, failure to realize the strategy or in managing TASE's business, failure to cope with heightened competition, reputational damage and so forth. The Group conducts tracking, ongoing monitoring and reporting of the Group's revenues and expenses and establishes a policy and supporting procedures to ensure the Group's budgetary balance and its financial stability. However, there is no assurance that the Group's policy and its procedures with regard to this will fully identify or prevent the Group's exposure to business risk.

For further details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.38.15 **Competition**

As TASE is the central infrastructure in Israel for investments and for raising equity and debt from the public, its activity is affected by the availability of other accessible alternatives for making the aforesaid investments and raisings, such as foreign exchanges and other organized markets, institutional, bank and non-bank credit providers, private investment funds, trading platforms, crowdfunding, etc. These parties are in competition with TASE – both for the segment of entities that are seeking to raise equity or debt and also for the segment of entities that are looking for investment channels, thereby impacting on the scopes of TASE's activity. For further details regarding competition on TASE's markets, see Section 1.21 above.

1.38.16 **Reputational risk**

Reputational risk is the risk of a potential event, the occurrence of which will have detrimental effect on the TASE Group's reputation. Hence, the materialization of other risks, such as compliance risks, operational risks and financial risks might also cause damage to the Company's business or its public image and, consequently, could also lead to a withdrawal or reduction in the scopes of activity within the framework of the Stock Exchange that is manages.

1.38.17 **Human capital**

The nature of TASE's activity, with emphasis on the management of trading and clearing of transactions in securities and financial instruments in considerable financial scopes and on the complexity and the exposures associated therewith, make it extremely important for the Company to be able to recruit and retain professional high-quality employees, with some having unique expertise. Any impairment of this ability could increase the risk of harm due to negligence, incompetence, human error or lack of professionalism of the TASE Group's employees.

1.38.18 **Collective labor relations**

The employees of the TASE Group have been unionized under a collective labor agreement for a considerable number of years. The format of this arrangement increases the risk of a full or partial strike by the TASE Group's employees in instances of labor disputes and, consequently, limits the managerial flexibility of the TASE Group, for example in relation to adapting the structure and scope of the payroll expenses to changes in the revenues of the TASE Group. For details regarding labor disputes in the TASE Group and sanctions that have been imposed, see Section 1.26.10.3 above.

1.38.19 **Restrictions on business flexibility**

The TASE Group's operations are subject to close supervision of its operational aspects and its permitted activities, as well as the pricing and setting of tariffs that it collects for its services. In addition, due to it being an exchange that provides clearing services intended to confer a high degree of confidence and authenticity in executing and clearing the transactions, the ongoing activity of the TASE Group is not conducted with the "final user" but with a high-quality, but relatively small, group of parties (TASE members and the Clearing Houses' members), which are required to meet various qualification conditions in accordance with the TASE Rules. In addition, as stated above, the unique characteristics of an exchange's activity require the employment of competent personnel. TASE's employees (other than the senior officers) are unionized and act under a collective labor agreement. The combination of these factors imposes restrictions on the business flexibility of the TASE Group and the ability of its management to make rapid adjustments in response to changes in the business environment in which the exchange operates or in its business results, such as changes in the structure and scope of the payroll expenses and changes in tariffs. Furthermore, entering into new business sectors or launching new products and services is generally subject to obtaining approvals from the regulatory authorities and is also contingent on the response of the TASE and Clearing House members to making the necessary investments in adapting the trading systems, data and communications to the requested changes.

1.38.20 **Realization of the strategic growth plan**

There is a risk that the Company's efforts to implement its strategic plan, particularly with regard to increasing the trading volumes and the number of listed companies on the TASE markets, will not be successfully realized according to expectations. As set forth in Sections 1.36 and 1.37 above, these efforts include marketing measures directed at the Israeli investing public that are aimed at raising awareness and increasing investment activity within the framework of TASE, attracting investors that are not institutional investors, attracting foreign investors and attracting companies making offerings, with emphasis on the high-tech sector, as well as ancillary measures, such as changing the conditions for TASE membership – all with the aim of growing TASE's liquidity and its trading volumes, an outcome that is expected to lead to attracting companies to list on TASE. As stated above, there is no certainty that these efforts will succeed in line with the Company's expectations, among other things, due to the materialization of one or more of the risk factors described in this section.

For further details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.38.21 **Penetration of new products**

The Company is at various stages in the development and penetration of different products and services, such as, co-location, foreign ETFs, a central lending pool, services for alternative investment instruments, and so forth. By its nature, part of the Company's growth potential is based on the successful introduction of these products and services. The development of some of the products and services has not yet been completed and, with regard to those whose development has been completed, some have yet to be deployed and there is no assurance that they will be successfully adopted or accepted by market participants, among other things, bearing in mind that these are not part of TASE's core activities.

For further details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.38.22 **Reduction in the number of listed companies**

As a result of a combination of different factors, such as oversight arrangements and regulation becoming more onerous, detrimental tax arrangements, development of technological alternatives and alternative channels for raising capital, the number of listed companies on TASE could decline or come to a standstill, or there could even be an increase in the number of companies delisting from TASE. This could also result from M&A activity in which companies listed on TASE are involved. A continuous decline in the number of listed companies on TASE might have a detrimental effect on TASE's growth, among other things, due to reducing trading volumes in their securities and due to them ceasing to need the services that TASE provides. For details regarding the delisting of public companies as a result of the Concentration Law, see Section 1.10.5 above.

For further details of the possible implications of the coronavirus outbreak on the state of the markets and the Company's business, see Section 1.6.4 of the Board of Directors' Report, which is included in this Periodic Report.

1.38.23 The following table presents the risk factors described above, according to levels rated according to the Company's management's assessment of their expected impact on the Company's business, while taking into account the measures that the Company takes to manage these risks, to hedge against them or to prevent them:

Risk factor	Extent of the risk factor's impact on the Group's activity in its entirety		
	High impact	Medium impact	Low impact
General risk factors			
State of the economy and the state of the capital market and its image			√
Legal			√
Regulatory		√	
Sectoral risk factors			
Credit		√	
Liquidity		√	
Market		√	
Settlement			√
Concentration		√	
Wrong-Way			√
Operational		√	
Custodian			√
Model			√
Compliance			√
Business			√
Competition		√	
Reputational		√	
Risk factors specific to the Company			
Human		√	
Collective labor		√	
Restrictions on business		√	
Realization of the strategic growth		√	
Penetration of new		√	
Reduction in the number of listed		√	

For further details regarding the exposure to risks and how they are managed, see section 2 of the Board of Directors' Explanations, which are included in this Periodic Report, and note 4 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.38.24 **Improving and upgrading the risk management array**

The Group is working to improve and upgrade the Group risk management procedures in accordance with generally accepted criteria among infrastructure bodies on the financial market and the Clearing Houses in particular, on the basis of guiding international standards published by CPMI and IOSCO as the PFMI and the Clearing Houses' Stability Directive issued by the Israel Securities Authority.

For details regarding the measures taken by the TASE Group in recent years to improve and upgrade the risk management array, see Section 2.4 of the of the Board of Directors' Report on the Company's State of Affairs, which are included in this Periodic Report.

הבורסה לניירות ערך תל אביב
TEL AVIV STOCK EXCHANGE

THE TEL-AVIV STOCK EXCHANGE LTD.

BOARD OF DIRECTORS' REPORT ON THE COMPANY'S STATE OF AFFAIRS FOR 2019

This Report has been prepared assuming that its readers have before them Part One of the Periodic Report – Description of the Company's Business, as well as the Company's Financial Statements as of December 31, 2019, which are included in this Periodic Report.

1. Board of Directors' Explanations for the Company's State of Affairs

1.1 General

The Company, including by means of the companies consolidated in its financial statements (collectively, "the Group"), is engaged in the area of securities trading and securities clearing.

Within this framework, the Group is engaged in setting rules regarding the TASE membership, rules for listing securities on TASE (including the obligations that apply to companies whose securities are listed) and rules regarding trading on TASE. The Group operates trading systems and provides clearing services for both listed and non-listed securities. In addition, the Group operates a derivatives clearing house that writes derivatives that are traded on TASE, clears them and serves as a central counterparty for transactions in them. The Group provides central counterparty (CCP) services for transactions in securities and derivatives that are executed on TASE. The Group also provides listing services and central securities depository (CSD) services for securities. The Group engages in calculating security indices, in authorizing the use of indices for the creation of financial instruments that track the indices, as well as in distributing TASE trading data and in connectivity services (communication lines for members and hosting services). In addition, since January 2018, the Group has operated a nominee company as defined in the Securities Law (securities traded on TASE are registered in the nominee company's name). The Company has one area of activity that is reported as a business segment in the Company's consolidated financial statements – trading and clearing transactions in securities. For further details, see section 1.1.1.5 of Part One – Description of the Company's Business, which is included in this Periodic Report above.

On August 1, 2019, the Company closed an initial public offering by way of a secondary offering of 31,717,504 ordinary shares of the Company and listed them on the stock exchange in Tel Aviv, which is managed by the Company. From said date, the Company became a public company, as this term is defined in the Companies Law, 1999.

This Part describes significant developments that took place in the Company's activity in 2019, in its performance, in the risks to which it is exposed, and in its goals and strategy. Wherever necessary, this Part should be read in conjunction with Part One of this Periodic Report – Description of the Company's Business, as well as with the Company's financial statements as of December 31, 2019, which are included in this Periodic Report.

Seasonality

The Company's revenues from trading and clearing are affected, among other things, by the number of trading and clearing days. In 2019, there were a total of 244 trading days, compared to 245 days last year. In the fourth quarter of 2019, there were a total of 58 trading days, compared to 63 trading days in the corresponding quarter last – an 8% reduction due to most of this year's Jewish High Holidays and Sukkot having fallen in the fourth quarter.

After the period of the statement of financial position, a worldwide outbreak of the new coronavirus had significant effects on many countries, including Israel. For a discussion of the effects of the outbreak of the new coronavirus, see section 1.6.4 below.

Presented below is condensed information relating to the results for the fourth quarter of 2019 (NIS, in thousands):

Condensed Statement of Profit or Loss	**Quarter ended**		**Difference**	
	31.12.19	**31.12.18**	**Amount**	**%**
Revenue from services	66,416	70,342	(3,926)	(6%)
Costs	62,867	60,555	2,312	4%
Profit before financing income, net	3,549	9,787	(6,238)	(64%)
Financing income (expenses)	(402)	(758)	356	(47%)
Taxes on income	317	2,023	(1,706)	(84%)
Net profit	2,830	7,006	(4,176)	(60%)
% of total revenue from services for the period	**4.3%**	**10.0%**		

Below are the main factors that affected the Company's profits in the fourth quarter of 2019, compared to the corresponding quarter in 2018:

- **The revenue in the fourth quarter of 2019** – below is the composition of the quarter's revenue, compared to the corresponding quarter last year:

Revenue from services	Quarter ended 31.12.19	% of the Company's total revenues	31.12.18	% of the Company's total revenues	% change
Trading and clearing commissions	26,339	40%	33,493	48%	(21%)
	Most of the decrease is due to there being 8% fewer trading days in the fourth quarter of 2019 since most of this year's Jewish High Holidays and Sukkot having fallen in the fourth quarter, a decrease in trading volumes in derivatives on indices (approx. 6%), revenue in respect of prior years from T-bills (Makams) that was recognized in the fourth quarter of 2018 (approx. 6%), and a decrease in revenue from corporate bonds (approx. 2%).				
Listing fees and levies	14,209	22%	14,119	20%	1%
	An increase in annual levies from companies and ETFs was recorded in the quarter, due to a change in the annual levy fee from companies (approx. 5%) and also due to the beginning of collection of annual levies from ETFs (approx. 5%). In the other direction, a decrease in revenues from listing and examination fees was recorded, due to the recognition of revenue from listing fees being deferred to the coming years (approx. 12%).				
Clearing House services	14,184	21%	12,998	18%	9%
	Most of the increase is due to an increase in Clearing House services activity to companies and members, including in respect of new Clearing House services (approx. 4%) and to an increase in the value of the assets managed by the Clearing House in respect of which management fees are collected (approx. 4%).				
Distribution of data and connectivity services	10,688	16%	8,651	12%	24%
	The increase is mainly due to connectivity revenue that was presented net in the corresponding quarter (approx. 17%) and to revenue from new activities such as Global Access Point, Colocation, quote generators and so forth (approx. 6%)				
Other revenue	996	1%	1,081	2%	(8%)
Total revenue from services	**66,416**	**100%**	**70,342**	**100%**	

- **The expenses in the fourth quarter of 2019** after excluding the effect of share-based payment expenses totaled NIS 62.5 million, compared to the expenses in the corresponding quarter last year that totaled NIS 60.6 million (an increase of approx. 3%). Most of the increase in the expenses is due to growth in depreciation expenses (approx. 4%) (among other reasons, as a result of applying IFRS 16) and marketing expenses (approx. 2%), which was partly offset by a reduction in computer and communications expenses (approx. 3%).

– **Net financing expenses in the fourth quarter of 2019** fell by 47%, compared to the corresponding quarter last year. Financing expenses in the period resulted, among other things, from negative returns on the Company's investments in held-for-trading financial assets.

– **The net profit in the fourth quarter of 2019** totaled NIS 2.8 million, compared to NIS 7 million in the corresponding quarter last year – a 60% decrease. The reduction in the profit is mainly due to the decrease in revenue from services, as described above, and to an increase in depreciation expenses, which was offset by a decrease in tax expenses.

For details of profit or loss items for the fourth quarter, see the condensed quarterly profit or loss statements in section 1.4 below:

Adjusted EBITDA data and adjusted net profit:	**Quarter ended**		**Difference**	
	31.12.2019	**31.12.2018**	**Amount**	**%**
Adjusted EBITDA for the quarter:				
Profit before financing income, net	3,549	9,787	(6,238)	
Share-based payment expenses	418	-	418	
Depreciation and capital losses	11,136	8,955	2,181	
Adjusted EBITDA for the quarter:	15,103	18,742	(3,639)	(19%)
% of total revenue from services for the quarter	23%	27%		
Adjusted net profit for the quarter:				
Net profit	2,830	7,006	(4,176)	
Share-based payment expenses	418	-	418	
Adjusted net profit for the quarter:	3,248	7,006	(3,758)	(54%)
% of total revenue from services for the quarter	5%	10%		

Below are the main factors that affected the Company's adjusted net profit and its adjusted EBITDA in the fourth quarter of 2019, compared to the corresponding quarter in 2018:

- **The adjusted EBITDA in the fourth quarter of 2019** totaled NIS 15.1 million, compared to NIS 18.7 million in the corresponding quarter last year. The reduction is due to a decrease in the quarter's revenue, as explained above. With regard to the effect of IFRS 15, see section 1.2.2 below.
- **The adjusted net profit in the fourth quarter of 2019** totaled NIS 3.2 million, compared to NIS 7.0 million in the corresponding quarter last year. The reduction in profit is mainly due to a decrease in revenue from services and to an increase in expenses – mainly in respect of depreciation and marketing expenses.

Presented below is condensed information relating to the results for the year ended December 31, 2019 (NIS, in thousands):

Condensed Statement of Profit or Loss	Year ended		Difference	
	31.12.19	31.12.18	Amount	%
Revenue from services	260,001	255,605	4,396	2%
Costs	245,841	141,983	103,858	73%
Profit before financing income, net	14,160	113,622	(99,462)	(88%)
Financing income (expenses)	8,969	(1,060)	10,029	
Taxes on income	5,571	26,140	(20,569)	(79%)
Net profit	17,558	86,422	(68,864)	(80%)
% of total revenue from services for the period	**6.8%**	**33.8%**		

Below are the main factors that affected the Company's profits in 2019, compared to 2018:

- **The revenue in the period** – below is the composition of the year's revenue, compared to the corresponding period:

Revenue from services	Year ended 31.12.19	% of the Company's total revenues	31.12.18	% of the Company's total revenues	% change
Trading and clearing commissions	107,000	41%	119,355	47%	(10%)
	Most of the decrease is due to lower trading volumes in derivatives (approx. 5%), in corporate bonds (approx. 2%) and shares (approx. 1%) and from revenue in respect of prior years from T-bills (Makams) that was recognized in the fourth quarter of 2018 (approx. 1%)				
Listing fees and levies	54,678	21%	46,525	18%	18%
	Most of the increase is due to the beginning of collection of annual levies from ETFs at the end of 2018 (approx. 9%), to the change in annual levy fees from companies (approx. 5%) and also from growth in the Nominee Company's activities, levies from new members, etc. (approx. 2%)				
Clearing House services	52,331	20%	49,605	19%	5%
	Most of the increase is due to an increase in ongoing Clearing House activity, in services provided to members, funds and companies (approx. 5%).				
Distribution of data and connectivity services	42,419	16%	34,954	14%	21%
	The increase is mainly due to connectivity revenue that was presented net in the corresponding period (approx. 18%) and to revenue from new activities such as Global Access Point, Colocation, quote generators and so forth (approx. 2%)				
Other revenue	3,573	2%	5,166	2%	(31%)
	Most of the reduction results from the decrease in revenue from the Analysis Project due to the termination of the project for some of the companies (approx. 22%)				
Total revenue from services	**260,001**	**100%**	**255,605**	**100%**	

- **The expenses in 2019** after excluding the effect of share-based payment expenses totaled NIS 242 million, compared to the expenses in 2018 that totaled NIS 227.1 million after excluding the effect of the impairment reversal (an increase of approx. 7%). Most of the increase in the expenses is due to growth in depreciation expenses (approx. 5%) (among other reasons, as a result of applying IFRS 16), employee benefit expenses (approx. 3%) and marketing expenses (approx. 1%), which was partly offset by a reduction in computer and communications expenses (approx. 3%).

- **Financing income in 2019** – the transition to financing income in 2019 is due to a positive 4.8% return (resulting from a downturn in the interest curve on government bonds) on the Group's investments in the held-for-trading financial assets, compared to a negative 0.7% return in 2018.
- **The net profit in 2019** totaled NIS 17.6 million, compared to NIS 86.4 million in 2018, an 80% decrease. The reduction in the profit is mainly due to the impairment reversal of NIS 65.5 million, net of tax, in the corresponding period and to an increase in the period compared to the corresponding period, in depreciation expenses, marketing expenses, employee benefit expenses and share-based payment expenses, which were largely offset by an increase in revenue from services and financing income in the period.

Adjusted EBITDA data and adjusted net profit:	**Year ended**		**Difference**	
	31.12.2019	**31.12.2018**	**Amount**	**%**
Adjusted EBITDA for the period:				
Profit before financing income, net	14,160	113,622	(99,462)	
Share-based payment expenses	3,858	-	3,858	
Reversal of impairment provision	-	(85,108)	-	
Depreciation and capital losses	44,929	32,952	11,977	
Adjusted EBITDA for the period:	62,947	61,466	1,481	2%
% of total revenue from services for the period	24%	24%		
Adjusted net profit for the period:				
Net profit	17,558	86,422	(68,864)	
Share-based payment expenses	3,858	-	3,858	
Reversal of impairment provision, net of tax	-	(65,533)	65,533	
Adjusted net profit for the period:	21,416	20,889	527	3%
% of total revenue from services for the period	8%	8%		

Below are the main factors that affected the Company's adjusted net profit and its adjusted EBITDA in 2019, compared to 2018:

- **The adjusted EBITDA in 2019** totaled NIS 62.9 million, compared to NIS 61.5 million in 2018. Most of the increase is due to the initial application in 2019 of IFRS16, the effect of whose application is that the expenses in respect of leases in an amount of NIS 8.4 million are included, starting from 2019, under depreciation expenses. This was offset by a decrease in employee benefit expenses and marketing expenses. With regard to the effect of IFRS 15, see section 1.2.2 below.
- **The adjusted net profit in 2019** totaled NIS 21.4 million, compared to NIS 20.9 million in 2018. The increase is mainly due to an increase in revenue from services and financing income, which was partly offset by an increase in depreciation expenses, employee benefit expenses and marketing expenses.

For further details regarding profit or loss development, see the analysis of the financial position in section 1.3 below.

Presented below is condensed information relating to the financial position as of December 31, 2019 (NIS, in thousands):

Condensed statement of financial position	**As of**		**Difference**	
	31.12.2019	**31.12.2018**	**Amount**	**%**
Cash and cash equivalents and short-term financial assets	308,892	238,180	70,712	30%
Other current assets	20,362	21,913	(1,551)	(7%)
Property and equipment and intangible assets	457,543	442,031	15,512	4%
Other non-current assets	18,363	12,961	5,402	42%
Total assets (*)	**805,160**	**715,085**	**90,075**	**13%**
Current liabilities	81,876	64,721	17,155	27%
Non-current liabilities	124,577	90,471	34,106	38%
Total liabilities (*)	**206,453**	**155,192**	**51,261**	**33%**
Total equity	**598,707**	**559,893**	**38,814**	**7%**
Ratio of equity to total assets	**74%**	**78%**		
Surplus equity over regulatory requirements (in NIS millions)	**282**	**264**	**17**	**7%**
Surplus liquidity over regulatory requirements (in NIS millions)	**132**	**99**	**33**	**33%**

(*) The total assets and liabilities as of December 31, 2019 and December 31, 2018, include a balance of assets/liabilities in respect of open derivative positions amounting to NIS 351,742 thousand and NIS 895,401 thousand, respectively, which for reasons of convenience in analyzing the financial position has been offset against each other.

– The total assets as of December 31, 2019 amounted to NIS 805.2 million, a 13% increase compared to December 31, 2018. Most of the increase is due to an increase in cash from operating activities and financing activities (with regard to proceeds from listing the Company's shares and to proceeds within the framework of the Securities Law (Amendment No. 63), 2017 with regard to the TASE ownership restructuring ("**the TASE Restructuring**"), see section 1.6 below) and to growth in property and equipment resulting from an increase in right-of-use assets following the application of IFRS 16 with effect from January 1, 2019.

– The total liabilities as of December 31, 2019 amounted to NIS 206.5 million, a 33% increase compared to December 31, 2018. Most of the increase is due to lease liabilities following the application of IFRS 16 with effect from January 1, 2019 and from an increase in actuarial liabilities for long-term employee benefits due to a decrease in the discount rate.

1.2. Presentation and Reclassification of Financial Statements

1.2.1. Initial Application of a New Accounting Standard, IFRS 16 "Leases"

International Financial Reporting Standard No. 16 "Leases" ("IFRS 16") has led to operating leases being included within the framework of the financial statements, with effect from January 1, 2019, according to a similar accounting treatment as that applied to finance leases. For details of the initial application of IFRS 16 and the effect of the aforesaid changes on the Company's consolidated financial statements, see note 2 U to the Company's consolidated financial statements as of December 31, 2019.

1.2.2. Effect of Applying Accounting Standard IFRS 15 From the Beginning of 2018

In 2019, revenue from listing fees and levies fell by NIS 5.7 million due to the deferral of revenue as a result of applying IFRS 15. The operating profit fell correspondingly by NIS 5.7 million and the net profit fell by NIS 4.4 million (representing approx. 20% of the net profit before the deferral of the aforesaid revenue). In 2018, revenue from listing fees and levies fell by NIS 2.7 million due to the deferral of revenue as a result of applying IFRS 15. The operating profit fell correspondingly by NIS 2.7 million and the net profit fell by NIS 2.1 million. The inter-year increase in the amount of revenue deferred is due to the increase in listing fees from the issuance of shares and bonds, primarily in the fourth quarter of the year.

In the fourth quarter of 2019, the revenue fell by NIS 3 million. The operating profit fell correspondingly by NIS 3 million and the net profit fell by NIS 2.3 million (representing approx. 45% of the net profit before the deferral of the aforesaid revenue). In the fourth quarter of 2018, the revenue fell by NIS 0.7 million. The operating profit fell correspondingly by NIS 0.7 million and the net profit fell by NIS 0.5 million.

1.2.3. **<u>Reclassification</u>**

The Company has reclassified revenue from connectivity (revenue from communication lines and hosting and connectivity services) from “Other revenue” to “Distribution of data and connectivity services”. Additionally, revenue from members’ levies has been reclassified from “Other revenue” to “Listing fees and levies”.

The new classification more appropriately reflects the composition of the Company’s revenues, based on the types of services that it provides. The new classification does not have a material effect on the comparative figures in the statement of profit or loss for periods prior to 2019. Accordingly, the revenues for such periods have not been reclassified.

1.3. **Analysis of the Financial Position**

1.3.1. Presented below are the principal data from items in the Statements of Financial Position as of December 31, 2019 and 2018 (NIS, in thousands):

Item	As of 31.12.2019	As of 31.12.2018	% change	The Company's explanations
	NIS, in thousands			
Current assets				
Cash, cash equivalents and financial assets	308,892	238,180	30%	The increase is mainly due to an inter-period increase in cash from operating activities, net of investments in property and equipment and intangible assets in an amount of NIS 47 million, to the proceeds from selling the shares in an amount of NIS 29.4 million – for further details, see note 18 B to the Company's financial statements as of December 31, 2019. The aforesaid were partly offset by lease payments in an amount of NIS 9.7 million.
Trade and other receivables	20,362	21,913	(7%)	Most of the change is due to a NIS 2.6 million reduction in the balance of current taxes, mainly as a result of tax refunds for prior years. A NIS 1.1 million reduction in the balance of trade receivables is due mainly to revenue in respect of prior years that was recognized in December 2018. The aforesaid reduction was offset by a NIS 2.6 million increase in the balance of other receivables, mainly as a result of the timing of prepaid expenses in an amount of NIS 1.2 million and by a NIS 1.4 million increase that reflects the effect of the initial application of IFRS 16 (for further details, see note 2 U to the Company's consolidated financial statements as of December 31, 2019).
	329,254	**260,093**	**27%**	

Item	As of 31.12.2019	As of 31.12.2018	% change	The Company's explanations
	NIS, in thousands			
Assets derived from clearing operations in respect of open derivative positions	351,742	895,401	(61%)	The amount expresses the value of the derivative assets that are cleared on the MAOF Clearing House and that are open on the reporting date (an identical amount appears in liabilities). The reduction in the balance of the assets is mainly due to a decrease in the open transactions in derivatives on the TA-Banks Index. For further details regarding the offset of financial assets and financial liabilities, see note 8 D to the Company's consolidated financial statements as of December 31, 2019. For further details regarding the financial resources held by the Group to cope with a default event of a MAOF Clearing House member, see note 4 A (2) to the Company's consolidated financial statements as of December 31, 2019.
Total current assets	**680,996**	**1,155,494**	**(41%)**	
Non-current assets				
Property and equipment and intangible assets, net	457,543	442,031	4%	The increase is due to inter-period investments made in an amount of NIS 38.2 million, net of depreciation expenses and net of retirements in an amount of NIS 45.1 million, and plus NIS 22.5 million that reflects the effect of the initial application of IFRS 16 (for further details, see note 11 A (2) to the Company's consolidated financial statements as of December 31, 2019).
Other long-term receivables	4,302	538	700%	The increase is due mainly to the balance of a long-term loan, which was granted during the period to the CEO in an amount of NIS 2.4 million, net of current maturities (for further details, see note 13 E (2) to the Company's condensed consolidated financial statements as of December 31, 2019), as well as to receivables in respect of long-term leases in an amount of NIS 1.4 million resulting from the initial application of IFRS 16 (for further details, see note 2 U to the Company's consolidated financial statements as of December 31, 2019).
Deferred taxes and other assets	14,061	12,423	13%	The balance of deferred tax assets is primarily in respect of deferred revenue and employee benefits, offset by liabilities in respect of property and equipment and intangible assets.
Total non-current assets	**475,906**	**454,992**	**5%**	
Total assets	**1,156,902**	**1,610,486**	**(28%)**	
Current liabilities				
Trade and other payables	52,768	47,518	11%	The increase in the balance is due mainly to an increase in provisions for short-term employee benefits and in the balance of current taxes.
Current maturities of lease liabilities	9,728	-	-	This item reflects the effect of the initial application of IFRS 16 (for further details, see note 2 U to the Company's consolidated financial statements as of December 31, 2019).
Deferred income from listing fees and levies	19,380	17,203	13%	See the explanation for the amount of the increase in the deferred income from listing fees and levies, within the framework of the deferred income item under non-current liabilities.
	81,876	**64,721**	**27%**	
Liabilities derived from clearing operations in respect of open derivative positions	351,742	895,401	(61%)	The amount expresses the value of the derivative liabilities that are cleared on the MAOF Clearing House and that are open on the reporting date (an identical amount appears in assets). The reduction in the balance of the liabilities is mainly due to a decrease in the open transactions in derivatives on the TA-Banks Index.

Item	As of 31.12.2019	As of 31.12.2018	% change	The Company's explanations
	NIS, in thousands			
Total current liabilities	**433,618**	**960,122**	**(55%)**	
Non-current liabilities				
Non-current liabilities for employee benefits and other liabilities	38,106	20,060	90%	The increase is due mainly to a retirement and termination liability, of which an amount of NIS 16.3 million results from an actuarial update – mainly a decrease of the discount rate (which is based on the corporate bond yield) and was charged directly against equity (NIS 12.6 million, net of tax).
Lease liabilities	12,553	-	-	This item reflects the effect of the initial application of IFRS 16 (for further details, see note 2 U to the Company's consolidated financial statements as of December 31, 2019).
Deferred income from listing fees and levies	73,918	70,411	5%	The change in the item "Deferred income from listing fees and levies" (non-current and current maturities) was affected by the deferral of recognizing income received in the year, that was offset by the recognition of deferred income from previous periods. Since there has been an inter-period increase in the prepaid income received from listing fees, the net balance of the deferred income has increased. For details regarding the recognition date for such income, see note 14 to the Company's consolidated financial statements as of December 31, 2019.
Total non-current liabilities	**124,577**	**90,471**	**38%**	
Equity	598,707	559,893	7%	The increase in the equity is due mainly to the profit in the period of NIS 17.6 million, to the Company's share in the secondary offering of its shares and their listing, as well as to the proceeds from the sale of shares within the framework of the TASE Restructuring in a total amount of NIS 30 million (for further details, see note 18 B to the Company's consolidated financial statements as of December 31, 2019), which is offset by a reduction in the remeasurement reserve of the liability in respect of defined benefit (the retirement and termination liability) in an amount of NIS 12.6 million as a result of the decrease in the discount rate as of December 31, 2019.
Total liabilities and equity	**1,156,902**	**1,610,486**	**(28%)**	

Operating results:

Condensed Company profit or loss data (reported amounts) for the years 2019 and 2018 (NIS, in thousands)

Item	2019	2018	% change	Explanations for material changes
	NIS, in thousands			
Revenue from services:				
Trading and clearing commissions	107,000	119,355	(10%)	See details in the table below.
Listing fees and levies	54,678	46,525	18%	The inter-period increase of NIS 7.9 million in the annual levies is due mainly to the charging of annual levies to ETFs starting from the end of 2018 (in an amount of NIS 3.9 million) and to an increase in the annual levy fees from companies (in an amount of NIS 3 million).
Clearing House services	52,331	49,605	5%	The change is due mainly to growth in ongoing Clearing House activity.
Distribution of data and connectivity services	42,419	34,954	21%	The increase in revenue from the distribution of data arises as a result of reclassifying revenue in respect of connectivity, which was previously presented net, to a gross presentation basis in an amount of NIS 6.2 million and also to new activities such as Colocation, quote generators and so forth (in an amount of NIS 0.8 million).
Other revenue	3,573	5,166	(31%)	The decrease in other revenue mainly results from a NIS 1.1 million reduction in revenue from the Analysis Project and from reclassifying, from the start of the reporting period, revenue in respect of connectivity to revenue from the distribution of data.
Total revenue from services	**260,001**	**255,605**	**2%**	
Cost of revenue:				
Expenses in respect of employee benefits	132,973	129,270	3%	The increase in payroll expenses is due mainly to pay rises in an amount of NIS 5.3 million and to a reduction in costs capitalized to property and equipment and intangible assets in an amount of NIS 3.1 million. These were partly offset by an inter-period reduction in overtime hours.
Share-based payment expenses	3,858	-	-	Expenses in respect of the grant of options to managers and the CEO (for further details see note 15 B and 15 C to the Company's condensed consolidated financial statements as of December 31, 2019), of which an amount of NIS 1.8 million is in respect of the period from the original grant date through December 31, 2018.
Computer and communication expenses	23,819	26,024	(8%)	The reduction is due mainly to the effect of the initial application of IFRS 16.
Property taxes and building maintenance expenses	12,602	12,994	(3%)	
General and administrative expenses	9,122	8,829	3%	
Marketing expenses	7,858	5,452	44%	In 2019, TASE invested in a television campaign aimed at households that cost NIS 3.5 million and, in the second half of the year, it entered into a three-year sponsorship agreement with the Israeli Professional Football Leagues Administration that cost NIS 1.6 million in 2019 (NIS 0.8 million per quarter). This compares to an amount of NIS 1.4 million invested in a campaign celebrating TASE's 65th anniversary that took place in 2018. In addition, there was an inter-period decrease of NIS 1.6 million in the Analysis Project's expenses due to the review period for most of the companies terminating at the end of 2018.

Item	2019	2018	% change	Explanations for material changes
	NIS, in thousands			
Fee to the Israel Securities Authority	10,680	10,506	2%	
Operating expenses for nominee company	-	448	(100%)	The decrease in 2019 is due to canceling the transfers to the nominee companies of the banks, which took effect on February 1, 2018.
Depreciation and amortization expenses	43,571	32,672	33%	The increase in depreciation expenses includes the effect of applying IFRS 16 (for further details, see note 2 U to the Company's consolidated financial statements as of December 31, 2019) in an amount of NIS 8.4 million. In addition, depreciation expenses are higher due to the activation of new assets and to an increase in the depreciation of the TASE building following the reversal of the impairment provision in 2018.
Reversal of the impairment provision	-	(85,108)	-	During 2018, the impairment provision on the TASE building was reversed. For further details, see note 11 A (1) to the Company's consolidated financial statements as of December 31, 2019.
Other expenses	1,358	896	52%	The other expenses in the present period mainly reflect capital losses on the retirement of property and equipment and intangible assets. The other expenses in the corresponding period included the Company's costs in promoting the process of listing its shares that were not actually issued in 2018.
Total cost of revenue	**245,841**	**141,983**	**73%**	
Profit before financing income, net	**14,160**	**113,622**	**(88%)**	The profit before financing income, net in the period, after excluding the effect of share-based payment transactions, amounted to NIS 10 million, compared to the profit of NIS 28.5 million in the corresponding period last year (after excluding the effect of the impairment reversal). The gap reflects the increase in expenses, after offsetting the rise in revenue as described above.
Total financing income (expenses), net	8,969	(1,060)		The transition to financing income is due to positive yields on the Company's investments in held-for-trading financial assets. A yield of 4.8% was recorded in the reported period, compared to a negative yield of 0.7% in the corresponding period.
Profit before taxes on income	**23,129**	**112,562**	**(79%)**	
Taxes on income	5,571	26,140	(79%)	The decrease of NIS 20.5 million is due mainly to the effect of the impairment reversal in the corresponding period last year. The increase in the effective tax rate in 2019 is due, inter alia, to expenses for share-based payment transactions, which were granted under the capital (102) track and which are not recognized for tax purposes.
Profit for the year	**17,558**	**86,422**	**(80%)**	The profit in the period, after excluding the effect of share-based payment transactions, amounts to NIS 21.4 million, compared to the profit of NIS 20.9 million, after excluding the effect of the impairment reversal net of tax in an amount of NIS 65.5 million, in the corresponding period last year. Most of the profit increase, compared to the corresponding period last year, was due to an increase in revenue from services and financing income, which was partly offset by an increase in depreciation expenses and employee benefits.

Condensed Company profit or loss data (reported amounts) for the years 2018 and 2017 (NIS, in thousands)

Item	2018	2017	% change	Explanations for material changes
	NIS, in thousands			
Revenue from services:				
Trading and clearing commissions	119,355	115,568	3%	See details in the table below.
Listing fees and levies	46,525	39,737	17%	The increase is due to annual levies paid to the TASE Nominee Company, which commenced its activity in 2018 (a total of NIS 1.6 million) and to one-time revenue resulting from the transition to the ETF regime (in an amount of NIS 5.2 million). The effects of the initial application of IFRS 15 on the 2018 revenue led to a decrease of NIS 2.6 million.
Clearing House services	49,605	44,542	11%	The increase mainly reflects the discontinuation of the nominee companies' participation in the revenue from Clearing House services (company events) following the establishment of the Nominee Company.
Distribution of data and connectivity services	34,954	36,640	(5%)	The reduction in revenue from the distribution of trading and other data between the years is due to a decrease in the number of users of the information systems.
Other revenue	5,166	5,937	(13%)	
Total revenue from services	**255,605**	**242,424**	**5%**	
Cost of revenue:				
Expenses in respect of employee benefits	129,270	128,698	-	In 2018, payroll expenses increased by NIS 8 million due to implementing the terms of the collective agreement and to increasing the labor force; this was offset by a NIS 7.3 million increase in payroll costs capitalized to intangible assets under development.
Share-based payment expenses	-	27,380	-	On September 7, 2017, the Tel Aviv District Court approved the demutualization arrangement of TASE. Within the framework of the arrangement, TASE allocated 6,000,000 shares to a trustee for TASE's employees and service providers.
Computer and communication expenses	26,024	25,598	2%	
Property taxes and building maintenance expenses	12,994	12,559	3%	
General and administrative expenses	8,829	7,817	13%	The increase is due to expenses of a non-recurring nature in respect of consultants' fees.
Marketing expenses	5,452	5,547	(2%)	
Fee to the Israel Securities Authority	10,506	10,476	-	
Operating expenses for nominee company	448	5,655	(92%)	The decrease in 2018 is due to canceling the transfers to the nominee companies of the banks, which took effect on February 1, 2018.
Reversal of the impairment provision	(85,108)	-	-	During 2018, the impairment provision on the TASE building was reversed. For further details, see note 11 A (1) to the Company's consolidated financial statements as of December 31, 2019.
Depreciation and amortization expenses	32,672	29,597	10%	The increase in these expenses is due to the reversal of the building's impairment during 2018 and to greater investments in software and licenses.
Other expenses	896	290	209%	The expenses in 2018 include the Company's costs in listing its shares that were not actually issued at that time.
Total cost of revenue	**141,983**	**253,617**	**(44%)**	

Item	2018	2017	% change	Explanations for material changes
	NIS, in thousands			
Profit (loss) before financing income, net	**113,622**	**(11,193)**	**1115%**	
Total financing income (expenses), net	**(1,060)**	**1,569**	**(168%)**	The change in the financing income in the relevant years is due mainly to changes in the yields on the investment portfolios held by the Group.
Profit (loss) before taxes on income	**112,562**	**(9,624)**	**1270%**	
Taxes on income	26,140	4,646	463%	The increase is due a reduction in deferred taxes in the amount of NIS 19.6 million as a result of the reversal of the impairment provision on the TASE building.
Profit (loss) for the year	**86,422**	**(14,270)**	**706%**	The profit for 2018, after neutralizing the effect of the reversal of the impairment provision in an amount of NIS 65.5 million, amounts to NIS 20.9 million, compared to the profit, after neutralizing the effect of the share allotment, of NIS 13.1 million in 2017.

Presented below are data relating to the trading and clearing revenue (NIS, in thousands):

	2019	2018	Difference as a %	Explanations for material changes
	NIS, in thousands			
Shares and convertibles	32,434	33,976	(5%)	The trading volumes in the first half of 2019 were lower than the volumes in the corresponding period in 2018. The decrease was due, inter alia, to the steep declines that took place in December 2018 on the world's exchanges, including on TASE, as well as to the delisting of three major companies (SodaStream, Mazor and Frutarom) that were part of the TA-35 Index and to the effect of the reform in the transition from ETNs to ETFs that took place at the end of 2018, which led to a decrease in trading and clearing revenue in ETFs relative to ETNs. It should be noted that most of the decrease occurred during the first half of the year, such that the average trading volumes in the first half totaled NIS 1.2 billion, compared to NIS 1.4 billion in the second half of the year.
Corporate bonds	15,116	17,998	(16%)	The trading volumes in corporate bonds in 2019 were affected, inter alia, by the steep declines that characterized December 2018, and by a reduction in trading volumes in ETFs, compared to the trade in ETNs in the corresponding period last year, following the ETFs reform that took place at the end of 2018.
Government bonds	14,419	14,536	(1%)	
Derivatives	18,547	25,042	(26%)	The TA-35 index derivatives market was affected by the exiting of MAOF players. The foreign currency derivatives market was affected by Amendment 28 of the Joint Investment Trust Law; the Amendment, which permits mutual funds to conduct activity in non-traded futures to hedge their exposures to foreign currency, with effect from January 2019.
Mutual funds clearing	23,716	23,900	(1%)	
T-bills (Makams) and other	2,768	3,903	(29%)	The decrease in revenue is due to non-recurring revenue of NIS 1.5 million in respect of prior years recognized in 2018, which was partly offset by an increase in trading volumes.
Total	**107,000**	**119,355**	**(10%)**	

For further information regarding trading volumes, market value, effective commission rates and other data, see Part One of this Periodic Report – Description of the Company's Business.

	2018	2017	Difference as a %	Explanations for material changes
	NIS, in thousands			
Shares and convertibles	33,976	34,584	(2%)	The decrease is due to a decline in trading turnovers. In February 2017, the indices reform was implemented, which led to a turnover of NIS 12 billion on the launch date.
Bonds	32,534	31,923	2%	
T-bills (Makams)	3,623	1,019	256%	In 2018, one-time revenue was recorded in respect of a retroactive charge in an amount of NIS 1.5 million for the period from July 2015 to December 2017 (inclusive).
Derivatives	25,042	24,429	3%	
Mutual funds clearing	23,900	23,325	2%	
MTS clearing	280	288	(3%)	
Total	**119,355**	**115,568**	**3%**	

1.4. Condensed quarterly statements of profit or loss for 2019 and for the fourth quarter of 2018 (NIS, in thousands)

Item	Jan-Mar 2019	Apr-Jun 2019	Jul-Sep 2019	Oct-Dec 2019	2019	Oct-Dec 2018
	(Unaudited)				(Audited)	(unaudited)
Revenue from services:						
Trading and clearing commissions	26,553	25,915	28,193	26,339	107,000	33,493
Listing fees and levies*	13,483	13,478	13,508	14,209	54,678	14,119
Clearing House services	12,351	12,878	12,918	14,184	52,331	12,998
Distribution of data and connectivity services	11,639	9,670	10,422	10,688	42,419	8,651
Other revenue	601	969	1,007	996	3,573	1,081
Total revenue from services	**64,627**	**62,910**	**66,048**	**66,416**	**260,001**	**70,342**
Cost of revenue						
Expenses in respect of employee benefits, net	33,536	32,051	33,088	34,298	132,973	34,303
Share-based payment expenses	-	3,008	432	418	3,858	-
Computer and communication expenses	5,736	5,615	6,320	6,148	23,819	7,787

Item	Jan-Mar 2019	Apr-Jun 2019	Jul-Sep 2019	Oct-Dec 2019	2019	Oct-Dec 2018
	(Unaudited)				(Audited)	(unaudited)
Property taxes and building maintenance expenses	3,023	3,076	3,075	3,428	12,602	3,596
General and administrative expenses	1,747	2,431	2,153	2,791	9,122	2,427
Marketing expenses	3,736	434	1,746	1,942	7,858	972
Fee to the Israel Securities Authority	2,658	2,658	2,658	2,706	10,680	2,624
Depreciation and amortization expenses	10,606	11,099	10,809	11,057	43,571	8,923
Other expenses	694	579	6	79	1,358	(77)
Total cost of revenue	**61,736**	**60,951**	**60,287**	**62,867**	**245,841**	**60,555**
Profit before financing income (expenses), net	**2,891**	**1,959**	**5,761**	**3,549**	**14,160**	**9,787**
Financing income	4,266	2,472	3,286	(49)	9,975	(720)
Financing expenses	246	186	221	353	1,006	38
Total financing income (expenses), net	**4,020**	**2,286**	**3,065**	**(402)**	**8,969**	**(758)**
Profit before taxes on income	**6,911**	**4,245**	**8,826**	**3,147**	**23,129**	**9,029**
Taxes on income (*)	1,494	1,739	2,021	317	5,571	2,023
Net profit	**5,417**	**2,506**	**6,805**	**2,830**	**17,558**	**7,006**
Other comprehensive income:						
Remeasurement of net liability in respect of defined benefit, net of tax	(2,080)	(2,387)	(6,991)	(1,116)	(12,574)	1,683
Comprehensive income for the period	**3,337**	**119**	**(186)**	**1,714**	**4,984**	**8,689**

1.5. Liquidity and Sources of Finance

1.5.1. Sources of finance

The Group's sources of finance are the Group's revenues from the various services that it provides. These revenues finance the ongoing activity of the Group, as well as the TASE Group's investment program.

The Group also has balances of cash and financial assets amounting to NIS 308.9 million (2018 – NIS 238.2 million).

Moreover, the Company has an unutilized credit facility from a bank of up to NIS 30 million. For further details, see section 1.6.2 and section 1.30.1 of Part One of this Periodic Report – Description of the Company's Business.

In addition, the TASE Clearing House has been granted a credit facility by a banking corporation in an amount of NIS 30 million. At the request of the TASE Clearing House, the banking corporation will grant it credit in an amount of up to NIS 30 million against the deposit, in a pledged dedicated account of the TASE Clearing House with the banking corporation, of government bonds with a value of NIS 30 million and a lien in favor of the banking corporation. The term of the aforementioned credit facility is through December 31, 2020.

1.5.2. **Cash flows (NIS, in millions)**

Item		Data for the three months ended December 31		Explanations of the Company
		2019	**2018**	
Net cash from operating activities	Adjusted EBITDA	15.1	18.7	From 2019, following the application of IFRS 16, expenses in respect of leases are included under depreciation expenses and had a NIS 2.1 million effect in the period. Lease payments are included under financing activities. The increase is due mainly to an increase in trade payables, offset by a reduction in revenue in the quarter.
	Changes in working capital	11.1	4.3	
	Financing and tax	(0.9)	(1.4)	
	Total	**25.3**	**21.6**	
Net cash from (for) investing activities	Investments in property and equipment and in intangible assets and capitalized payroll costs	**(9.5)**	**(8.8)**	
	Acquisition of financial assets, net	**12.2**	**(1.5)**	The increase is mainly due to the realization of securities in the fourth quarter of 2019, in accordance with the policy for the investment of the Company's monetary reserves.
	Total	**2.7**	**(10.3)**	
Net cash from financing activities	Proceeds from shareholders within the framework of listing the Company's shares and the Ownership Restructuring	**7.2**	**-**	Proceeds received in the fourth quarter of 2019 within the framework of the secondary offering and the initial listing of the shares within the framework of implementing the TASE Restructuring, in an amount of NIS 7.2 million – for further details, see note 18 B to the Company's consolidated financial statements as of December 31, 2019.
	Lease payments	**(2.5)**	**-**	Lease payments resulting from the initial application of IFRS 16 – for further details, see note 2 U to the Company's consolidated financial statements as of December 31, 2019.
	Total	**4.7**	**-**	
Total increase in cash and cash equivalents		**32.7**	**11.3**	

Item		Data for the year ended 31.12.2019	31.12.2018	31.12.2017	Explanations of the Company
Net cash from operating activities	Adjusted EBITDA	62.9	61.5	46.1	From 2019, following the application of IFRS 16, expenses in respect of leases led to a NIS 8.4 million increase in EBITDA, which was offset by an increase in employee benefit expenses and marketing expenses. The change in operating activities is due mainly to growth in working capital, mainly as a result of an increase in deferred income from listing fees and levies and in the timing of payments to suppliers and other creditors. The increase in 2018, compared to 2017, is due mainly to an increase in EBITDA, as a result of growth in income and growth in working capital primarily due to the timing of benefit payments to the Company's employees.
	Changes in working capital	12.4	6.1	(10.5)	
	Financing and tax	5.8	3.7	5.9	
	Total	**81.1**	**71.3**	**41.5**	
Net cash for investing activities	Investments in property and equipment and in intangible assets and capitalized payroll costs	**(33.9)**	**(52.4)**	**(20.2)**	In 2018, the Company made investments, beyond maintaining the status quo, in equipment and communications infrastructures due to an investment shortfall in 2016-2017; in addition, the Company began implementing, in 2018, the strategic plan that was adopted in 2017 and, during 2018, it began developing two material projects – colocation, which began to operate in June 2019, and a central securities lending pool, which is expected to be completed in 2020.
	Acquisition of financial assets, net	**(17.0)**	**(2.6)**	**(15.2)**	In 2019 and 2017, NIS 11.5 million, net was deposited in managed portfolios.
	Total	**(50.9)**	**(55.0)**	**(35.4)**	
Net Cash for financing activities	Proceeds from shareholders within the framework of listing the Company's shares and the Ownership Restructuring	**29.4**	**9.9**	**-**	Proceeds received in 2019 within the framework of the secondary offering and the initial listing of the shares, in an amount of NIS 15.5 million, and proceeds from the sale of shares within the framework of implementing the TASE Restructuring, in an amount of NIS 13.8 million (2018 – NIS 9.9 million as a result of implementing the TASE Restructuring) – for further details, see note 18 B to the Company's consolidated financial statements as of December 31, 2019.
	Lease payments	**(9.7)**	**-**	**-**	Lease payments resulting from the initial application of IFRS 16 – for further details, see note 2 U to the Company's consolidated financial statements as of December 31, 2019.
	Total	**19.7**	**9.9**	**-**	
Total increase in cash and cash equivalents		**49.9**	**26.2**	**6.1**	

1.5.3. Adjusted profit and adjusted EBITDA data for the reported periods

Presented below are adjusted data for the profit and EBITDA (operating profit before interest, tax, depreciation and amortization). These data are based on the data in the Company's financial statements for the reported periods, after eliminating the effects of certain events and factors, as explained below, that are not typical of the Company's operating activities.

It is hereby clarified that the data presented below are not presented in accordance with generally accepted accounting principles and do not reflect the Company's cash flows from operating activities or its operating profits and net profit and, accordingly do not constitute a substitute to the data in the Company's financial statements regarding the operating profit and/or the net profit. Nevertheless, in the Company's opinion, these data enable a better comparison to be made of the Company's performance in the reported periods.

Presented below are the adjusted profit and adjusted EBITDA for 2018 and 2019 (NIS, in thousands):

Item	2019	2018	% change
	NIS, in thousands		
Adjusted profit (loss) for the year:			
Profit (loss) for year	17,558	86,422	(80%)
Adjustments:			
Share-based payment expenses	3,858	-	100%
Reversal of impairment provision	-	(85,108)	(100%)
Tax effect of reversal of impairment provision	-	19,575	(100%)
Adjusted profit for the year	21,416	20,889	3%
Adjusted profit as percentage of total revenue for the year	8%	8%	1%
Adjusted EBITDA for the year:			
Profit (loss) before financing income, net	14,160	113,622	(88%)
Adjustments:			
Depreciation and amortization expenses	43,571	32,672	33%
Capital loss on disposal of property and equipment and intangible assets	1,358	280	385%
Reversal of impairment provision	-	(85,108)	(100%)
Share-based payment expenses	3,858	-	100%
Adjusted EBITDA for the year	62,947	61,466	2%
Adjusted EBITDA as percentage of total revenue for the year	24%	24%	

For details regarding the effect of the initial application of IFRS 16, “Leases”, see note 2 U to the Company’s consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.5.4. **<u>Customer credit</u>**

Most of the Company’s revenue is collected on the date of providing the service or adjacent thereto. Revenues from trading and clearing, Clearing House and custodian services are collected through the Bank of Israel’s settlement system (RTGS). Revenues from listing fees, examination fees, data distribution revenues, leasing, etc. are collected mainly by means of bank transfers, credit card payments or check payments.

The Company’s revenue from annual levies is collected at the beginning of the year on “current month +30 days” terms.

Revenue from the distribution of trading and other data is collected on “current month +30 days” terms or on “current month +60 days” terms and the revenue from the use of indices is collected at the beginning of each year in respect of the previous year.

The balance of trade receivables as of December 31, 2019 and December 31, 2018 amounted to NIS 13,776 thousand and NIS 15,325 thousand, respectively. The decrease is due mainly to revenue in respect of prior years that was recognized in December 2018.

1.5.5. **<u>Supplier credit</u>**

The credit granted to the Company by its suppliers is mainly “current month +30 days” or “current month +60 days” (including that received from suppliers of computer equipment).

The balance of trade payables as of December 31, 2019 and December 31, 2018 amounted to NIS 15,376 thousand and NIS 15,272 thousand, respectively.

1.6. **Material events that occurred in the reporting period and thereafter**

1.6.1. On August 1, 2019, upon closing the secondary offer process of the Company's shares and their listing on the Tel-Aviv Stock Exchange, the Company received its share of the net surplus consideration from the secondary offer process proceeds in an amount of NIS 15.5 million.

During the second half of 2019, the Company's shareholders disposed of 2.8 million shares that had been held by them prior to the TASE Restructuring Law taking effect and the Company received the surplus consideration, in accordance with Section 41(l)(2) of the Securities Law (Amendment No. 63), 2017, in an amount of NIS 13.8 million.

These amounts have been carried directly to the Company's equity and have increased its liquidity reserves and equity by NIS 29.3 million. For further details, see note 18 B of the Company's consolidated financial statements as of December 31, 2019.

1.6.2. On January 13, 2020, the Company signed an Amendment Letter for the reduction of the Company's credit facility, which had been granted to it by a banking corporation, with effect from December 31, 2019. As a result, the aforesaid credit facility was reduced from NIS 50 million, to a credit facility in the amount of NIS 30 million. To date, the Company has not utilized the credit facility (whose term runs through December 31, 2020). For further details, see note 24 B to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

1.6.3. On March 24, 2020, the Company's Board of Directors decided on the distribution of a dividend in the amount of NIS 8,770 thousand, representing NIS 0.0877 per ordinary share. The record date for entitlement to the dividend is April 1, 2020. The dividend will be paid on April 16, 2020.

1.6.4. Outbreak of the coronavirus and its effects on the markets and on the business of the Company

General

The year 2020 opened with price rises in the Tel Aviv Stock Exchange, in line with the trend in 2019, however these lasted for only a month. The outbreak of the new coronavirus in China in January 2020 and its spreading into a “global pandemic” resulted in uncertainty and strong fluctuations in the capital markets, which were exacerbated by its effects on global economic activities. Travel restrictions that were imposed by numerous countries, in an effort to stem the spread of the virus, first affected tourism, hotels and aviation sectors, and the energy, oil and gas companies that suffered from the drop in oil and gas prices. The subsequent broadening of internal restrictions in Israel and prohibition of gatherings adversely affected the leisure and entertainment sector, restaurants and venues, alongside a negative impact on banks, insurance companies, exporters and more.

The concern for a downturn as a result of the spreading of the virus and the measures taken by other countries had adversely affected their economies, leading the Federal Reserve to announce, on March 3, 2020, a 0.5% reduction in the interest rate – the highest reduction since the 2008 Crisis, to a level of 1.0%-1.25%. The 10-year yield on U.S. Treasury bonds reached a record-low of 0.5%. Additionally, the President of the United States declared a state of national emergency and federal aid of US$ 50 billion, including the implementation of tax cuts by the end of 2019. On March 15, 2020, the Federal Reserve announced further measures – reduction of the interest rate by 1% to 0%-0.25% and a pledge to purchase securities in an amount of US$ 700 billion in order to infuse funds into the market. Subsequently, the Federal Reserve opened reduced-rate credit lines for some 15 central banks worldwide.

The European Central Bank (ECB) announced its intention to reduce the interest rate from 0% to a negative 0.1% and implement supplementary measures. The European Commission authorized EU Member States to implement widespread budgetary incentives. The Bank of England cut the interest rate by 0.5% to 0.25%, the lowest historical level, and announced the offering of economic incentives (with a value of EUR 30 billion) by way of extension of loans to businesses and tax cuts alongside a five-year investment program (EUR 170 billion) to stimulate growth.

The growing uncertainty surrounding the implications of the spread of the virus on global economy resulted in a sharp drop of prices in stock exchanges worldwide, including Tel Aviv. The reductions that began in February persisted and even became more pronounced in March 2020, this on the backdrop of the spread of the virus in Israel and the Government's announcement of broader restrictions. The price reductions were accompanied by strong trading turnovers, whereas capital-raising that was on the rise in the share and bond markets during the first two months of the year, all but stopped in March 2020.

On March 15, 2020, the Bank of Israel announced that it will carry out open market operations and will purchase in the secondary market government bonds of various types and maturities in the necessary quantities needed to ensure the smooth functioning of the government bond market and will also offer repo transactions to financial institutions with government bonds as collateral. The aim of these measures is to moderate the abnormal volatility and to increase the liquidity in the financial markets where the various financial institutions, businesses and households are operating. The Bank of Israel further announced that it will offer repo transactions (NIS-Dollar) to financial institutions in an amount of US$ 15 billion.

The Share Market

The first quarter of 2020 was characterized by fluctuations in the share indices: the year opened with price rises in most of the leading indices in the share market. TA-35 rose by close to 0.5% in January 2020. In February 2020, the worldwide spread of the coronavirus and its declaration as a "global pandemic" by the World Health Organization, combined with its encroachment on global economy, caused price drops in capital markets around the world, including Tel Aviv. TA-35 dropped by close to 5.3%, compared with an average decline of 9% in leading stock exchanges around the world. In March 2020, prices plunged further, causing the TA-35 to drop by close to 23% in the first three weeks of March 2020 and steep price drops in all share indices, most notably the oil and gas shares that plummeted at an average rate of 43%.

In the first quarter of 2020, the trading turnovers grew, reaching a daily volume of NIS 2.1 billion in share trading – 64% higher than the average turnover in 2019. The increase was gradual – from a daily NIS 1.7 billion in January 2020 to a daily NIS 3.1 billion in the first three weeks of March 2020.

Capital-raising was strong in the first two months of 2020, with close to NIS 3.5 billion, but came to near complete stop in March 2020. Total capital raised in the first quarter of 2020 is estimated at almost triple the amount raised in the corresponding period in 2019. Since the beginning of the year, 3 new share companies were listed – two new issuers and a new dual-listed company.

The Bond Market

On the backdrop of the coronavirus outbreak and the growing uncertainty in the capital markets, the first two months of 2020 were characterized by an average rise of 2% in the prices of government bonds and stability in the corporate bonds, similarly to the 10-year U.S. Treasury bonds, whose yield to maturity dropped to 0.5% on March 9, 2020, compared with 1.9% at the end of 2019.

In March 2020, price plunges reached the bond market. The prices of government bonds decreased at an average rate of 6% in the first three weeks of March (corresponding to the 0.9% increase in the yield to maturity of the 10-year U.S. Treasury bonds at the end of the third week of March), while the prices of corporate bonds dropped by close to 12% in the first three weeks of March.

The daily trading turnover of government bonds amounted to NIS 2.5 billion in the first two months of 2020, then exploded in the first three weeks of March 2020, reaching colossal amounts of NIS 7.6 billion a day. The Company estimates that the trading turnover of government bonds for the full the first quarter of 2020 will be 56% higher than the average turnover in 2019.

The daily trading turnover of corporate bonds amounted to NIS 0.7 billion in the first two months of 2020, skyrocketing to a daily NIS 1.9 billion in the first three weeks of March 2020. The Company estimates that the trading turnover of corporate bonds for the full the first quarter of 2020 will be 53% higher than the average turnover in 2019.

In the first two months of 2020, close to NIS 13.7 billion was raised on the corporate bonds market, but in March 2020 the capital raising came to a halt, totaling close to NIS 0.5 billion. The Company expects that the capital raising in the full the first quarter of 2020 will be 7% lower than that in the corresponding period in 2019.

Mutual Funds and ETFs

Redemption of mutual funds by the public increased as the crisis deepened, and in the first three weeks of March 2020 monumental net redemptions of close to NIS 35 billion were recorded – mostly (approximately NIS 25 billion) funds that invest in Israeli bonds. ETFs recorded net redemptions of NIS 3.5 billion in the first three weeks of March 2020 – the vast majority of which (approximately NIS 3 billion) in funds that invest in share indices overseas.

The Derivatives Market

The price drops in the share market on the Tel Aviv Stock Exchange in February 2020 were accompanied by strong turnovers in the derivatives market that resulted from the rising uncertainty and the growing volatility in trading. The trading turnover of options on the TA-35 Index in the first quarter of 2020 exceeded the average turnover in 2019 by 23%. The volatility index, VTA-35, rose from 10 points to 25 points in the first two months of 2020, reaching a whopping 87 points in mid-March 2020, settling at 68 points at the end of the third week of March.

Possible Implications for the Business of the Company

To the date of the Report, the significant short-term negative effects of the pandemic on the operating results of the Company cannot be estimated, as, in principle, the Company is not directly affected by the prices of the securities, but rather by the trading and clearing turnovers of securities and derivatives (which, as described above, reached record highs in March 2020). To the date of the Report, the Company has an operational and technological solution in place that facilitates the operation of TASE and the Clearing House with a significantly lower number of employees that are required to be present at the sites of the Company for the operation of the core trading and clearing systems. It should be noted that the restrictions recently imposed by virtue of the Emergency Regulations do not categorically prohibit the opening of workplaces, but rather stipulate various limitations that are primarily designed to reduce the number of employees in the workplaces and to encourage remote work, in both the public and the private sectors. Nevertheless, to the date of the Report, the Regulations exempt a number of employers, including those operating in the capital market, such as the Company (alongside banks, Stock Exchange members, fund managers, rating firms and more).

The Company's Group has liquid balances of approximately NIS 309 million, of which, as of December 31, 2019, NIS 205 million is managed in portfolios of tradable securities, consisting of Israeli government bonds. As of the date of the Report, the effects of the coronavirus crisis on trading in the Tel Aviv Stock Exchange and the decline in prices of securities resulted in a decrease of NIS 6 million in the total market value of said portfolios. It should be noted that, barring a further change by March 31, 2020, this amount will be recorded as a financing expense in the Company's consolidated interim financial statements as of March 31, 2020.

Moreover, the perseverance and exacerbation of this unprecedented global crisis could also adversely affect business and economic operations in Israel and worldwide, including the volumes of the investment and trading in securities, in a manner and to an extent that, at this stage, cannot be estimated and quantified by the Company. Nevertheless, it is not unreasonable to assume that the current uncertainty will lead to reduced volumes of activity in the primary market (both equity and debt) that will in turn entail a decline in revenues from examination and listing fees in respect of new securities. Furthermore, it is likely that an ongoing erosion in the prices of listed securities could impact the revenues of the Group from custodial services, to some extent, as these are derived from the value of the securities held, and if price levels are not corrected by the end of the year, this could adversely impact the volume of fees from companies in 2021, which are derived from the value of the securities listed as of December 2020. Additionally, persisting uncertainty, in general, and in the capital market, in particular, could defer the Company's launching of new products or services until the smoke clears. Finally, it should be noted that in the aftermath of the crisis recovery will be gradual. At this stage, the volumes of trading and capital-raising in the recovery period cannot be estimated, as these depend, among others, on the volatility of the markets and the pace at which the public return to invest, directly or indirectly, in securities that are listed on TASE.

The assessments of the Company regarding the possible implications of the spreading of the coronavirus constitute forward-looking information, within its definition in the Securities Law, 1968. This information is based, among others, on assessments and estimates of the Company as of the date of the Report, which are based on publications on this topic in Israel and worldwide and on publications by the relevant authorities. Naturally, among others in view of the exceptional and unprecedented scope of this crisis, the realization of such assessments is uncertain and is not in the control of the Company.

2. Exposure to Risks and Their Management

Presented below are the financial risks, the operational risks and the other main risks to which the Group is exposed in the course of its operations:

2.1 General

The operations of the Group involve exposure to various financial risks, mainly – credit risk, liquidity risk and market risk. In addition, the operations of the Group also involve exposure to settlement risk, operational risk, business risk, and other risks, the materialization of which could lead to a loss and to a material reduction in the Group's equity. For the discussion on risk factors, see section 1.38 of Part One – Description of the Company's Business, which is included in this Periodic Report.

The Group's exposures arise mainly from the clearing operations performed by 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, the Clearing Houses ensure the execution of transactions that were executed on TASE, in securities, including transfers to custody (on TASE) and transactions in securities that were executed within the trading framework of the MTS – Multilateral Trading System (in the case of the TASE Clearing House), as well as transactions (other than derivatives) and transactions in derivatives (options and futures) (in the case of the MAOF Clearing House). Should a member of the TASE Clearing House or a member of the MAOF Clearing House (as the case may be) be unable to fulfill its obligations, the relevant Clearing House – as a CCP – will be obligated to fulfill the obligations of the Clearing House member toward the other Clearing House members, 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.

The officer responsible for managing the Company's market risks, as set forth in section 2.5.4 below, is the Chief Financial Officer, Mr. Yehuda van der Walde.

For details regarding the education and experience of Mr. Yehuda van der Walde, see Regulation 26 of Part Four – Additional Information on the Company, which is included in this Periodic Report.

2.2 **Regulatory Framework for Managing the Risks at the Clearing Houses**

In April 2012, the Committee on Payments and Market Infrastructures (CPMI), which operates under the Bank of International Settlements, and the International Organization of Securities Commissions (IOSCO) published the PFMI (Principles for Financial Market Infrastructures) – a document setting out principles for international standards governing the activities of financial market infrastructures, including central counterparties. The document comprises 24 principles governing wide-ranging aspects aimed at ensuring the proper functioning and financial stability of the financial market infrastructures.

In addition, in light of its responsibility for overseeing and controlling the activity of the Clearing Houses and for ensuring the stability and efficiency of the clearing system, as well as by virtue of the powers granted to it pursuant to Section 50C(b) of the Securities Law, the Israel Securities Authority has prescribed a directive for ensuring the proper functioning of the Clearing Houses, which adopts the principles determined in the PFMI document ("**the Clearing Houses' Stability Directive**").

The Securities Authority announced its adoption of the PFMI principles and recognition of the Clearing Houses as operating under the aforesaid international standards.

In June 2014, the Clearing Houses submitted an application to ESMA (the European Securities and Markets Authority) in order for them to be recognized as qualifying CCPs that comply with the rules of EMIR (the European Markets Infrastructure Regulation) and that are permitted to provide clearing services to European group members and trading platforms.

The ESMA recognition of the Clearing Houses as qualifying CCPs is subject to a double approval system – (a) approval that each Clearing House acts in accordance with the standards prescribed in the EMIR rules, including the adequacy of its corporate governance, risk management framework, etc.; and (b) approval that the regulation in Israel, with regard to the proper functioning of the Clearing Houses, is equivalent to the EMIR rules, including the effectiveness of existing oversight arrangements.

As of December 31, 2019, ESMA had given the Clearing Houses the temporary status of a qualifying clearing house, as is stated on ESMA's public websites. On October 1, 2019, ESMA gave notice that the recognition process had been extended until May 29, 2020.

2.3 **Risk Management**

The Company's Board of Directors has the final authority for risk management and it has established three lines of defense, the purpose of which is to assist it with managing the risks: the business lines – first line of defense, the risk management function – the second line of defense and the internal control function – the third line of defense.

The framework for the Group's risk management consists of establishing a policy and procedures and basing it on core principles that the Group sets out in its risk management policy, including: identifying and characterizing the risk profile, setting the risk appetite, establishing lines of defense for managing the risk and delineating spheres of responsibility, establishing reporting lines between the lines of defense and the various organs of the Group, and prescribing means for managing and mitigating the main risks.

The framework for the Group's risk management is aimed at establishing an effective risk management array so as to ensure the stability of the Group – while strengthening its ability to map, identify, monitor and manage its risks and thereby realize its strategic and business goals.

2.4 **Significant Measures Taken in the Reporting Period to Improve and Upgrade the Risk Management Array**

The Group acts to improve and upgrade the Group's risk management array in accordance with criteria customarily followed by financial market infrastructures in general and by clearing houses in particular, based on the guiding international standards prescribed by CPMI-IOSCO in the PFMI and based on the Clearing Houses' Stability Directive.

The main measures taken in the reporting period were as follows:

2.4.1 **<u>Validating the search ranges model of underlying assets at the MAOF Clearing House</u>**

On February 28, 2019, the Board of Directors of the MAOF Clearing House approved the recommendations of the report on the validation of the search ranges model of underlying assets at the MAOF Clearing House. The objectives of the validation process that was performed included, inter alia, testing the way in which the model presents its goals and objectives, mitigates model risks and enhances its reliability, as much as possible.

2.4.2 **<u>Development of Backtesting Infrastructure at the MAOF Clearing House</u>**

In 2019, the MAOF Clearing House started backtesting the margining model this alongside, the backtesting of the search ranges model of underlying assets (that commenced in the second half of 2018). The tests that were developed constitute part of TASE's multiannual plan for the development of infrastructure for the control and verification testing of the models that it uses, this in line with the guiding international standards prescribed by CPMI-IOSCO, as set out in section 2.2 above. As a rule, the main objective of the tests that were developed is to determine whether the actual coverage coincides with the requisite level of security.

2.4.3 **<u>Establishment of a policy for the management of concentration risk and wrong-way risk (WWR)</u>**

In 2019, the Company established policies for the management of concentration risk and WWR that derive from the current operations of the Group, this within the framework of the Group's overall risk management policy. The policies represent and formalize a cross-organization framework for the identification, monitoring, control and mitigation of the potential exposures that could arise from clusters of concentration risks and WWR in the TASE Group, all in accordance with the risk appetite defined by the Board of Directors.

2.4.4 **Performing an operational risks survey**

On February 28, 2019, the Board of Directors of the Company approved the findings of an operational risks survey, which is performed once every three years, in accordance with the TASE Group's operational risk management policy. Performing the survey is intended to improve the organization's existing risk management array and, with the aid of the survey, it is possible to identify and assess the risks inherent in the processes, operations and systems of the organization.

2.5 **Financial Risks**

Presented below is a summary of the principal financial risks to which the Group is exposed in the course of its activity, which is described above, as well as a summary of the measures that the TASE Group takes to manage and mitigate said risks:

2.5.1 **Credit risk**

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

Due 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 House 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 House member toward the other Clearing House members, as stated. The MAOF Clearing House will be required to also attend to the open positions of the defaulting Clearing House member in respect of the transactions performed on TASE.

The Group manages and mitigates its exposure to credit risk using measures to manage the risks that include, inter alia, setting qualification terms for membership of the Group, requiring collateral from the Clearing House members and allocating resources from its equity. For further details, see note 4 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

2.5.2 **Liquidity risk**

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 of one of the Clearing Houses' members, by virtue of each of them acting as a CCP, or for financing the ongoing activities.

The TASE Clearing House's material liquidity exposure at the time of a Clearing House member's default arises not just from the amount of the defaulting Clearing House 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 the TASE Clearing House will be required to fulfill in place of the Clearing House member, provided that the latter has chargeable balances, but also from the need to quickly realize the financial resources standing at the TASE Clearing House's disposal for dealing with a default event for the purpose of fulfilling the aforementioned monetary obligations.

The MAOF Clearing House'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 House 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 MAOF Clearing House's by-laws are fulfilled.

The Group manages and mitigates its exposure to liquidity risk, inter alia, by maintaining liquid assets deposited as collateral, holding its own liquid assets, and so forth. For further details, see note 4 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

2.5.3 **Settlement risk**

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 being received simultaneously from the counterparty to said transaction. The materialization of settlement risk could cause a material increase in the credit and liquidity exposures of the Clearing Houses as a CCP. For further details, see note 4 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

2.5.4 **Market risk**

Market risk is the risk of loss that will be caused to the Group from changes in market prices (such as exchange rates, the Consumer Price Index, interest rates etc.), to the extent that these changes will cause a decrease in net profit or a loss that will lead to a decrease in the Group's shareholders' equity.

In the ordinary course of business activities, the Group is exposed to market risk in respect of the holding of securities included in its investment portfolios that are held for trading, such that a downturn in market prices has a direct effect on the Group's profit and loss, or in respect of the holding of deposits at variable interest or in foreign currency. The Group manages and mitigates its exposure to market risk, inter alia, by means of a conservative investment policy that is approved every year by the Company's Board of Directors.

For further details, see note 4 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

2.5.5 **Concentration risk**

Concentration risk is the risk of there being a relatively high exposure to a specific risk factor (for example: the underlying asset price, the security price, an issuer, etc.) and/or to a Clearing House member and/or to a TASE member, which might lead to an increase in the overall exposure to other risks (such as credit risk, market risk and liquidity risk).

The Group manages and mitigates its exposure to concentration risk, inter alia, under its policy for the management of concentration risk in the Group and the Group's investment policy.

2.5.6 **Wrong-Way Risk (WWR)**

Wrong-way risk is the risk that the exposure to a counterparty will increase as the probability of that counterparty's insolvency rises in light of the link/ positive correlation between them. The Group manages and mitigates its exposure to WWR, inter alia, under the Group's WWR management policy, including non-acceptance of securities that were issued by Clearing House members as qualifying collateral at the Clearing Houses of TASE.

2.5.7 **Custodian risk**

The risk of loss or damage to the assets held in custody as a result of negligence, fraud, misuse of the assets, improper management, defective documentation or insolvency of the custodian or of its agent. Custodian risks arise in light of the fact that the Group holds its assets and the assets of the members of the Clearing Houses, which are deposited as collateral, with commercial banking corporations (cash and securities included in the investments portfolio), with central securities depositories (CSDs) and other entities. Therefore, the Group is exposed to risks that are imposed upon it by these entities.

The Group manages and mitigates the custodian risk by means of holding assets with the Bank of Israel and with supervised entities and by means of diversifying the exposure by using a number of banking corporations.

2.5.8 For details regarding the operational risks of the Group, see section 1.38 of Part One - Description of the Company's Business in this Periodic Report.

2.5.9 For details regarding other risks of the Group, see section 1.38 of Part One - Description of the Company's Business in this Periodic Report.

2.6 **Presented Below is a Note Relating to the linkage bases as of December 31, 2019 and December 31, 2018 (NIS, in thousands):**

	31.12.2019					
	Foreign currency or linked thereto	**CPI-linked**	**Unlinked**	**Assets and liabilities derived from clearing operations in respect of open derivative positions**	**Other items**	**Total as of 31.12.2019**
	NIS, in thousands					
Assets:						
Current assets:						
Cash and cash equivalents and short-term investments	1,033	95,886	211,973	-	-	308,892
Trade receivables	975	-	12,801	-	-	13,776
Other receivables	-	3,095	210	-	3,281	6,586
Assets derived from clearing operations in respect of open derivative positions	-	-	-	351,742	-	351,742
Non-current assets:						
Property and equipment and intangible assets, net	-	-	-	-	457,543	457,543
Deferred taxes and other assets	-	-	541	-	14,061	16,602
Other long-term receivables	-	1,370	-	-	2,391	3,761
Total assets	**2,008**	**100,351**	**225,525**	**351,742**	**477,276**	**1,156,902**
Liabilities:						
Current liabilities:						
Trade payables	51	-	15,325	-	-	15,376
Current liabilities for employee benefits	-	-	33,121	-	-	33,121
Other payables	-	-	3,301	-	-	3,301
Current maturities of lease liabilities	-	9,728	-	-	-	9,728
Liabilities for current taxes	-	970	-	-	-	970
Deferred income from listing fees and levies	-	-	-	-	19,380	19,380
Liabilities derived from clearing operations in respect of open derivative positions	-	-	-	351,742	-	351,742
Non-current liabilities (including current maturities):						
Non-current liabilities for employee benefits	-	-	-	-	37,565	37,565
Lease liabilities	-	12,553	-	-	-	12,553
Deferred income from listing fees and levies	-	-	-	-	73,918	73,918
Other liabilities	-	-	541	-	-	541
Total liabilities	**51**	**23,251**	**52,288**	**351,742**	**130,863**	**558,195**
Excess assets over liabilities	**1,957**	**77,100**	**173,237**	**-**	**346,413**	**598,707**

	31.12.2018					
	Foreign currency or linked thereto	**CPI-linked**	**Unlinked**	**Assets and liabilities derived from clearing operations in respect of open derivative positions**	**Other items**	**Total as of 31.12.2018**
	NIS, in thousands					
Assets:						
Current assets:						
Cash and cash equivalents and short-term investments	5,022	77,347	155,811	-	-	238,180
Trade receivables	526	-	14,799	-	-	15,325
Other receivables	45	5,067	67	-	1,409	6,588
Assets derived from clearing operations in respect of open derivative positions	-	-	-	895,401	-	895,401
Non-current assets:						
Property and equipment and intangible assets, net	-	-	-	-	442,031	442,031
Deferred taxes and other assets	-	-	538	-	12,423	12,961
Total assets	**5,593**	**82,414**	**171,215**	**895,401**	**455,863**	**1,610,486**
Liabilities:						
Current liabilities:						
Trade payables	11	-	15,261	-	-	15,272
Current liabilities for employee benefits	-	-	28,751	-	-	28,751
Other payables	-	-	3,495	-	-	3,495
Deferred income from listing fees and levies	-	-	-	-	17,203	17,203
Liabilities derived from clearing operations in respect of open derivative positions	-	-	-	895,401	-	895,401
Non-current liabilities (including current maturities):						
Non-current liabilities for employee benefits	-	-	-	-	19,522	19,522
Deferred income from listing fees and levies	-	-	-	-	70,411	70,411
Other liabilities	-	-	538	-	-	538
Total liabilities	**11**	**-**	**48,045**	**895,401**	**107,136**	**1,050,593**
Excess assets over liabilities	**5,582**	**82,414**	**123,170**	**-**	**348,727**	**559,893**

2.7 Sensitivity Analyses

The TASE Group has cash reserves that are the deposited with banks and invested in financial instruments. With regard to sensitivity analyses to changes in interest, see note 8 E to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

2.8 Fair Value at Risk

Presented below are details regarding the adoption of the VaR model by the Company in accordance with the provisions of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

2.8.1 Details regarding the model

A VaR model is a statistical model that is customarily used for risk measurement and assessment. The purpose of the model is to estimate the maximum potential loss on a particular investment and/or on an investment portfolio during a defined time window ("the Holding Period"), at a given level of confidence. Like any statistical tool, VaR provides an estimate of risk within a framework of reasonable limits to this question. The Group calculates the VaR only on the securities in the investment portfolio and on the cash balances held in foreign currency, should there be any, viz. it does not calculate this value for assets and liabilities derived from clearing operations in respect of open derivative positions, since the Group does not recognize gains or losses from fair value adjustments on the positions. For further details, see note 7 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

For further details regarding the management of the rest of the Company's exposures to financial risks, see note 4 to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

2.8.2 Description of the model

The methodology used by the Company for estimating the market risks has been approved by the Board of Directors in accordance with the directive of the Israel Securities Authority regarding rules for ensuring the functioning of TASE's Clearing Houses.

The methodology for estimating the market risks is calculated at the level of the individual asset included in the Company's investment portfolio and by applying "Monte Carlo Simulation" and "Historical Simulation" to the VaR model, with the risk estimate for each asset being higher than the absolute value of the result of each VaR model, due to the addition of a 30% "add-on" component (i.e., the aforesaid maximum value is multiplied by 1.3).

The calculation of the models is done at a confidence level of at least 99.9% and on the basis of a Holding Period of three days for securities and one day for cash balances held in foreign currency.

The models are recalculated every quarter as the profile of the market risk and its impact on the financial stability of the Company are not material to the extent of having to make the calculation more frequently, taking into consideration the mix of the securities included in the investment portfolio (government bonds and T-bills (Makams) and also the other risk management measures available to the Company as set forth in note 4 D to the Company's consolidated financial statements as of December 31, 2019, which are included in this Periodic Report.

2.8.3 **<u>Limitations of the model</u>**

a. As a rule, the Monte Carlo Simulation assumes that the risk factors are split in a normal manner. This assumption does not always hold true in real life.

b. The Historical Simulation assumes that the historical behavior of the risk factors will repeat itself in the future, which might not be the case.

c. A sudden change in a risk factor cannot be forecast in either of the simulation methods.

d. Generally, the VaR model ignores the structure of potential losses which is greater than the defined confidence level (tail risk).

e. Use of a Holding Period of three trading days for securities and a Holding Period of one day for foreign currency assumes that it is, and that it also will be, possible to realize and/or liquidate the assets within three days or one day, respectively.

2.8.4 Presented below are details of the VaR results for the periods ended on December 31, 2019 and December 31, 2018:

	As of 31.12.2019	**Maximum value for 2019**	**Average for 2019**
	NIS, in millions		
The VaR for the investment portfolio and the cash balance held in foreign currency	9.5	10.3	9.8
	As of 31.12.2018		**Average for 2018**
	NIS, in millions		
The VaR for the investment portfolio and the cash balance held in foreign currency	9.3	9.5	8.4

It should be noted that in the reporting period ended December 31, 2019, there were no instances where the actual loss exceeded that measured by the model.

3. Aspects of Corporate Governance

3.1 Donations

In the context of community assistance, the Company customarily donates to various causes. However, as of the date of the Prospectus, the Company has not formulated a policy on the topic of donations.

In 2019, no monetary donations were made in the name of the Company.

As part of a community support project, the Company employs youngsters who have dropped out of the education system for various reasons, with them being employed until the age of 19 or until their induction into the IDF (where relevant), whichever is the earlier. For community support considerations, these youngsters are employed even if they do not possess all the necessary qualifications for the relevant positions or tasks.

3.2 Details Regarding Directors Possessing Accounting and Financial Expertise

Pursuant to the provisions of the Companies Law and the regulations promulgated thereunder, the Company's Board of Directors has determined that the minimum number of directors possessing accounting and financial expertise that the Company requires is three such directors.

This determination was arrived at taking into consideration, inter alia, the Company's size, its type of activity, the number of members on its Board of Directors, and its complexity.

In the Company's opinion, taking into account all the relevant circumstances, as set forth below, the minimum number as determined above will enable the Board of Directors to fulfill the duties imposed upon it under the law and under its deeds of incorporation, and especially in relation to its responsibility for examining the Company's financial position and for preparing the Company's financial statements, even when a director possessing the aforesaid expertise is absent or ill.

In addition, the minimum number was determined taking into consideration the close accounting accompaniment provided by the Company's independent auditors, including their participation in meetings of the Board of Directors at which accounting issues are discussed and their availability to answer questions raised by the Board of Directors.

Below are listed the names of the directors who possess accounting and financial expertise, noting in condensed form the facts in relation to each of them by virtue of which he/she is viewed as a director possessing accounting and financial expertise:

- Mr. Amnon Neubach – Chairman of the Board of Directors.
- Mr. Itzhak Halamish – external director, independent director, recommended by the Nominations Committee.
- Ms. Merav Ben Canaan Heller – external director, independent director, recommended by the Nominations Committee.
- Mr. Salah Saabneh – director
- Mr. Yoav Chelouche – external director, independent director, recommended by the Nominations Committee.

3.3 All the directors listed above are familiar with the duties of the independent auditors, with the financial statement preparation processes and with the internal control systems of organizations (for details regarding the education and employment of these directors, see Regulation 26 of Part Four – Additional Information on the Company, which is included in this Periodic Report).

3.4 **<u>Independent Directors</u>**

In accordance with Sections 50B3(a) and (b) of the Securities Law, a majority of the Company's Board of Directors are to be independent directors, and at least three of these are to be directors recommended by an external Nominations Committee established specifically for this purpose by virtue of Amendment 63 to the Securities Law ("Recommended by the Committee").

As of the date of this report, three independent directors (all Recommended by the Committee) are serving with the Company, and all three were also appointed as external directors, within the meaning of the term in the Companies Law, after the Company became a public company.

3.5 **Internal Audit**

3.5.1 **Details of the internal auditor**

Ms. Sharon Witkowski-Tabib (“**the Internal Auditor**”) has been serving in the aforesaid position with the Company since April 15, 2011 and with the Clearing Houses since May 5, 2011.

The Internal Auditor is a certified public accountant and a member of the Institute of Certified Public Accountants in Israel; she is also a member of the international Institute of Internal Auditors (IIA). The Internal Auditor has an MA in public administration and internal auditing and a BA in business administration, specializing in accounting and finance; she also holds the IIA’s Certified Internal Auditor (CIA) certification and the Certification in Risk Management Assurance (CRMA).

The Internal Auditor fulfills the conditions prescribed in Section 146(b) of the Companies Law and the conditions prescribed in Sections 3(a) and 8 of the Internal Audit Law, 5752-1992.

The Internal Auditor provides external services to the Company through BDO Ziv Haft Consulting and Management Ltd. (“the Consulting Firm”). The Internal Auditor is a partner in the Consulting Firm and heads the Internal Audit and Risk Management Cluster at the Consulting Firm.

Neither the Internal Auditor nor the Consulting Firm have any material business connections or other material connections with the Company or with the Clearing Houses or with the Nominee Company or with any entity related to these.

The Internal Auditor has been appointed to the position of internal auditor at various other corporations.

3.5.2 **Method of appointment**

The appointment of the Internal Auditor was approved by the Company’s Board of Directors (after the Audit Committee gave its approval thereto), and has been extended from time to time through April 15, 2021 (after the Audit Committee and the Company’s Board of Directors gave their approval thereto).

The Internal Auditor's experience, qualifications, knowledge of the Company, and education, as well as the Group's satisfaction with the internal audit work that has been done until now (taking into account TASE's size, the scope of its operations and their complexity), are some of the reasons that the Board of Directors has approved the appointment.

3.5.3 **Identity of the officer to whom the Internal Auditor reports**

As resolved by the Company's Board of Directors, the officer to whom the Internal Auditor reports is the Chairman of the Company's Board of Directors.

3.5.4 **Internal audit work plan**

The Internal Auditor prepared an annual work plan for 2020, both for the Company and also for the Clearing Houses, with this being based on the multiyear work plan for the five years 2020-2024. The work plan for 2020 was discussed at the Company's Audit Committee and was approved by the Company's Board of Directors on January 12, 2020.

The work plan for 2020 was drawn up based on the Internal Auditor's knowledge of the Company, as well as on the operations mapping conducted by the Internal Auditor at TASE over the years:

- preliminary survey – June through September 2011;
- mapping the TASE Clearing House processes – November 2011 through January 2012;
- survey for mapping aspects of IT management at the Company – November 2014;
- mapping of activities and formulation of the multiyear internal audit program for the years 2015-2019;
- survey for the formulation of the multiyear internal audit program for the years 2020-2024;
- participation in meetings of the Board of Directors and the Audit Committee throughout the year;
- reviewing documents and various other supporting documentation throughout the year, including minutes from the different forums, risks studies, various reports, etc.;

- meetings and conversations with office holders the purpose of updating the annual program, including with the Chairman of the Board of Directors, the CEO and the Corporate Secretary.

The parties involved in drawing up the work plan are the Company's Management and also the Audit Committee and the Company's Board of Directors.

Following discussions held by the Internal Auditor with the Company's CEO and with the Chairman of the Company's Board of Directors, the Internal Auditor presented the work plan to the Audit Committee and, following its approval by said Committee, it was brought before the Company's Board of Directors. The Audit Committee and the Company's Board of Directors approve any change to the work plan.

3.5.5 **Audit of investee corporations**

As stated above, the internal audit work plan for the Company and for the Clearing Houses is consolidated and multiyear – for 2020-2024. Every year, the Board of Directors approves the Group's work plan for the specific year.

3.5.6 **Scope of the work**

The scope of the internal audit hours performed at TASE and at the subsidiaries in 2019 was 1,040 hours.

3.5.7 **Conduct of the audit in accordance with professional standards**

The aforesaid internal audit is performed in conformity with the Internal Audit Law and professional standards generally accepted for internal audit, including the standards of the international Institute of Internal Auditors (IIA). The Company's Board of Directors has expressed its opinion that the Internal Auditor has complied with the requirements prescribed in the aforesaid professional standards, taking into consideration the professionalism of the Internal Auditor, her qualifications and her experience.

3.5.8 **Access to information**

The Internal Auditor was furnished with any document and any information in the possession of TASE and the subsidiaries, which was asked for by the Internal Auditor and was needed for the purpose of performing her duties. The Internal Auditor and her team are given free and constant access to the information.

3.5.9 **Internal audit reports**

The internal audit reports are drawn up and presented in writing. The audit reports are presented to the Chairman of the Company's Board of Directors, to the members of the Company's Audit Committee and to the Company's CEO.

Presented below are details of the dates when the internal audit reports were presented and the dates when the Company's Audit Committee discussed such findings in 2019:

Topic covered in the report	Date of report's final presentation	Date of Audit Committee discussion
Management and maintenance of share indices	20.6.2019	8.7.2019
Employees' salaries as per the collective agreement	10.12.19	12.1.2020
Access privileges in TASE's systems	4.11.2019	12.1.2020
Operational audit of the Logistics Unit	10.12.2019	12.1.2020
Overall procurement process in TASE	10.12.2019	12.1.2020
Sample testing of credit cards	9.1.2020	12.1.2020
Survey of activities to determine a multiyear program for the years 2020-2024	4.12.2019	19.12.2019

3.5.10 **Opinion of the Board of Directors concerning the Internal Auditor's activities**

In the opinion of the Company's Board of Directors, the scope, nature and continuity of the Internal Auditor's activities and her work program are reasonable in light of prevailing circumstances and are sufficient to attain the internal audit objectives of the Company.

3.5.11 **Remuneration**

The Internal Auditor's remuneration is based on a fixed hourly tariff and is paid by the Company to the Consulting Firm.

In the opinion of the Company's Board of Directors, the payment of such remuneration does not influence the professional judgment exercised by the Internal Auditor in performing the audit.

3.6 **Professional Fees of the Independent Auditors**

Presented below are the professional fees of the independent auditors in respect of audit services, services related to auditing and tax services, provided to the Company and to its subsidiaries in 2019:

Name of auditors	Service	Professional fees (NIS, in thousands)	Work hours
Brightman Almagor Zohar & Co., CPAs	Audit	450	3,232
	Prospectus arrangements	625	1,405
	Tax and consulting services	61	239

Presented below are the professional fees of the independent auditors in respect of audit services, services related to auditing, including preparations for a prospectus, and tax services, provided to the Company and to its subsidiaries in 2018:

Name of auditors	Service	Professional fees (NIS, in thousands)	Work hours
Brightman Almagor Zohar & Co., CPAs	Audit (*)	310	2,237
	Prospectus arrangements (**)	345	939
	Tax and consulting services	65	330

(*) Audit and reviews from the third quarter of 2018.

(**) Includes reviews for the periods ended on June 30, 2018, June 30, 2017, March 31, 2018 and March 31, 2017.

4. Effectiveness of the Internal Control Over the Financial Reporting and Disclosure (iSOX)

Taking into account the date of the initial listing of the Company's shares, on August 1, 2019, the Company was not subject – as of the date of the Report – to the obligation to attach a report regarding the assessment of the Board of Directors and management concerning the effectiveness of the internal control over the financial reporting and over the disclosure, management declarations by the CEO and the most senior officer in the financial sphere regarding the effectiveness of the internal control over the financial reporting and over the disclosure and a report of the independent auditors regarding the effectiveness of the internal control. The aforesaid obligation, apart from the report of the independent auditors regarding the effectiveness of the internal control, will apply to the Company on the date of publishing the Periodic Report that includes the financial statements drawn up to December 31, 2020. With regard to the aforementioned report of the independent auditors, the obligation for it to be attached will apply from August 1, 2024.

5. The Company's Employees

The Board of Directors expresses its appreciation to the Company's Management and to the Group's employees for their dedicated work and their contribution to the Company's progress.

Date: March 24, 2020

THE TEL-AVIV STOCK EXCHANGE LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019

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.

THE TEL-AVIV STOCK EXCHANGE LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019

Contents

	Page
Auditors' Report	2
Financial Statements:	
Consolidated Statements of Financial Position	3-4
Consolidated Statements of Profit or Loss	5
Consolidated Statements of Other Comprehensive Income or Loss	6
Consolidated Statements of Changes in Equity	7
Consolidated Statements of Cash Flows	8-9
Notes to the Consolidated Financial Statements	10-88

Deloitte.

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. (hereafter - "the Company") as of December 31, 2019 and 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2019 and 2018, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended in December 31, 2019, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements) - 2010.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv, Israel, March 24, 2020

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

Jerusalem
3 Kiryat Ha'Mada
Har Hotzvim Tower
Jerusalem, 914510
D. BOX 45396
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
Ha'Energia St. 77, Building 1
Gav-Yam Negev, Advanced Technologies Park
Beer Sheva, 8470912
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

Nazareth
9 Marj Ibn Amer St.
Nazareth, 16100
Tel: +972 (73) 399 4455
Fax: +972 (73) 399 4455
info-nazareth@deloitte.co.il

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

	Note	December 31, 2019	December 31, 2018
		NIS, in thousands	
Assets:			
Current assets			
Cash and cash equivalents	6 A	103,928	54,363
Financial assets at fair value through profit or loss	8	204,964	183,817
Trade receivables		13,776	15,325
Other receivables	11 B, 23 B	6,373	3,797
Current tax assets	16	213	2,791
		329,254	260,093
Assets derived from clearing operations with respect to open derivative positions	7	351,742	895,401
Total current assets		680,996	1,155,494
Non-current assets			
Cash restricted as to use	6 B	541	538
Other long-term receivables	11 B, 23 B	3,761	-
Property and equipment, net	10, 11	345,176	336,079
Intangible assets, net	12	112,367	105,952
Deferred tax assets	16	14,061	12,423
Total non-current assets		475,906	454,992
Total assets		1,156,902	1,610,486

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, 2019	December 31, 2018
		NIS, in thousands	
Liabilities and Equity:			
Current liabilities			
Trade payables		15,376	15,272
Short-term liabilities for employee benefits	13	33,121	28,751
Other payables		3,301	3,495
Current maturities of lease liabilities	11 B	9,728	-
Current tax liabilities	16	970	-
Deferred income from listing fees and levies	14	19,380	17,203
		81,876	64,721
Liabilities derived from clearing operations with respect to open derivative positions	7	351,742	895,401
Total current liabilities		433,618	960,122
Non-current liabilities:			
Non-current liabilities for employee benefits	13	37,565	19,522
Lease liabilities	11 B	12,553	-
Deferred income from listing fees and levies	14	73,918	70,411
Other liabilities	6 B	541	538
Total non-current liabilities		124,577	90,471
Equity			
Remeasurement of net defined benefit liability		(16,905)	(4,331)
Share-based payments reserve	15	31,238	27,380
Other capital reserves	18 B	43,079	13,107
Retained earnings		541,295	523,737
Total equity		598,707	559,893
Total liabilities and equity		1,156,902	1,610,486

March 24, 2020

Date of Financial Statements Approval

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

THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	2019	2018	2017
		Year Ended December 31,		
		NIS, in thousands		
Revenue from services:	19			
Trading and clearing commissions		107,000	119,355	115,568
Listing fees and levies		54,678	46,525	39,737
Clearing House services		52,331	49,605	44,542
Distribution of data and connectivity services		42,419	34,954	36,640
Other revenue		3,573	5,166	5,937
Total revenue from services		260,001	255,605	242,424
Costs:				
Employee benefits expenses	20 A	132,973	129,270	128,698
Share-based payments expenses	15	3,858	-	27,380
Computer and communications expenses		23,819	26,024	25,598
Property taxes and building maintenance expenses		12,602	12,994	12,559
General and administrative expenses		9,122	8,829	7,817
Marketing expenses		7,858	5,452	5,547
Fee to the Israel Securities Authority		10,680	10,506	10,476
Operating expenses for nominee company		-	448	5,655
Depreciation and amortization expenses	20 B	43,571	32,672	29,597
Reversal of impairment provision		-	(85,108)	-
Other expenses		1,358	896	290
Total costs		245,841	141,983	253,617
Profit (loss) before financing income, net		14,160	113,622	(11,193)
Financing income		9,975	(899)	1,900
Financing expenses		1,006	161	331
Total financing income (expense), net	21	8,969	(1,060)	1,569
Profit (loss) before tax on income		23,129	112,562	(9,624)
Taxes on income	16	5,571	26,140	4,646
Profit (loss) for the year		17,558	86,422	(14,270)
Basic earnings (loss) per share in NIS	22	0.176	0.864	(0.149)
Diluted earnings (loss) per share in NIS	22	0.174	0.864	(0.149)

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

THE TEL-AVIV STOCK EXCHANGE LTD.
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME OR LOSS

	Note	Year Ended December 31,		
		2019	2018	2017
		NIS, in thousands		
Profit (loss) for the year		17,558	86,422	(14,270)
Other comprehensive income (loss):				
Items that will not be subsequently reclassified to profit or loss, net of tax:				
Remeasurement of net liability with respect to defined benefit, net of tax		(12,574)	4,763	(1,452)
Items that may be subsequently reclassified to profit or loss, net of tax:				
Net fair value gain on available-for-sale financial assets, net of tax		-	-	2,113
Comprehensive income (loss) for the year		4,984	91,185	(13,609)

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

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

	Share-based payments reserve	Remeasurement of net defined benefit liability	Revaluation Reserve for-Available-for-Sale Financial Assets	Other Capital Reserves	Retained Earnings	Total
	NIS, in thousands					
Balance at January 1, 2017	-	(7,642)	(14)	3,200	514,900	510,444
Loss for the year	-	-	-	-	(14,270)	(14,270)
Other comprehensive income (loss) 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
Issuance of shares (see note 18)	-	-	-	-	-	-
Balance as of December 31, 2017	27,380	(9,094)	2,099	3,200	500,630	524,215
Balance as of January 1, 2018	27,380	(9,094)	2,099	3,200	500,630	524,215
Effect of changes in accounting policies resulting from the application of new standards:						
IFRS 9 “Financial Instruments”	-	-	(2,099)	-	2,099	-
IFRS 15 “Revenue from Contracts with Customers” (see note 14)	-	-	-	-	(65,414)	(65,414)
Balance at January 1, 2018 after retroactive adjustments	27,380	(9,094)	-	3,200	437,315	458,801
Profit for the year					86,422	86,422
Other comprehensive income for the year	-	4,763	-	-	-	4,763
Total comprehensive income for the year	-	4,763	-	-	86,422	91,185
Receipts from shareholders within the framework of implementing the ownership restructuring, net (see note 1B)	-	-	-	9,907	-	9,907
Balance at December 31, 2018	27,380	(4,331)	-	13,107	523,737	559,893
Balance at January 1, 2019	27,380	(4,331)	-	13,107	523,737	559,893
Profit for the year	-	-	-	-	17,558	17,558
Other comprehensive loss for the year	-	(12,574)	-	-	-	(12,574)
Total comprehensive income (loss) for the year	-	(12,574)	-	-	17,558	4,984
Share-based payment	3,858	-	-	-	-	3,858
Company’s share in the first-time listing of the shares (see note 1 C).	-	-	-	16,190	-	16,190
Receipts from shareholders within the framework of implementing the ownership restructuring, net (see note 18 B)	-	-	-	13,782	-	13,782
Balance at December 31, 2019	31,238	(16,905)	-	43,079	541,295	598,707

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,		
	2019	2018	2017
	NIS, in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit (loss) for the year	17,558	86,422	(14,270)
Share-based payments expenses	3,858	-	27,380
Tax expenses recognized in profit or loss	5,571	26,140	4,646
Net financing expense (income) recognized in profit or loss	(8,969)	1,060	(1,569)
Depreciation and amortization	43,571	32,672	29,597
Reversal of impairment provision	-	(85,108)	-
Loss from disposal of property and equipment and intangible assets	1,358	280	270
	62,947	61,466	46,054
Changes in asset and liability items:			
Increase in trade receivables and other receivables	(607)	(1,408)	(859)
Decrease (increase) in receivables with respect to open derivative positions	543,659	844,169	(508,663)
Increase (decrease) in trade payables and other payables	1,176	(3,282)	2,397
Increase in deferred income from listing fees and levies	5,726	2,660	-
Increase (decrease) in payables with respect to open derivative positions	(543,659)	(844,169)	508,663
Increase (decrease) in employee benefits related liabilities	6,083	8,084	(11,999)
	75,325	67,520	35,593
Interest received	6,110	5,058	6,206
Interest paid	(637)	(154)	(345)
Tax receipts (payments) – operating activities	332	(1,171)	20
	5,805	3,733	5,881
Net cash provided by operating activities	81,130	71,253	41,474
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of available-for-sale financial assets	-	-	(33,140)
Proceeds from the disposal of available-for-sale financial assets	-	-	32,494
Acquisition of property and equipment	(6,416)	(20,388)	(4,288)
Proceeds from the disposal of property and equipment	192	41	2
Acquisitions of intangible assets	(11,850)	(14,962)	(4,336)
Refund for overpaid development levies	-	1,788	-
Payments with respect to costs capitalized to property and equipment and to intangible assets	(15,838)	(18,892)	(11,544)
Acquisition of financial assets at fair value through profit or loss, net	(17,032)	(2,633)	(14,561)
Net cash used in investing activities	(50,944)	(55,046)	(35,373)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Lease payments	(9,739)	-	-
Company's share in the first-time listing of the shares	15,600	-	-
Receipts from shareholders within the framework of implementing the ownership restructuring, net	13,782	9,907	-
Net cash provided by financing activities	19,643	9,907	-
Net increase in cash and cash equivalents	49,829	26,114	6,101
Cash and cash equivalents, beginning of the year	54,363	28,095	22,133
Effect of changes in exchange rates on cash balances held in foreign currency	(264)	154	(139)
Cash and cash equivalents, end of the year	103,928	54,363	28,095

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,		
	2019	2018	2017
	NIS, in thousands		
APPENDIX A – NON-CASH ACTIVITIES:			
Acquisition of property and equipment and intangible assets, under short-term credit	4,320	5,630	6,560
Increase in right-of-use assets and lease liabilities (*)	5,372	-	-
Increase in receivables for lease and lease liabilities (*)	2,256	-	-

(*) For further details regarding lease liabilities, see note 11 B.

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 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 a wholly owned subsidiary of 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 a wholly owned subsidiary of 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.

With 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.

As of December 31, 2019, TASE has 24 members, consisting of 14 banks (including the Bank of Israel), 7 non-bank members (“NBM’s”) and 3 remote members (as of December 31, 2018, TASE had 22 members).

TASE-CH has 17 members, of which 12 are banks (including the Bank of Israel) and the others are NBM’s (as of December 31, 2018, TASE-CH had 16 members). Additionally, TASE-CH has a new custodial member, the activities of which are restricted to being solely custodial.

MAOF-CH has 10 members, consisting of 9 banks and one NBM (as of December 31, 2018, MAOF-CH had 9 members).

Operating segments are identified on the basis of internal reports regarding the components of the Group, which are regularly reviewed by the Group’s chief operating decision-maker in order to allocate resources and assess the performance of the operating segments. The reports that are sent to the chief operating decision-maker in the TASE Group are for all the Group activities as described above. Therefore, the TASE Group has a single area of activity which is reported as a single reportable segment, and that is the area of trading and clearing of transactions in securities.

With 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 23 C (2) (a).

On August 1, 2019, the Company’s shares were listed on the Tel-Aviv Stock Exchange for the first time and the Company became a public company as defined in the Companies Law, 1999.

NOTE 1 - GENERAL (CONT.):

B. On July 30, 2015, the general meeting resolved to approve an outline in principle for an arrangement program between the TASE members at that time, 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.
- 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.

NOTE 1 - GENERAL (CONT.):

B. (Cont.):

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 18. 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 15.

In December 2017 the Company contacted all of its shareholders, inviting them to submit an offer for the sale and transfer of their shares in the Company, on the basis of a valuation of the Company (100%) of NIS 500 million (i.e. NIS 5 per share), where the Company would be entitled to assign the offers submitted to any third party that it sees fit. In response to this request, the Company received offers from 21 shareholders ("the Selling Shareholders") with respect to 71,717,499 shares, constituting 71.72% of the Company's issued share capital.

On April 16, 2018, the Company entered into an agreement for the sale of the Company's shares (as would be amended on August 8, 2018) ("the Sale Agreement with Manikay") with a foreign company registered in Delaware, USA, Manikay Partners LLC ("Manikay").

Under the Sale Agreement with Manikay, it was agreed that on the date of closing the transaction Manikay would purchase 19,999,999 shares from the Selling Shareholders at a rate of 19.99% of the Company's issued share capital ("the Purchased Shares"), for consideration of NIS 5.51 per share, and for a total of approximately NIS 110,200,000, and, of this sum, a total of NIS 10.2 million would be paid to the Company (reflecting the amount in excess of NIS 5 per share), and the balance of NIS 100 million would be distributed among the Selling Shareholders.

The balance of the shares of the Selling Shareholders, namely 51.72%, will be earmarked for investors that will be found by Manikay and approved by the Company ("the Additional Investors"), and some will be deposited in trust ("the Trust Shares") with a trustee whose identity will be determined by agreement between the parties ("the Trustee"), pursuant to a trust agreement that will be agreed between the parties (and with the approval of the Securities Authority) ("the Trust Agreement"), at the rates and under the terms set forth below. The Trust Agreement will include an arrangement that ensures that one director at the Company will be a candidate that is recommended by Manikay.

It was also agreed that the Trust Agreement will reflect the following:

(a) Every Additional Investor will enter into an agreement with the Company to purchase the Company's shares, based on the principles of the Sale Agreement, mutatis mutandis.

(b) The price per share is NIS 5 and will be paid on the closing date.

NOTE 1 - GENERAL (CONT.):

B. (Cont.):

(c) Every Additional Investor is entitled to receive shares in an amount not exceeding 4.99% of the Company's issued share capital. The balance of the Trust Shares will continue to be held by the Trustee until the earlier of December 31, 2019 and the execution of a public offering of the Company's shares, as decided by the Company, within the framework of which at least 31,717,504 Trust Shares will be sold at a net share price that is not less than NIS 5.51 ("Approved IPO"); in the event that the net share price (that is, net of underwriting and distribution commissions that will be paid by the Additional Investor) in the Approved IPO exceeds NIS 5.51 per share, the surplus amount will be distributed equally between the Additional Investor and the Company.

(d) Every Additional Investor will be entitled to sell, in the Approved IPO, all or some of the Company's shares that it has purchased.

(e) If an Approved IPO has not been carried out by December 31, 2019, the Trust Shares will be sold or distributed to each person, subject to each person not holding shares constituting more than 4.99% of the Company's issued share capital.

(f) The Trust Shares will not be sold or transferred until the earlier of December 31, 2019 and the closing of an Approved IPO.

Manikay has undertaken not to initiate or promote, and even to object to, any offer or decision: (a) to change the name of the Company or its subsidiaries, and (b) to sell or transfer the Company's significant operations or its core business, unless such a process is required by law or pursuant to a provision of a competent authority, or it has been approved and recommended by the Company's Board of Directors with the support of all the independent directors serving at the Company at that time. In addition, Manikay has undertaken not to enter into voting agreements with any person, other than in accordance with the provisions of the Sale Agreement or the Trust Agreement, to support and exercise its voting rights in such a way that will ensure that the majority of the members of the Company's Board of Directors will be Israeli citizens and residents, to support a voting process for the public that will be completed by December 31, 2019 with a share price that will ensure that the sellers of the shares receive no less than NIS 5.51 per share (together, "Manikay's Undertakings").

In August 2018, at Manikay's suggestion and in accordance with the terms of the Sale Agreement with Manikay, the Company entered into four sale agreements with four Additional Investors: Sunsuper, Novo Nordisk, Dalton and Moelis, pursuant to which each of the Additional Investors purchased 12,929,375 shares in the Company (12.93% of the issued share capital) for a consideration of NIS 5 per share, and for a total of NIS 64.6 million, which will be divided among the Selling Shareholders, with each Additional Investor holding, directly or indirectly, shares at a rate of 4.69% of the issued share capital, and the balance of the shares that were purchased by each Additional Investor, at a rate of 8.23% of the issued share capital per Additional Investor will be held by Mr. Moshe Terry as Trustee under the terms of the Trust Agreement. For these purposes, it was agreed that after an Approved IPO has been carried out, the balance of the shares that are held by the Trustee (at a rate of up to 1.2% of the issued share capital) will be returned to the Additional Investors, such that every Additional Investor will hold 4.99% of the Company's share capital. In addition, the Additional Investors took upon themselves undertakings that are similar to Manikay's Undertakings.

NOTE 1 - GENERAL (CONT.):

B. (Cont.):

On August 27, 2018, after holding permits were received from the Securities Authority for Manikay and for each of the Additional Investors, as well as for Mr. Moshe Terry as Trustee for 32,917,504 Trust Shares, the Sale Agreement with Manikay was closed, the sale agreements with the Additional Investors were closed, and trust deeds and irrevocable instructions between each of the Additional Investors and Mr. Moshe Terry, as Trustee, were signed, in the format set forth in the Sale Agreement with Manikay, pursuant to all of which, Mr. Terry was authorized, inter alia, to sell the Trust Shares at a net share price of not less than NIS 5.51, and to exercise the voting rights attached to the Trust Shares independently, at his discretion, and for the benefit of the Company, including, without derogating from the generality of the aforesaid, in accordance with that which is described above. In addition, at the same time, the Company received the excess consideration of NIS 10.2 million, which was credited directly to equity, net of costs.

C. Pursuant to a prospectus for an initial public offering by way of a secondary offering of Company shares, dated July 24, 2019, and pursuant to a supplementary notice dated July 29, 2019, on August 1, 2019, 100,000,000 ordinary shares with no par value, existing in the Company's share capital, were listed on TASE, of which 31,717,504 shares were offered in a secondary offering to institutional investors in Israel and overseas, as well as to the public in Israel, and approval was received for the listing of up to 8,429,797 ordinary shares that will result from the exercise of options allotted to the Company's CEO and to officers of the Company.

Regarding the indemnification for the pricing underwriter ("the Prospectus Indemnification"), see note 17 E.

As stated in note 1 B above, the Company is entitled to 50% of the net consideration (after deduction of costs, as agreed with the sellers) that is received for the shares sold in the secondary offering, in excess of NIS 5.51 per share. The price per share set in the secondary offering is NIS 7.1. The total consideration to the holders of the Sale Shares and the Company received under the secondary offering based on the aforesaid share price is approximately NIS 225.2 million. The Company's share of the net consideration amounted to approximately NIS 15.5 million, which the Company intends to use for investment in technological infrastructures.

The amounts received by the Company, as above, total approximately NIS 16.2 million, after the tax benefit, and were carried directly to the equity of the Company in its financial statements as of December 31, 2019.

D. 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.

E. Definitions:

Company or TASE	-	The Tel-Aviv Stock Exchange Ltd.
The Group	-	The Company and its subsidiaries (as defined below).
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, with the exception of changes to the accounting policy that arose from the implementation of standards, amendments to standards and interpretations that were in effect on the date of the financial statements as set forth in paragraph U(a).

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 function of expense.

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, foreign currency monetary items are translated using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(3) Recognition of exchange differences:

Exchange differences are recognized in profit or loss in the period in which they arise. Income and expenses from exchange differences are presented in the “Other financing income (expenses)” item.

F. Cash and Cash Equivalents:

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

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 involvement with the investee, when it has the power over the investee and when it has the ability to use its power to affect its return.

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.

(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:

	Estimated Useful Lives	Depreciation Rates
Property and equipment:		
Building	15-50 years	2%-6.7% (mainly 2%)
Computer systems and related equipment	4-15 years	6.7%-25% (mainly 20%)
Equipment and systems	7-30 years	3.33%-14% (mainly 6.67%)
Furniture	8-30 years	3.3%-12.5% (mainly 12.5%)
Right-of-use assets:		
Leased land (*)	98-1,000 years	0.1%-1.02% (mainly 0.75%)
Backup facility	6.5 years	15.4%
Communication lines	2 years	50%

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

The depreciation method and the useful lives of the assets are reviewed by management at every financial 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 income or expenses.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

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.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

J. Leases:

The Accounting Policy Applied Through January 1, 2019 for Leases is as Follows:

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 period of a lease. 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 period of the lease on a straight-line basis.

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

The Accounting Policy Being Applied Since January 1, 2019 for Leases is as Follows:

The Company accounts for a contract as a lease when, under the terms of the contract, it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(1) The Company as lessee

For transactions in which the Company is the lessee, on the commencement date of the lease (“the Commencement Date”), the Company recognizes the right-of-use asset against a lease liability, with the exception of lease transactions for a period of less than 12 months, and lease transactions with a low-value underlying asset, where the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis, over the lease term. In measuring the lease liabilities, the Company has chosen to apply the exemption set forth in the Standard and has not separated lease components from non-lease components, such as management services, maintenance services and so forth, that are included in the same transaction.

On the Commencement Date, a lease liability includes all the lease payments that have not yet been paid, discounted using the Company’s incremental interest rate (as the discount rate implicit in the lease cannot be readily determined). Subsequent to the Commencement Date, the Company measures the lease liability using the effective interest method.

The right-of-use asset on the Commencement Date is recognized at the amount of the lease liability, plus lease payments paid on or prior to the Commencement Date, with the addition of transaction costs incurred. The right-of-use asset is measured using the cost model and is depreciated over the asset’s useful life or over the lease term, whichever is shorter.

If indicators of impairment are present, the Company tests the right-of-use asset for impairment in accordance with the provisions of IAS 36. See paragraph K below.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

J. Leases (Cont.):

The Company remeasures the lease liability (against an adjustment to the right-of-use asset) when:

- A change has been made in the lease term. In such a case, the lease liability is remeasured by discounting the revised lease payments, using a revised discount rate.
- A change has been made in the future lease payments resulting from a change in an index (for example, lease payments that are linked to the consumer price index). In such a case, the lease liability is measured by discounting the revised lease payments, using the original discount rate.
- A lease amendment has been made that is not treated as a separate lease. In such a case, the lease liability is remeasured by discounting the revised lease payments, using a revised discount rate.

The right-of-use asset is presented in the "Property and equipment" item in the Statement of Financial Position and the lease liability is presented as a separate item in the Statement of Financial Position.

(2) <u>CPI-linked lease payments</u>

On the Commencement Date, the Company uses the CPI rate existing at such date to calculate the future lease payments.

In transactions where the Company is a lessee, changes in the amount of the future lease payments resulting from changes in the CPI are capitalized (without changing the discount rate applicable to the lease liability) to the balance of the right-of-use asset and recognized as an adjustment to the balance of the lease liability, only to the extent that the change in cash flows stems from a change in the CPI (i.e., on the effective date of the adjustment of the lease payments). The effect of the change of the CPI on current payments is carried to profit or loss.

(3) <u>Subleases</u>

In transactions where the Company leases an underlying asset (primary lease) and then leases out the same underlying asset to a third party (sublease), the Company examines whether the risks and rewards incidental to ownership of the right-of-use asset have been transferred, among other things, by comparing the sublease term to the useful life of the right-of-use asset under the primary lease.

If all the risks and rewards incidental to ownership of the right-of-use asset have been substantially transferred, the Company accounts for the sublease as a finance lease; otherwise, the sublease is treated as an operating lease.

If the sublease is classified as a finance lease, on the Commencement Date, the leased asset is derecognized against the recognition of a "receivables with respect to a finance lease" asset, which is included under "Other receivables" and the "Other long-term receivables", at the present value of the balance of lease receipts from the sublease, discounted at the same discount rate that is used for the primary lease liability (as the discount rate implicit in the sublease cannot be readily determined).

(4) <u>The Company as lessor in an operating lease</u>

Income from lease fees for an operating lease are recognized on the straight-line basis over the lease term.

Regarding the initial application of IFRS 16, see note 2 U below.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

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 with 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.

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, see note 11.

L. Financial Assets and Financial Liabilities:

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

(a) Financial Assets – General:

Financial assets are recognized in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Investments in financial assets are initially recognized at their fair value. Transaction costs with respect to financial assets at fair value through profit or loss are charged as an immediate expense to profit or loss.

Debt instruments are measured at amortized cost when the following two conditions are met:

- the Group's business model is to hold the assets with the aim of collecting contractual cash flows; and
- the contractual terms of the asset stipulate specific dates on which the contractual cash flows that constitute principal and interest payments only will be received.

All other financial assets are measured at fair value through profit or loss.

(b) Financial Assets Measured at Amortized Cost:

Trade receivables, deposits and other receivables, which have fixed or determinable payment terms, and are not quoted in an active market, are classified as financial assets measured at amortized cost. These assets 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.):

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

Financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Any profit or loss arising from changes in the fair value is recognized in profit or loss in the period in which the change occurred. The net profit or loss recognized in profit or loss incorporates any interest that has accrued with respect to the financial asset.

(d) Impairment of Financial Assets:

Regarding trade and other receivables, the Group recognizes an impairment provision according to the expected credit losses over the lifetime of the contract, when there has been a significant increase in the credit risk since the date of their initial recognition. If, conversely, the credit risk of the financial instrument has not increased significantly since the date of the initial recognition, the Group measures the impairment provision according to the likelihood of a default event in the following 12 months. The test of whether to recognize an impairment provision according to the expected credit losses over the lifetime of the contact is based on the risk of default from the date of initial recognition and not only when there is objective evidence of impairment on the reporting date or when the default has actually occurred.

(e) Financial Liabilities at Amortized Cost:

Trade payables and other payables that are classified as financial liabilities at amortized cost are initially measured at fair value. After initial recognition, these 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, with 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.

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.):

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, with 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.

Assets and liabilities with 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 with respect to positions in derivative financial instruments on MAOF-CH that are recorded on the trade date.

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. At the time of a default event, TASE-CH and MAOF-CH may make use of the assets deposited as collateral in order to fulfill the obligations of the defaulting member, with this being done in the order prescribed in each of the Clearing Houses' By-Laws, as the case may be, for realizing the collateral. 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, 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), except with regard to derivatives where the last trading day of the year is their expiration date – in which case the fair value is determined according to their intrinsic value

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

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

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

(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.

(d) Transfer of a Financial Asset Eligible for Retirement:

The Tel-Aviv Stock Exchange Nominee Company Ltd. (“Nominee Company”) is wholly owned by TASE. The core business of the Nominee Company is the registration of securities in the name of the Nominee Company in the securities register of the issuing company and depositing them with the clearing house, and handling corporate actions and payments – ongoing handling of the rights attached to the securities.

Within the framework of its operations, the Nominee Company reserves the contractual right to receive the cash flows from the issuing company but takes upon itself a contractual obligation to pay these cash flows to TASE-CH. Assets and liabilities with respect to financial instruments that arise from the operations of the Nominee Company, as stated above, are not recorded in the financial statements as they are treated as a transfer of a financial asset eligible for retirement.

TASE-CH handles corporate actions, including the actions of dual listed companies where the payment currency is denominated in dollars, in the same manner that the Nominee Company handles membership payments. The Clearing House reserves the contractual right to receive the cash flows from the issuing company but takes upon itself a contractual obligation to pay these cash flows to the Clearing members. Assets and liabilities with respect to financial instruments that arise from the operations of the Clearing House, as stated above, are not recorded in the financial statements as they are treated as a transfer of a financial asset eligible for retirement.

M. Taxes on Income:

(1) General:

Tax expenses (tax income) comprise the total of current tax, except the current tax relating to items that are recognized directly in equity, and any changes in deferred tax balances, except the deferred tax relating to items that are recognized directly in other comprehensive income.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

M. Taxes on Income (Cont.):

(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, with 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:

On January 1, 2018, the Company initially applied IFRS 15 – “Revenue from Contracts with Customers” (“**the Standard**”); the Company has chosen to apply the provisions of the Standard retroactively with certain exemptions and without restating the comparative information.

The Accounting Policy Being Applied Since January 1, 2018 is as Follows:

Revenues arising from contracts with customers are recognized in profit or loss when control of the asset or service has been transferred to the customer. The price of the transaction is the consideration amount that is expected to be received under the terms of the contract, less the amounts collected on behalf of third parties (such as taxes).

When determining the amount of the revenue from contracts with customers, the Group examines whether it is operating as a principal supplier or as an agent in the contract. The Group is a principal supplier when it controls the merchandise or service that has been promised prior to its delivery to the customer. In such cases, the Group recognizes the gross amount of the consideration in revenue. In cases in which the Group operates as an agent, it recognizes the net amount in revenue, after deducting the amounts due to the principal supplier.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

N. Revenue Recognition (Cont.):

(1) The Accounting Policy Being Applied Since January 1, 2018 is as Follows (Cont.):

(a) Revenue from Trading and Clearing Commissions:

Revenue with respect to trading and clearing commissions includes handling commissions and fees that TASE collects from its members, which are recognized at a point in time, on the date of completion of the clearing action of transactions in securities or of transactions in derivatives.

(b) Revenue from Listing Fees and Levies:

(1) Revenue from securities listing fees:

Revenue with respect to listing fees is recognized over time over an estimate of the period in which the customer's securities are listed on TASE, and this is because the customer simultaneously receives and consumes the benefits provided by the Group as the Group performs these listing services.

To determine the revenue recognition period with respect to the listing fees, the Group classified the securities that are listed into a number of main groups with similar patterns of activity. These groups mainly include shares, ETFs and ETNs, and corporate and government bonds. For each of these groups an average lifetime was determined for the purpose of spreading the revenue recognition. This lifetime was based on an estimate made by the Company, including with the assistance of an independent outside consultant, of the average number of years for which similar securities in the relevant group were listed in the past. The Company will examine, in subsequent periods, the need to update the balance of the amortization period of the deferred income, which will be treated as a change in an estimate and is recognized prospectively.

As of January 1, 2018, the Company set the amortization period of the deferred income with respect to the shares, ETFs and ETNs group at 13 years and with respect to the corporate and government bonds group at 10 years. Amounts received from customers prior to the completion of the aforesaid performance obligation by the Company are presented under the "Deferred income from listing fees" item and are recognized as revenue in profit or loss at the time of satisfying the performance obligation.

Existence of a significant financing component:
In order to measure the transaction price, the Group adjusts the promised consideration for the effects of the time value of the money if the timing of the payments that was agreed between the parties provides the customer or the Group with a significant financing benefit. In assessing whether a contract includes a significant financing component, the Group examines, among other things, the anticipated period between the time of it transferring the promised services to the customer and the time of the customer paying for these services and the reason for the timing difference.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

N. Revenue Recognition (Cont.):

(1) The Accounting Policy Being Applied Since January 1, 2018 is as Follows (Cont.):

(b) Revenue from Listing Fees and Levies (Cont.):

(1) Revenue from securities listing fees (Cont.):

Within the framework of listing services, the consideration from customers for listing fees is received in advance and is nonrefundable. Since these are the customary terms of payment in the sector and since the purpose of collecting the payment in advance is not to obtain a significant financing benefit but to ensure that the customer meets its obligations, thereby providing assurance to the public that the securities will continue to be traded on TASE in subsequent periods, it has been determined that the contract does not contain a significant financing component.

(2) Revenue from annual levies:

Revenue with respect to annual levies is recognized over time over the current year, as the customer receives and consumes the benefits provided by the Group as the Group performs these services.

(3) Revenue from checking fees:

The majority of the income from prospectus and outline checking fees is recognized over time over a period of one month, over the period in which the Group provides these services.

(c) Revenue from Clearing Services:

Revenue with respect to clearing services mainly includes custodian services, clearing of corporate actions and transfer activities. Revenue with respect to custodian services is recognized over time over the course of a month, and revenue with respect to the clearing of corporate actions and transfer services is recognized at a point in time on the date of completion of the clearing of the actions.

(d) Revenue from Distribution of Data and Connectivity Services:

Revenue with respect to the distribution of data and connectivity services includes mainly the distribution of information from TASE's trading systems via real-time information stations in Israel and overseas and through the distribution of information files, revenue from charging for the use of the TASE indices, as well as revenue from communication lines and hosting services. Revenue with respect to information stations is recognized over time, over a period of one month. Revenue with respect to the use of TASE indices is recognized over time, over the current year; revenue with respect to the distribution of information files is recognized at a point in time on the date of transfer of the files, and revenue from communication lines and hosting services is recognized over time, over a period of one month.

(2) The Accounting Policy Applied Through December 31, 2017 with Respect to Revenue Recognition is as Follows:

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

N. Revenue Recognition (Cont.):

(2) The Accounting Policy Applied Through December 31, 2017 with Respect to Revenue Recognition is as Follows (Cont.):

(a) Revenue from Services:

The Group records revenue from services when providing the service.

(b) Interest Income:

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

(c) Rental Income:

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

(d) 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 with 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. Reclassification:

The Group has reclassified revenue from connectivity (revenue from communication lines and hosting services) from "other revenue" to "distribution of data and connectivity services". Additionally, revenue from members' levies has been reclassified from "other revenue" to "listing fees and levies".

The new classification more appropriately reflects the composition of the Company's revenues, based on the types of services that it provides. The new classification does not have a material effect on the comparative figures in the Statement of Profit or Loss for periods prior to 2019. Accordingly, the revenues for such periods have not been reclassified.

P. Provisions:

Provisions are recognized when the Group has a present legal or constructive obligation because of a past event and it is probable, at a level of "more likely than not", 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. The provision is 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

Q. 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. On the grant date, the Group measures the fair value of the capital instruments that are granted, using models for evaluating share-based payments (for details about the method of measuring the fair value of share-based payments, see note 15). When the capital instruments that are granted do not vest until those employees complete a defined period of service, during which the employees may also be required to meet certain performance conditions, the Group recognizes the share-based payment arrangements in the financial statements over the vesting period against the increase in equity, under the item “Capital reserve with respect to share-based payment transactions”. At the end of each reporting period, the Group estimates the number of capital instruments that are expected to vest. A change in the estimate with respect to prior periods is recognized in profit or loss over the rest of the vesting period.

R. 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.

Expenses with 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 with 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 with 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 employee benefits expenses, in the Statement of Profit or Loss.

Actuarial gains and losses with respect to remeasurement 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 with 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

R. Employee Benefits (Cont.):

(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 with 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 with 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 with respect to remeasurement 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).

(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 that the Company expects to pay are measured on an undiscounted basis. The difference between the sum of short-term benefits the employee is eligible to receive, and the amount paid in respect thereof 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.

S. 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 with respect to interest paid, as cash flows that were used for, or provided by, operating activities. Cash flows with 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

T. Earnings per Share:

The Company calculates the basic earnings per share with respect to the profit or loss attributable to the Company's shareholders by dividing the profit or loss attributable to the holders of the Company's ordinary shares by the weighted average number of ordinary shares in circulation during the reporting period. To calculate the diluted earnings per share the Company adjusts the profit or loss attributable to holders of the ordinary shares, and the weighted average of the shares in circulation, for the impact of all the dilutive potential shares. As part of the diluted earnings per share, the Company takes into account dilutive potential shares such as options for executives.

U. New Standards, New Interpretations and Amendments to Standards Affecting the Current Period and/or Previous Reporting Periods:

- **IFRS 16 "Leases":**

In January 2016, the IASB issued International Financial Reporting Standard IFRS 16, "Leases" ("the Standard"). The Standard supersedes IAS 17 (the "Previous Standard"), Interpretation No. 4 of the International Financial Reporting Interpretations Committee and Interpretation No. 15 of the Standing Interpretations Committee. The Standard defines a lease as a contract, or part of a contract, that conveys the right to use the asset for a period of time, in consideration for payment.

The principal effects of the Standard are as follows:

- The Standard requires lessees to recognize all leases in the Statement of Financial Position (with certain exceptions below). Lessees will recognize a liability for the lease payments against a right-of-use asset, similarly to the accounting treatment of a finance lease under the cancelled standard IAS 17, "Leases". Additionally, lessees will recognize interest expenses and depreciation expenses separately.
- Variable lease payments that are not dependent on an index or a rate, but rather on performance or use will be recognized as an expense by the lessees or as income by the lessors as they arise.
- In the event of a change in variable lease payments that are linked to an index, the lessee will revalue the lease liability and carry the effect of the change to the right-of-use asset.
- The Standard includes two exceptions, under which lessees may apply the existing accounting treatment for operating leases to leases of assets of low monetary value or to leases for terms of up to a year.
- No material changes were made to the accounting treatment by lessors as compared to the Previous Standard (i.e., classification as a finance lease or an operating lease).

The Standard is applied for the first time since January 1, 2019. As permitted by the Standard, the Company has elected to adopt the Standard under the modified retrospective approach, under which the balance of the right-of-use asset is identical to the balance of the lease liability.

Under this approach, no restatement of the comparative figures is required. The balance of liabilities as of the date of the initial application of the Standard is calculated using the incremental interest rate of the Company on the date of initial application of the Standard.

For information on the accounting policy that has been applied since the date of initial application, see note 2 J above.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

U. New Standards, New Interpretations and Amendments to Standards Affecting the Current Period and/or Previous Reporting Periods (Cont.):

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

The initial application of the Standard primarily affected existing leases of communication lines, the Company's backup facility and vehicles that are used by Company employees, for which the Company is the lessee. Pursuant to the Standard, as described in note 2 J above, with some exceptions, for any lease for which the Company is a lessee, the Company recognizes the balance of the liability against the balance of the right-of-use asset. This differs from the policy that had been applied under the Previous Standard, which determined that the lease payments with respect to lease contracts in which not all of the risks and rewards incidental to ownership of the right-of-use asset have been substantially transferred were to be recognized in profit or loss by the straight-line method over the lease term.

In addition, the initial application of the Standard affects sublease transactions for the vehicles that are used by Company employees (where the underlying asset is leased by the Company and then subleased by the employee). Pursuant to the Standard, as described in note 2 J above, the Company has classified the sublease transaction as an operating lease or a finance lease, inter alia, by comparing the sublease term to the useful life of the right-of-use asset under the primary lease.

Consequently, sublease transactions that had been classified as operating leases under the provisions of the Previous Standard, have been reclassified by the Company as finance leases, pursuant to the provisions of the Standard.

1. The effects of these changes on the financial statements of the Company are as follows:

In the Consolidated Statements of Financial Position:

	Under the previous policy	Change	Under IFRS 16
	NIS, in thousands		
As of January 1, 2019			
Assets			
Current assets			
Other receivables	3,797	1,089	4,886
Non-current assets			
Property and equipment, net	336,079	22,466	358,545
Other long-term receivables	-	837	837
Liabilities and Equity			
Current liabilities			
Current maturities of lease liabilities	-	9,269	9,269
Non-current liabilities			
Lease liabilities	-	15,123	15,123

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

U. New Standards, New Interpretations and Amendments to Standards Affecting the Current Period and/or Previous Reporting Periods (Cont.):

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

1. The effects of these changes on the financial statements of the Company are as follows (Cont.):

In the Consolidated Statements of Financial Position (Cont.):

	Under the previous policy	Change	Under IFRS 16
	NIS, in thousands		
As of December 31, 2019			
Assets			
Current assets			
Other receivables	5,001	1,372	6,373
Non-current assets			
Deferred tax assets	14,031	30	14,061
Property and equipment, net	325,769	19,407	345,176
Other long-term receivables	2,392	1,369	3,761
Liabilities and Equity			
Current liabilities			
Current maturities of lease liabilities	-	9,728	9,728
Non-current liabilities			
Lease liabilities	-	12,553	12,553
Equity			
Retained earnings	541,397	(102)	541,295

In the Statements of Profit or Loss and Other Comprehensive Income:

	Under the previous policy	Change	Under IFRS 16
	NIS, in thousands		
Year ended December 31, 2019			
Employee benefit expenses	133,348	(375)	132,973
Computer and communications expenses	32,092	(8,273)	23,819
Depreciation and amortization	35,140	8,431	43,571
Profit before financing income, net	13,943	217	14,160
Financing income, net	9,318	(349)	8,969
Taxes on income	5,601	(30)	5,571
Profit for the year	17,660	(102)	17,558

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.):

U. New Standards, New Interpretations and Amendments to Standards Affecting the Current Period and/or Previous Reporting Periods (Cont.):

- **IFRS 16 “Leases” (Cont.):**

1. The effects of these changes on the financial statements of the Company are as follows (Cont.):

Additionally, the initial application of the Standard has the following effect on the cash flows of the Company for the year ended December 31, 2019: an increase of NIS 9,739 thousand in cash flows from operating activities, which is offset by a decrease of NIS 9,739 thousand in cash flows from financing activities.

2. The incremental interest rate used to discount the future lease payments in calculating the balance of the lease liability on the date of initial application of the Standard ranges from 1.17% to 1.83%. The discount rates are based on the nominal interest rate applicable to discounting lease contracts, in accordance with the financing risk of the Company and the average duration of the lease contracts.

- **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.

The implementation of the interpretation on the Company’s financial statements is not material.

V. Standards, Amendments to Standards and Interpretations Issued that are not Relevant to the Group:

In addition to said amendments, as of the financial statement date, other interpretations and additional amendments to standards had been issued, which Company management estimates are not relevant 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 at least once a year, at the end of every year and, additionally, at the end of every interim reporting period in which a significant change occurred in the discount rate relative to the period prior thereto, 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. Share-Based Payment:

Share-based payments for managers' services are measured on the basis of the fair value of the Company's equity instruments on the grant date. The fair value of options to managers is determined using the binomial model, which is based on share price and exercise price data and on assumptions concerning expected volatility, expected lifespan and expected dividend. As the Company was a private company on grant date, the share price on grant date included in the model was based on a valuation of the Company that was performed by an external appraiser using the discounted anticipated cash flows model, while taking into consideration assumptions regarding discount, growth rate and standard deviation. For further details, see note 15.

NOTE 3 - CONSIDERATIONS IN APPLYING ACCOUNTING POLICIES AND KEY FACTORS FOR 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.):

C. Determining the Existence of a Significant Financing Component:

For the purpose of assessing whether a contract includes a significant financing component, the Group examines, among other things, the anticipated period between the time of it transferring the promised goods or services to the customer and the time of the customer paying for these goods or services and the reason for the timing difference. Within the framework of listing services, the consideration from customers for listing fees is received in advance and is nonrefundable. Since these are the customary terms of payment in the sector and since the purpose of collecting the payment in advance is not to obtain a significant financing benefit but to ensure that the customer meets its obligations, thereby providing assurance to the public that the securities will continue to be traded on TASE in subsequent periods, it has been determined that the contract does not contain a significant financing component.

Were it to be determined that said consideration includes a significant financing component, the Company would recognize an increase in financing expenses in parallel with an increase in revenues over the period that the revenue recognition is spread.

D. Determining the Recognition Period for Revenues from Listing Fees

For the purpose of determining the revenue recognition period for listing fees, the Group relies on an external economic study that divided the different securities into a number of main categories, with an average lifespan – based on historical data – being determined for each of these categories.

A change in the category division method or in the determined average lifespan would result in a change in the amount recognized in revenue over the periods.

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.

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

The Clearing Houses’ risk management is consistent with international standards, as prescribed for financial market infrastructures by CPMI-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.

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 counterparty, whether a Clearing member, custodian bank, or other entity, being unable to meet fully its financial obligation when due, or at any time in the future.

With 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 with 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, as set forth in paragraph B of this note below.

As of December 31, 2019 and December 31, 2018, MAOF-CH’s open positions as a CCP (at fair value after netting) amounted to NIS 352 million and NIS 895 million, respectively. For further details, see note 8.

TASE-CH's current credit exposure 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, 2019 and December 31, 2018 is NIS 254 million and NIS 397 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 trade date of the transaction, being transactions carried out in a regular way, as noted in note 2 L (2) (a).

In addition, the Clearing House's credit exposure may increase in the event of a Clearing member’s default due both to a decrease in the value of the collaterals and to a decrease in the value of the securities that the Clearing House receives as a result of the non-fulfillment of the defaulting Clearing member’s obligations.

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

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 with respect to its contribution to the Default Funds, to deposit margin with respect to transactions in derivatives and to deposit additional collateral with 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.

For information on the number of TASE members and members of the Clearing Houses, see Note 1 (A).

(b) Financial Resources:

- **Collateral Deposited with the Clearing Houses:**

  Clearing members of TASE-CH (except for the Bank of Israel and a custodial member) and MAOF-CH are required to deposit collateral with the Clearing Houses' Default Funds. In addition, clearing members of MAOF-CH have margin requirements with respect to transactions performed for the exposure arising from those transactions.

  The assets serving both as collateral with respect to the Default Fund and also as margin with 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.):

- **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 cost that would be required to close 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 margin requirement also includes an amount that is set at the level of the net monetary charge that a Clearing member would be expected to pay on the following trading day with respect to the premium on options it had acquired on the current trading day and net of the premium to be received with respect to options it had written or sold.

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

- **Credit Risk Management and Mitigation Measures with Respect to Pending Transactions and Default Transactions at TASE-CH:**

A member of TASE-CH to whose debit a pending transaction or default transaction has been recorded, as defined in TASE-CH's By-Laws, is required to deposit cash collateral as prescribed in TASE-CH's By-Laws by the date on which the settlement is actually carried out.

The exposure with respect to pending transactions and default transactions as of December 31, 2019 and December 31, 2018 amounted to NIS 1,203 thousand and NIS 360 thousand, respectively.

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**

  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, with respect to the obligations of the defaulting Clearing member, from their own resources, an amount equivalent to the higher of either 25% of their total capital requirements with respect to credit risk, market risk, operational risk and business continuity and reorganization, or the sum of NIS 7.5 million, 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.

  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,	
	2019	2018
	NIS, in millions	
Total margin requirements with MAOF-CH	1,537	2,869
Total collateral required to be deposited in the MAOF-CH Default Fund (*)	562	707
Total collateral required to be deposited in the TASE-CH Default Fund (*)	796	726
Contribution against default waterfall allocated from the Group's equity (**)	26	25
Total financial resources	2,921	4,327

(*) 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 626 million and NIS 1,196 million, respectively. After the date of the statement of financial position, the Clearing Houses increased the Default Fund, as above, outside the scheduled updates, this in view of the volatility in the market.

(**) The total resources that are allocated out of the equity of the Group with respect to MAOF-CH and TASE-CH as of December 31, 2019 amount to NIS 7.5 million and NIS 18.3 million, respectively (December 31, 2018 – NIS 7.5 million and NIS 17.9 million, respectively).

(c) Haircuts on the Value of Collateral:

The Group deals with the exposure to a decrease in the value of the collateral deposited by its members through "haircuts" to determine the maximum value serving as collateral. The Group has a methodology for determining the maximum value of treasury bills and Government of Israel bonds that is based on Value at Risk (VaR), which conforms to international standards and the Clearing Houses' Stability Directive, as referred to above.

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

A. Credit Risk (Cont.):

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

(d) 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 with respect to their positions with different expiration dates against any obligation of the Clearing Houses toward that member.

(e) 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.

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.

Additionally, the Securities Law prescribes, with regard to the settlement finality, that 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 law. Moreover, 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.

(f) 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.

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

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 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.

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 with respect to its ongoing activities, despite the liquidity requirements for net liquid assets by the amount of the capital requirements with respect to contribution against default waterfall of each Clearing House and by the amount of the equity requirement with 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 the trade and other payables are within a period of up to two months.

The following table provides details of the expected maturity dates for lease liabilities based on the undiscounted cash flows of the lease liabilities. The cash flows are for both interest and principal.

	December 31,
	2 0 1 9
	NIS, in thousands
Up to one year after the date of the Statement of Financial Position	10,065
Second year	4,118
Third year	2,961
Fourth year	2,568
Fifth year	2,568
Sixth year	856
Total undiscounted cash flows of lease liabilities (*)	23,136

(*) The incremental interest rate used to discount the future lease payments in calculating the balance of the lease liability as of December 31, 2019, as shown in the Statement of Financial Position, ranges from 0.53% to 1.4% (on the date of initial application of the Standard, it ranges from 1.17% to 1.83%). The aforesaid discount rates are based on the nominal interest rate applicable to discounting lease contracts, in accordance with the financing risk of the Company and the average duration of the lease contracts.

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

B. Liquidity Risk (Cont.):

(1) Risk Profile (Cont.):

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 with respect to open positions) are as follows:

	December 31,	
	2019	2018
	NIS, in thousands	
Up to one month after the date of the Statement of Financial Position	146,368	415,228
1-2 months	162,349	430,786
2-3 months	20,389	15,124
Up to one year	22,636	34,263
Total financial liabilities from clearing activities (*)	351,742	895,401

(*) The total of the aforesaid financial liabilities from clearing activities and their 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.

The aforementioned cash is deposited in an account at the Bank of Israel, 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).

(b) Holding Liquid Assets and Minimum Liquidity Buffer:

As of December 31, 2019, 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 94% of the Group’s financial assets (excluding assets stemming from clearing activity with respect to open positions) are immediately liquid assets (cash and Government of Israel bonds), of which 32% is in cash.

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

B. Liquidity Risk (Cont.):

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

(c) Guaranteed Liquidity Line from the Bank of Israel and a Credit Facility from a Commercial Bank:

In July 2017, the Clearing Houses entered into a pre-guaranteed liquidity repo agreement with the Bank of Israel to quickly liquidate the securities collateral deposited by the Clearing members with respect to their contribution to the Default Funds of each of the Clearing Houses and as part of MAOF-CH's margin requirement, 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 been granted a credit facility by a commercial bank in an amount of up to NIS 30 million, against a charge of securities, valid until December 31, 2020, in order to provide additional and fast liquidity on the occurrence of a Clearing member's default, 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 credit facility. With regard to charges, see note 24 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 materialization of settlement risk could cause a material increase in the credit and liquidity exposures of the Clearing Houses as a CCP.

(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 A (2) (b) of this note above.

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.

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

D. Market Risk:

(1) Risk Profile:

Market risk is the risk of loss that will be caused to the Group from changes in market prices (such as exchange rates, the Consumer Price Index and interest rates), to the extent that these changes will cause a decrease in net profit or a loss that will lead to a decrease in the Group's shareholders' equity.

In the ordinary course of business activities, the Group is exposed to market risk with respect to the holding of securities included in its investment portfolios that are held for trading, such that a downturn in market prices has a direct effect on the Group's profit and loss, or with respect to the holding of deposits at variable interest or in foreign currency. For further details regarding the exposure level, see note 8.

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

(2) Risk Management and Mitigation Measures:

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 with 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.

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 with 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 and exchange rate 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 with 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 or NIS 7.5 million, whichever is the greater. .

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. 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 with respect to market risk and the definition of qualifying capital.

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

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

	December 31,	
	2019	2018
	NIS, in thousands	
Capital requirements with respect to the risk components:		
Credit risk (*)	36,027	2,421
Market risk	5,919	5,808
Legal and operational risk (**)	37,902	37,011
Business continuity and reorganization (***)	109,000	106,656
Contribution against default waterfall	25,825	25,390
Total capital requirements with respect to the risk components	214,673	177,286
Capital base components		
Retained earnings	541,295	523,737
Other capital reserves	43,079	13,107
Remeasurement of net defined benefit liability	(16,905)	(4,331)
Share-based payments reserve	31,238	27,380
Less:		
Intangible assets (*)	(102,434)	(105,952)
Deferred tax assets (*)	-	(12,423)
Total qualifying capital base	496,273	441,518
Capital surplus (qualifying capital base, less requirements)	281,600	264,232

(*) On December 31, 2019, TASE began allocating capital on all the property and equipment, net balance in accordance with the standards prescribed by the Basel Committee and also began allocating capital on deferred tax receivable attributable to timing differences. Deferred taxes for which a capital allocation as aforesaid was computed will not be deducted from the capital. The effect of the above on the capital surplus resulted in a NIS 7 million reduction in the capital surplus. The revision is being applied prospectively. Had the revision been made as of December 31, 2018, the effect would have been a NIS 10 million reduction in the capital surplus.

(**) 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.):

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

	December 31, 2019	December 31, 2018
	NIS, in thousands	
Liquidity requirements with respect to the risk components:		
Business continuity and reorganization	109,000	106,656
Contribution against default waterfall	25,825	25,390
Total requirements for liquid assets	134,825	132,046
Eligible liquid assets		
Cash and cash equivalents	103,928	54,363
Securities portfolio at fair value	204,964	183,817
Less – amortization coefficients on the assets	(9,478)	(9,503)
Credit line (*)	30,000	50,000
Less – current liabilities	(62,530)	(47,518)
Net liquid assets	266,884	231,159
Liquidity surplus (net liquid assets, less requirements)	132,059	99,113

(*) Regarding the reduction in the credit line, see note 24 B.

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

	December 31, 2019	December 31, 2018
	NIS, in thousands	
Capital adequacy position:		
Total capital requirements	91,624	89,451
Total qualifying capital base	136,349	126,691
Total capital surplus	44,725	37,240
Liquidity adequacy position:		
Total liquidity requirements	68,482	66,713
Total net liquid assets	128,427	113,782
Total liquidity surplus	59,945	47,069

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

	December 31, 2019	December 31, 2018
	NIS, in thousands	
Capital adequacy position:		
Total capital requirements	37,500	37,500
Total qualifying capital base	45,103	42,755
Total capital surplus	7,603	5,255
Liquidity adequacy position:		
Total liquidity requirements	21,565	20,144
Total net liquid assets	43,007	39,984
Total liquidity surplus	21,442	19,840

NOTE 6 - CASH:

A. Composition of Cash and Cash Equivalents:

	Interest Rate, December 31,	December 31,	
	2019	2019	2018
	%	NIS, in thousands	
Cash at banks		21,222	9,777
Short-term deposits	Primarily 0.16	82,706	44,586
		103,928	54,363

B. Cash Restricted as to Use (under Non-current assets)

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

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

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

The following is additional information with 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 2020 (the expiration date of most of the derivatives is up to the end of February 2020).

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 with respect to financial assets and financial liabilities, including recognition criteria, measurement bases and recognition in profit or loss, are reported in note 2.

B. Financial Instrument Balances, by Category:

	December 31, 2019	December 31, 2018
	NIS, in thousands	
Financial assets (*):		
Financial assets measured at amortized cost:		
Cash and cash equivalents	103,928	54,363
Trade and other receivables	16,865	17,710
Other long-term receivables	1,369	-
Cash restricted as to use	541	538
Financial assets at fair value through profit or loss:		
Assets derived from clearing operations – receivables with respect to open derivative positions	351,742	895,401
Financial assets held for trading (**)	204,964	183,817
	679,409	1,151,829
Presented in the Statement of Financial Position under:		
Current assets	677,499	1,151,291
Non-current assets	1,910	538
	679,409	1,151,829
Financial liabilities:		
Financial liabilities measured at amortized cost:		
Trade and other payables	16,408	15,463
Lease liabilities	22,281	-
Other liabilities	541	538
Financial liabilities at fair value through profit or loss:		
Liabilities derived from clearing operations – payables with respect to open derivative positions	351,742	895,401
	390,972	911,402
Presented in the Statement of Financial Position under:		
Current liabilities	377,878	910,864
Non-current liabilities	13,094	538
	390,972	911,402

(*) 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.

(**) The composition of the investment portfolio includes treasury bills and Government of Israel bonds, see note 4 D (2).

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

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), financial assets held for trading, trade receivables, other receivables, trade payables, other payables, other liabilities and assets and liabilities with respect to open derivative positions.

The balances of the Group's financial instruments in the Statement of Financial Position as of December 31, 2019 and 2018 closely reflect their fair values.

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

Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

Level 3 - fair value measurements are those derived from valuation techniques that are not based on observable market data (unobservable inputs).

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 with respect to Open Derivative Positions	Financial Assets at Fair Value Through Profit or Loss – Held for Trading
	NIS, in thousands	
December 31, 2019:		
Level 1	223,536	204,964
Level 2	169,345	-
	392,881	204,964
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)	(41,139)	-
Total balance reported in the Statement of Financial Position	351,742	204,964
December 31, 2018:		
Level 1	118,539	183,817
Level 2	882,825	-
	1,001,364	183,817
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)	(105,963)	-
Total balance reported in the Statement of Financial Position	895,401	183,817

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 with 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 with 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, with respect to Open Derivative Positions	Amounts Offset in the Statement of Financial Position	Assets / Liabilities with respect to Open Derivative Positions, net, in the Statement of Financial Position
	NIS, in thousands		
December 31, 2019:			
Options (*)	580,950	229,208	351,742
December 31, 2018:			
Options (*)	1,486,939	591,538	895,401

(*) As of December 31, 2019 and December 31, 2018, there were no open positions with 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, with 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, 2019:				
Member B'	287,990	989	287,001	-
Member H'	27,616	21,981	5,635	-
Other members	36,136	34,426	1,710	-
	351,742	57,396	294,346	-
December 31, 2018:				
Member B'	646,299	1,430	644,869	-
Member C'	175,379	175,379	-	-
Other members	73,723	71,086	2,637	-
	895,401	247,895	647,506	-

(*) Margin amounts are reported in an amount that does not exceed the balance of assets with 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, 2019, NIS 1,537 million (as of December 31, 2018, NIS 2,869 million).

Financial liabilities, available for offset, with 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, 2019:			
Member A'	74,433	11,823	62,610
Member C'	208,749	6,807	201,942
Other members	68,560	38,766	29,794
	351,742	57,396	294,346
December 31, 2018:			
Member A'	442,539	32,653	409,886
Member C'	327,149	175,379	151,770
Other members	125,713	39,863	85,850
	895,401	247,895	647,506

NOTE 8 - FINANCIAL INSTRUMENTS (CONT.):

E. Interest Risks:

The Group has monetary surpluses that are placed in bank deposits and investments in financial instruments yielding variable interest rates 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 2018 and a +/- 0.25% and a +/- 0.5% change in 2019 in interest on the aforementioned financial instruments (before the tax effect):

December 31, 2 0 1 9			December 31, 2 0 1 8		
Total Variable Interest Rate Instruments	Change of +/- 0.25%	Change of +/- 0.5%	Total Variable Interest Rate Instruments	Change of +/- 1%	Change of +/- 2%
NIS, in millions					
86.1	0.2	0.4	49.7	0.5	1.0

In addition, the Group has investments (government bonds) in financial instruments yielding fixed interest rates, which are measured at fair value through profit or loss, 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 2018 and a +/- 0.25% and a +/- 0.5% change in 2019 in the fair value of bonds, (before the tax effect):

December 31, 2 0 1 9			December 31, 2 0 1 8		
Total Fixed Interest Rate Instruments	Change of +/- 0.25%	Change of +/- 0.5%	Total Fixed Interest Rate Instruments	Change of +/- 1%	Change of +/- 2%
NIS, in millions					
201.6	2.2	4.4	181.3	7.7	15.4

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, 2019 and 2018
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).

B. With regard to TASE's decision to provide a credit line to TASE-CH and to MAOF-CH, see note 23 D (1).
With regard to the grant of a loan to TASE-CH, see note 23 C (2) (b).
With regard to officers of TASE and the Clearing Houses' indemnification and their exemption from liability, see note 17.
With regard to officers of TASE and the Clearing Houses' professional liability insurance, see note 23 D (2).

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 24 B.

B. **Composition:**

	December 31,	
	2019	2018 (*)
	NIS, in thousands	
Freehold land	19,510	19,510
Land under capital lease (lease rights for various periods ending 2107-3003)	38,203	38,440
	57,713	57,950

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 their registration.

(*) In 2018, a refund of NIS 1,788 thousand was received with respect to development levies that were paid in accordance with a settlement agreement that was ratified by the Court (less expenses).

NOTE 11 - PROPERTY AND EQUIPMENT:

A. Composition and Changes:

(1) Property and Equipment:

	Freehold Land and Building (1) (2) (3)	Computer Systems and Related Equipment	Equipment and Systems	Furniture	Total
	NIS, in thousands				
Cost:					
Balance, January 1, 2019	244,733	93,014	47,345	7,309	392,401
Acquisitions during the year	33	5,904	1,163	153	7,253
Disposals during the year	(115)	(13,835)	(50)	(74)	(14,074)
Balance, December 31, 2019	244,651	85,083	48,458	7,388	385,580
Cost:					
Balance, January 1, 2018	153,588	81,863	45,168	7,275	287,894
Reversal of impairment provision	92,500	-	-	-	92,500
Refund of overpaid development levies – pursuant to a settlement agreement that was ratified by the Court	(1,788)	-	-	-	(1,788)
Acquisitions during the year	433	15,915	2,177	34	18,559
Disposals during the year	-	(4,764)	-	-	(4,764)
Balance, December 31, 2018	244,733	93,014	47,345	7,309	392,401
Accumulated Depreciation:					
Balance, January 1, 2019	20,790	58,269	13,944	1,759	94,762
Depreciation for the year	4,654	8,481	3,465	402	17,002
Disposals during the year	(1)	(13,730)	(18)	(1)	(13,750)
Balance, December 31, 2019	25,443	53,020	17,391	2,160	98,014
Accumulated Depreciation:					
Balance, January 1, 2018	9,659	54,883	10,909	1,364	76,815
Depreciation with respect to the impairment provision	7,387	-	-	-	7,387
Depreciation for the year	3,744	8,082	3,035	395	15,256
Disposals during the year	-	(4,696)	-	-	(4,696)
Balance, December 31, 2018	20,790	58,269	13,944	1,759	94,762
Depreciated Cost:					
December 31, 2019	219,208	32,063	31,067	5,228	287,566
December 31, 2018	223,943	34,745	33,401	5,550	297,639

(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.

Group management re-examined the primary indicators as of June 30, 2018, as relevant to the likelihood of recovering the impairment of the property and equipment, that was recorded in 2013. The aforesaid recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. Accordingly, within the framework of examining the recoverable amount of the asset, Company management examined whether any changes had taken place in the fair value of the asset since the impairment provision had been recorded in 2013, and also examined the value of the Company's operations, which constitute a single activity segment and includes the asset.

NOTE 11 - PROPERTY AND EQUIPMENT (CONT.):

A. Composition and Changes (Cont.):

(1) Property and Equipment (Cont.):

(2) (Cont.)

The recoverable amount of TASE was determined on the basis of value in use, which was calculated according to an estimate of the anticipated future cash flows according to the work plan. For the purpose of determining value in use, Group management used an estimate of the value in use produced by an independent, external assessor, with the required knowledge, experience and expertise. The calculation of the value in use was based on an estimate of the anticipated future cash flows according to the work plan for the next five years, which was approved by Company management. The real post-tax discount rate according to which the cash flows were discounted is 8%. Cash flow forecasts for the period exceeding five years will be estimated using a real fixed growth rate of 3%, which constitutes the average long-term growth rate. The value in use as of June 30, 2018 came to NIS 507 million, compared with the book value of the cash-generating unit in the Company's financial statements of NIS 348 million, before the reversal of the impairment provision.

Accordingly, the recoverable amount was determined according to the value in use, and, in the second quarter of 2018, TASE reversed the full impairment provision in an amount of NIS 85.1 million before the effect of taxes on income. The reversal of the impairment provision has been recognized in profit or loss under "Reversal of Impairment Provision".

(3) As a result of the initial application of IFRS 16, on January 1, 2019, lands under capitalized leases with a depreciated cost of NIS 38,440 thousand were reclassified from "property and equipment" to "right -of-use assets".

(2) Right-of-Use Assets:

	Leased Land	Backup Facility	Communication Lines	Motor Vehicles	Total
			NIS, in thousands		
Cost:					
Balance, January 1, 2019	39,522	-	-	-	39,522
Initial application of IFRS 16	-	10,424	11,383	659	22,466
Additions	-	4,843	527	2	5,372
Disposals	-	-	(40)	-	(40)
Balance, December 31, 2019	39,522	15,267	11,870	661	67,320
Accumulated Depreciation:					
Balance, January 1, 2019	1,082	-	-	-	1,082
Depreciation	237	2,411	5,650	370	8,668
Disposals	-	-	(40)	-	(40)
Balance, December 31, 2019	1,319	2,411	5,610	370	9,710
Depreciated Cost, December 31, 2019	38,203	12,856	6,260	291	57,610

NOTE 11 - PROPERTY AND EQUIPMENT (CONT.):

A. Composition and Changes (Cont.):

(2) Right-of-Use Assets (Cont.):

Presentation in the Statement of Financial Position

	December 31, 2019	December 31, 2018 (*)
	NIS, in thousands	
Presentation in the Statement of Financial Position:		
Property and equipment	287,566	297,639
Right-of-use assets	57,610	38,440
	345,176	336,079

(*) As a result of the initial application of IFRS 16, on January 1, 2019, lands under capitalized leases with a depreciated cost of NIS 38,440 thousand were reclassified from "property and equipment" to "right -of-use assets".

B. Additional Details of Right-of-Use Assets and Lease Liabilities:

(1) Amounts Recognized in Profit or Loss:

	Year ended December 31, 2019
	NIS, in thousands
Depreciation expenses with respect to right-of-use assets	8,668
Interest expenses with respect to lease liabilities	383
Interest income with respect to receivables for sublease	(34)
Expenses relating to short-term leases	292

(2) Financial Asset from Sublease of Right-of-Use Assets:

	December 31, 2019
	NIS, in thousands
Other receivables	
Receivables for sublease – current maturities	1,372
Other long-term receivables	
Receivables for sublease	1,369

(3) Changes in the Liabilities Arising from Financing Activities (Lease Liabilities):

	NIS, in thousands
Balance, January 1, 2019	-
Initial application of IFRS 16	24,392
Cash flows from financing activities	(9,739)
Additions, net	7,628
Balance, December 31, 2019	22,281

Regarding expected maturity dates with respect to lease liabilities, see note 4 B.

NOTE 11 - PROPERTY AND EQUIPMENT (CONT.):

C. Operating Lease Arrangements:

(1) General:

The Group has entered into a lease arrangement with respect to one of the floors in the building used by the Group, for a 5-year period that commenced in March 2016, which includes an extension option for a further 3 years.

(2) Minimum Future Lease Fees Receivable with respect to Non-Voidable Operating Leases:

	December 31,	
	2019	2018
	NIS, in thousands	
In the first year	752	723
In the second year through the third year	169	886
	921	1,609

(3) Amounts Recognized in Profit or Loss:

	December 31,		
	2019	2018	2017
	NIS, in thousands		
Income from operating lease	986	971	879

NOTE 12 - INTANGIBLE ASSETS:

Composition and Changes:

	Software and Licenses	Goodwill	Total
	NIS, in thousands		
Cost:			
Balance, January 1, 2019	234,251	492	234,743
Acquisitions	9,703	-	9,703
Capitalization of expenses – software development for internal use	15,838	-	15,838
Disposals during the year	(13,359)	-	(13,359)
Balance, December 31, 2019	246,433	492	246,925
Cost:			
Balance, January 1, 2018	199,851	492	200,343
Acquisitions	15,860	-	15,860
Capitalization of expenses – software development for internal use	18,892	-	18,892
Disposals during the year	(352)	-	(352)
Balance, December 31, 2018	234,251	492	234,743
Accumulated Amortization:			
Balance, January 1, 2019	128,791	-	128,791
Amortization	17,901	-	17,901
Disposals during the year	(12,134)	-	(12,134)
Balance, December 31, 2019	134,558	-	134,558
Accumulated Amortization:			
Balance, January 1, 2018	111,708	-	111,708
Amortization	17,174	-	17,174
Disposals during the year	(91)	-	(91)
Balance, December 31, 2018	128,791	-	128,791
Amortized Cost:			
December 31, 2019	111,875	492	112,367
December 31, 2018	105,460	492	105,952

NOTE 13 - EMPLOYEE BENEFITS:

A. Composition:

	December 31, 2019	December 31, 2018
	NIS, in thousands	
Post-employment benefits under defined benefit plans (see paragraph B(1)(f) below):		
Retirement and termination benefits obligation	34,479	17,434
Pension liability	1,097	1,096
	35,576	18,530
Other long-term employee benefits (see paragraph C below):		
Vacation benefits not utilized	11,020	11,223
Seniority benefits	1,989	1,558
	13,009	12,781
Short-term employee benefits (see paragraph E below)	22,101	16,962
	70,686	48,273

Presentation in the Statement of Financial Position:		
Liabilities for employee benefits:		
Current	33,121	28,751
Non-current	37,565	19,522
	70,686	48,273

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 0.1% that conforms to the real market return on high quality corporate bonds for the period calculated (compared with a discount rate of 1.35% as at December 31, 2018).

NOTE 13 - EMPLOYEE BENEFITS (CONT.):

B. Post-Employment Benefits (Cont.):

(1) Defined Benefits Plans (Cont.):

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

	December 31,	
	2019	2018
	%	%
Discount rate (*)	2.48	4.1
Forecasted rates of salary increases:		
Employees (in nominal terms)	3.6	3.6
Executives (in real terms)	2	2
Forecasted inflation rates	1.52	1.58
Rates of turnover:		
Employees (**)	0.5	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 turnover rate represents the Company's assumption regarding the turnover of all the employees. As of December 31, 2018, the Company's assumption is that employee turnover in the first ten years of employment is 3% and 1% with regard to the turnover of employees who have at least 10 years of seniority.

(c) Sensitivity Analysis of the Main Actuarial Assumptions as of December 31, 2019:

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 10,927 thousand. If the discount rate was decreased by 1%, the defined benefit obligation would increase by NIS 12,743 thousand.

(2) If the rate of an expected salary rise was increased by 1%, the defined benefit obligation would increase by NIS 12,511 thousand. If the rate of an expected salary rise was decreased by 1%, the defined benefit obligation would decrease by NIS 10,852 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 with respect to the Defined Benefits Plan:

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Opening balance	95,756	100,097	94,826
Current service cost	3,561	3,511	3,975
Interest cost	3,766	3,418	4,004
Actuarial losses (gains) with respect to remeasurements:			
Arising from changes in financial assumptions	16,699	(9,439)	3,740
Arising from past experience	(44)	1,417	(1,727)
Arising from changes in demographic assumptions	(144)	-	(6)
Benefits paid with respect to severance compensation	(6,959)	(3,008)	(4,476)
Benefits paid with respect to pensions	(243)	(240)	(239)
Closing balance	112,392	95,756	100,097

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

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Opening balance	77,791	77,095	75,383
Interest income from plan assets (*)	1,921	1,828	2,033
Actuarial gains (losses) with respect to the remeasurement of the return on plan assets	181	(1,837)	119
Deposits by the employer	3,802	3,713	4,036
Benefits paid	(6,879)	(3,008)	(4,476)
Closing balance	76,816	77,791	77,095

(*) After a transfer of benefits totaling NIS 1,212 thousand in 2019, NIS 874 thousand in 2018 and NIS 1,238 thousand in 2017.

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,		
	2019	2018	2017
	NIS, in thousands		
Present value of funded obligations	111,295	94,660	98,912
Fair value of plan assets	(76,816)	(77,791)	(77,095)
	34,479	16,869	21,817
Present value of unfunded obligations	1,097	1,096	1,185
Net liability derived from obligation for defined benefits	35,576	17,965	23,002

(2) Defined Contribution Plans:

Plans with 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' committee 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 with 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 with respect to the defined contribution plans in the year ended December 31, 2019 amounted to NIS 3,275 thousand (2018 – NIS 3,089 thousand and 2017 – NIS 2,972 thousand).

C. Other Long-Term Employee Benefits:

(1) Vacation:

In accordance with the special collective agreement between the Company and the TASE's employees committee, 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 13 - 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,	
	2019	2018
	%	%
Discount rate	0.64	1.44
Forecasted rates of salary increases:		
Employees (in nominal terms)	4	4
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 S above.

NOTE 13 - EMPLOYEE BENEFITS (CONT.):

E. Short-Term Employee Benefits:

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

(1) Compensation Policy and Compensation Plan for the Officers:

On April 17, 2018 and on September 6, 2018, following receipt of the approval of the Company's Audit Committee, Compensation Committee and Board of Directors, the compensation policy for officers of TASE for 2018-2020 was approved at the general meeting.

The compensation policy defines and specifies the Company's policy in relation to remunerating the Company's officers for the years 2018, 2019 and 2020. It results from combining the provisions of Amendment 20 that applies to debenture companies with the broad principles that the Company's Board of Directors saw fit to adopt with regard to the compensation of the Company's officers, while taking into consideration the special characteristics of the Company. The various compensation components are intended to encourage the continued employment of the officers at the Company, and to enable the employment of new, high-quality officers, who will be able to contribute to the Company and to advance its goals.

In the period of the policy, the Company is entitled to grant equity compensation to the officers who report to the Company CEO, in accordance with the terms set forth in the compensation policy.

On April 17, 2018, after receipt of the approval of TASE's Board of Directors, the Company's Audit Committee and its Compensation Committee, the compensation plan for the years 2018-2020 for the Chairman of the Board of Directors and the CEO of TASE was approved at the general meeting of the Company. The plan includes a monetary bonus based on quantitative and qualitative criteria. The compensation plan is in accordance with the compensation policy that was approved, as set forth above.

On March 29, 2018, the Board of Directors approved the compensation plan for the officers of the Company who report to the CEO. The plan includes a monetary bonus and long-term equity compensation.

The compensation plan was drawn up in accordance with the Company's compensation policy as set forth above. Within the framework of the compensation plan, officers of the Company 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.

The main goals of the equity compensation plan are:

- The creation of a layer of long-term compensation and the retention of the offerees.
- The provision of an incentive to increase the value of the Company over the long term.
- The provision of an incentive to help complete the process of listing the Company's shares for trading.
- The creation of shared interests between the offerees and the Company's shareholders.
- The granting of competitive compensation relative to the market.

NOTE 13 - EMPLOYEE BENEFITS (CONT.):

E. Short-Term Employee Benefits (Cont.):

(1) Compensation Policy and Compensation Plan for the Officers (Cont.):

On July 4, 2018 the officers of the Company who report to the CEO were granted 4,179,797 options to purchase shares of the Company, in accordance with the aforementioned compensation plan.

On April 11, 2019, the Company's Board of Directors approved an amendment to the Plan (which was contingent upon the revision of the Company's compensation policy), which, among other things, canceled the plan's provisions that conditioned the exercise of the options on the listing of the Company's shares. In addition, an alternative mechanism was set forth for determining the value of the benefit to the offerees in the event that the Company's shares are not listed on the TASE. On May 1, 2019, the general meeting of the Company approved the updating of the Company's Compensation Policy pursuant to the aforesaid.

Regarding the measurement of the fair value, recognition of expenses and vesting terms of the options, see note 15 B.

(2) Retention Plan for the CEO:

On May 1, 2019, the Company's general meeting, after receiving the approval of the Company's Compensation Committee and Board of Directors, approved a retention plan for the Company CEO that includes the following three components:

(1) A monthly additional payment that will be paid partly starting from the June 2019 salary and partly starting from the January 2022 salary.

(2) The provision of a retention loan to the CEO of NIS 3.5 million ("the Loan") for a period of 5 years starting on June 1, 2019 ("the Loan Term"). If the CEO continues to work at the Company until the end of the Loan Term (namely, until May 30, 2024), the entire Loan will convert into a one-time bonus for the CEO. If, before the end of the Loan Term, the CEO gives notice of his resignation, the CEO will return the full amount of the Loan to the Company. If employment relations come to an end prior to the end of the Loan Term, at the initiative of TASE and under ordinary circumstances, the CEO will be entitled to convert a pro rata portion of the Loan into a bonus. The Loan will bear annual imputed interest (in accordance with the provisions of section 3(i) of the Income Tax Ordinance), the cost of which the Company will bear, including the tax gross-up in respect thereof. The Company will recognize the expense over the Loan Term on a straight-line basis.

(3) The approval of an equity-based compensation plan for the CEO, pursuant to which 4,250,000 options – exercisable into shares of the Company and vesting in one installment five years from the date of the allocation – will be granted. The options for the CEO that are allocated under the equity compensation plan will not be listed on TASE.

On a theoretical assumption of the full exercise of the options for the CEO and on the assumption of an allocation of the maximum possible number of shares that will result from the exercise of the options for the CEO, the exercise shares for the CEO will constitute 4.08% of the Company's issued share capital (immediately following the allocation), and 3.92% assuming full dilution.

Regarding the measurement of the fair value and vesting terms of the options, see note 15 C.

NOTE 13 - EMPLOYEE BENEFITS (CONT.):

E. Short-Term Employee Benefits (Cont.):

(3) Related Parties:

For information regarding current liabilities for employee benefits granted to related parties, see note 22.

NOTE 14 - DEFERRED INCOME FROM LISTING FEES AND LEVIES:

	NIS, in thousands
Change in balance of deferred income:	
Balance as of January 1, 2018 (after application of IFRS 15)	84,953
Income recognized from the fulfillment of performance obligations with respect to amounts included in the opening balance	(16,390)
Additional income recognized with respect to progress in the fulfillment of a performance obligation during the year	(1,877)
Amounts received during the year	20,928
Balance as of December 31, 2018	87,614
Balance as of January 1, 2019	87,614
Income recognized from the fulfillment of performance obligations with respect to amounts included in the opening balance	(17,203)
Additional income recognized with respect to progress in the fulfillment of a performance obligation during the year	(2,985)
Amounts received during the year	25,872
Balance as of December 31, 2019	93,298
Presented in the Statement of Financial Position–	
As of December 31, 2018:	
Under Current liabilities	17,203
Under Non-current liabilities	70,411
As of December 31, 2019:	
Under Current liabilities	19,380
Under Non-current liabilities	73,918

Transaction prices allocated to performance obligations that have yet to be fulfilled or have been partially fulfilled:

	Forecast for recognition of income				
	Up to 1 Year	**1-2 Years**	**2-5 years**	**Over 5 Years**	**Total of Amounts of Performance Obligations That Have Yet to be Fulfilled (or Have Been Partially Fulfilled)**
	NIS, in thousands				
December 31, 2019	19,380	15,628	32,532	25,758	93,298
December 31, 2018	17,203	14,145	30,475	25,791	87,614

NOTE 15 - SHARE-BASED PAYMENT:

A. Granting of Shares to Employees:

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

On September 13, 2017, 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 with 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 thereof.

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 calculating the fair value were a real discount rate of 8% and a growth rate of 3% per representative year.

NOTE 15 - SHARE-BASED PAYMENT (CONT.):

A. Granting of Shares to Employees (Cont.):

The fair value obtained from the DCF model was reduced by 9.1%, with respect to 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 without the need for vesting terms and, accordingly, the Company recorded the full expense with 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.

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

B. Granting of Options to Executives:

On July 4, 2018, 4,179,797 options to purchase the Company's shares were allotted to the officers in accordance with the compensation plan for the years 2018-2020 for officers who report to the CEO.

The following table shows the number of options that were allotted under this plan:

Description of the Plan	Grant Date	Number of Options Granted	Expiration Date	Vesting and Other Terms	Exercise Price (1)	Fair Value as of the Grant Date – NIS Thousands
Options granted to officers who report to the CEO	March 29, 2018	4,179,797	July 3, 2022	(2)	5.75	4,539

(1) The exercise price of the options will not be collected but will be used to determine the amount of the monetary benefit and the number of shares that will be allotted in practice.

(2) The options will vest gradually in three equal installments, after one year, two years and three years from the allotment date. If the employer-employee relations between the officer and the Company terminate, he will be entitled to exercise only the options whose vesting date has passed prior to the date of termination of employer-employee relations, plus a pro-rata share of the next annual installment, whose vesting date falls after the date of termination of employer-employee relations (should there be any). The vesting and exercise of the options were contingent on the listing of the Company's shares on the Tel-Aviv Stock Exchange Ltd. This condition was cancelled from April 11, 2019 as part of an amendment of the compensation plan for officers – for further details, see note 13 E above.

The options were granted to the officers in accordance with the provisions of Section 102 of the Income Tax Ordinance, under the capital gains track. Expenses with respect to the plan are not allowable for tax purposes and therefore no tax asset has been recorded with respect to the expenses.

NOTE 15 - SHARE-BASED PAYMENT (CONT.):

B. Granting of Options to Executives (Cont.):

Estimate of the fair value of the options:

The fair value of the options that were granted as stated above was estimated using the binomial model. The following table shows the parameters that were used when applying the model:

Component	
Share price on the grant date (NIS) (1)	5.47
Exercise price (NIS)	5.75
Exercise coefficient	2.2
Expected volatility of the share price (2)	25.66%
Lifespan of the options (in years)	4.17
Risk-free interest rate	0.73%
Expected dividend rate (3)	0%

(1) The value of the share is based on a valuation of the Company's equity capital as determined by an external assessor.

(2) The Company was a private company and no data existed regarding a historical standard deviation, hence the expected volatility was determined on the basis of historical volatility of traded stock exchanges with values of up to NIS 8 billion.

(3) Since the exercise price of the options is adjusted for the full dividend that the Company will distribute over the exercise period, the expected dividends were not included in the valuation and a dividend rate of 0% was assumed.

The Group recognizes share-based payment arrangements in the financial statements as an expense over the vesting period against an increase in equity, under the "Capital reserve with respect to share-based payment transactions" item. The vesting of the options in accordance with the compensation plan that was approved until December 31, 2018 was contingent on the listing of the Company's shares on the Tel-Aviv Stock Exchange Ltd. Therefore, no expense with respect to share-based payments was recognized in the consolidated financial statements as of December 31, 2018. According to the amendment of the plan from April 11, 2018 (see also note 13 E above), the vesting is not dependent on a listing and, therefore, the Company began to recognize an expense from a share-based payment on the basis of the fair value as determined on the original grant date, and for the duration of the vesting starting from May 1, 2019 (the approval date by the general meeting of the amendment of the compensation plan). The cumulative expense from the original grant date, which was initially recognized in 2019, amounted to approximately NIS 3.4 million (including approximately NIS 1.8 million for the period from the original grant date to December 31, 2018).

C. Granting of Options to the CEO:

On July 4, 2019, 4,250,000 options to purchase the Company's shares were allotted in accordance with the abovementioned equity-based compensation plan.

NOTE 15 - SHARE-BASED PAYMENT (CONT.):

C. Granting of Options to the CEO (Cont.):

The following table shows the number of options that were allocated under the abovementioned plan:

Plan Description	Grant Date	Number of Options Granted	Expiry Date	Vesting and Other Conditions	Exercise Price (1)	Fair Value on the Grant Date
						NIS, in thousands
Options granted to the CEO	May 1, 2019	4,250,000	July 3, 2026	(2)	12	2,743

(1) The exercise price of the options will not be collected but will serve to determine the amount of the monetary benefit and the number of shares that will be allocated in practice.

(2) The options will be fully vested at the end of 5 years from the allocation date, subject to the CEO serving in his position until that date.

The options were granted to the CEO in accordance with the provisions of section 102 of the Income Tax Ordinance, under the Capital Gains Track. The expenses that will be recorded with respect to the plan are not recognized for tax purposes, and therefore a tax asset has not been recorded with respect to the expenses.

Estimate of the fair value of the options:

The fair value of the options that were granted, as stated above, has been estimated using the binomial model. Below are the parameters that were used when applying the model:

Component	
Share price on the grant date (NIS) (1)	6.36
Exercise price (NIS)	12
Exercise coefficient	2.8
Expected volatility of the share price (2)	25%
Lifespan of the options (in years)	7
Risk-free interest rate	1.65%
Expected dividend rate (3)	0%

(1) The value of the share is based on a valuation of the Company’s equity capital as determined by an external appraiser.

(2) The volatility has been estimated on the basis of data of similar companies, and has been calculated as a simple average of the annualized standard deviations of traded stock exchanges in ranges of up to NIS 10 billion over a trading period of 7 years (according to the expected lifespan of the options.)

(3) Since the exercise price of the options is adjusted for the full dividend that the Company will distribute over the exercise period, the expected dividends have not been included in the valuation, and a dividend rate of 0% has been assumed.

The Group recognizes share-based payment arrangements in the financial statements as an expense over the vesting period against an increase in equity, under the “Capital reserve with respect to share-based payment transactions” item.

NOTE 16 - TAXES ON INCOME:

A. Deferred Tax Balances:

(1) Composition and Changes:

	Current Loss	Financial Assets at Fair Value Through Profit or Loss	Property and Equipment) and Intangible Assets	Provisions (Mostly for Employee Benefits)	Available-For-Sale Financial Assets	Deferred Taxes with respect to Deferred Income	Total
As of January 1, 2018	391	(16)	5,649	8,675	773	-	15,472
Initial application of IFRS 15	-	-	-	-	-	19,539	19,539
Initial application of IFRS 9	-	773	-	-	(773)	-	-
Changes in the reporting year:							
In profit or loss	(391)	539	(22,225)	300	-	612	(21,165)
In other comprehensive income	-	-	-	(1,423)	-	-	(1,423)
As of December 31, 2018	-	1,296	(16,576)	7,552	-	20,151	12,423
Changes in the reporting year:							
In profit or loss	-	(1,327)	(2,493)	395	-	1,308	(2,117)
In other comprehensive income	-	-	-	3,755	-	-	3,755
As of December 31, 2019	-	(31)	(19,069)	11,702	-	21,459	14,061

(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”.

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

	December 31, 2019	December 31, 2018
	NIS, in thousands	
Subsidiaries	87,666	75,842

NOTE 16 - TAXES ON INCOME (CONT.):

C. Amounts for Which Deferred Tax Assets Have Not Been Recognized:

The balance of capital losses for tax purposes for which deferred tax assets have not been recognized as of December 31, 2019 is NIS 2,912 thousand. The balance of business losses for tax purposes for which deferred tax assets have not been recognized as of December 31, 2019 is NIS 575 thousand.

D. Taxes on Income Recognized Directly in Capital:

In 2019, current taxes in the amount of NIS 590 thousand with respect to the initial listing of the shares were recognized directly in capital.

E. Income Tax Expenses Recognized in Profit or Loss:

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Current tax:			
Current tax	3,913	5,019	1,910
Tax expense for prior years	(459)	(44)	376
Total current tax	3,454	4,975	2,286
Deferred tax:			
Deferred tax expense – recognition and reversal of temporary differences	2,255	21,165	2,707
Tax for prior years	(138)	-	(347)
Total deferred tax	2,117	21,165	2,360
Total expenses for taxes on income	5,571	26,140	4,646

F. Tax Relating to Components of Other Comprehensive Income:

	Amount Before Tax	Tax Effect	Amount Net of Tax
	NIS, in thousands		
As of December 31, 2019:			
Actuarial loss with respect to the defined benefit plan	(16,330)	3,756	(12,574)
As of December 31, 2018:			
Actuarial gain with respect to the defined benefit plan	6,186	(1,423)	4,763
As of December 31, 2017:			
Actuarial gain with respect to the defined benefit plan	(1,886)	434	(1,452)
Loss revaluation of available-for-sale financial assets	2,744	(631)	2,113
	858	(197)	661

NOTE 16 - TAXES ON INCOME (CONT.):

G. Effective Tax:

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

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Pretax income (loss)	23,129	112,562	(9,624)
Statutory tax rate	23%	23%	24%
Tax expense (benefit), at statutory tax rate	5,320	25,889	(2,310)
Tax increase (savings) with respect to:			
Income liable to special tax rates	22	(51)	(70)
Tax losses and benefits for which deferred tax is not recognized	122	67	140
Tax benefits for which deferred tax assets were not recognized in the past, for which taxes have been recognized in the reporting period	(154)	-	-
Differences between tax laws and accounting principles	(162)	(37)	(4)
Expenses which are not recognized for deduction, net (*)	1,020	315	6,861
Tax – prior years	(597)	(43)	29
Taxes on income, as reported in profit or loss	5,571	26,140	4,646

(*) Includes NIS 887 thousand and NIS 6,572 thousand in 2019 and 2017, respectively, with respect to non-deductible share-based payments.

H. Additional Information:

(1) Corporate Tax Rate:

Below are the tax rates relevant to the Company for the years 2017-2019:

Year	Tax Rate
2017	24%
2018	23%
2019	23%

On January 12, 2012, Amendment 188 of the Income Tax Ordinance (New Version), 1961 (“the Ordinance”) was published in the official Gazette. Among other matters, Amendment 188 amended Section 87A of the Ordinance whereby it was prescribed in a temporary provision that Accounting Standard No. 29 – “Adoption of International Financial Reporting Standards (IFRS)”, published by the Israel Accounting Standards Board, would not apply in determining the taxable income for the tax years 2010 through 2011, even if this standard was applied in the financial statements (“the Temporary Provision”). On July 31, 2014, Amendment 202 of the Ordinance was published, within the framework of which the validity of the Temporary Provision was extended to the 2012 and 2013 tax years. Due to the legislative proceedings on this matter not having been completed, Company management believes that the Temporary Provisions that were established will ultimately be extended to also cover the tax years from 2014 through 2019.

NOTE 16 - TAXES ON INCOME (CONT.):

H. Additional Information (Cont.):

(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 2014 tax year.

NOTE 17 - 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, with respect to one or more of the events detailed in said letters, shall not exceed an amount in NIS equal to 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, with respect to one or more of the events detailed in said letters, shall not exceed an amount equal to 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, with respect to one or more of the events detailed in said letters, shall not exceed an amount equal to NIS 75 million, in total.

The obligation to indemnify will apply with 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.

On July 3, 2019 the shareholders' meetings of the Company (after obtaining the approvals of the Board of Directors and the Audit Committee, also in its capacity as Compensation Committee) approved an amended version of the indemnity letter ("the 2019 Indemnity Letter"). The cancellation of the indemnity letter previously provided by the Company to officers in TASE-CH was also approved at the same time. A new letter of indemnity will be issued directly by TASE-CH to the officers of TASE-CH.

The maximum indemnity payable under the 2019 Indemnity Letter with respect to a financial liability that is imposed on an officer toward another person, on an aggregate basis, based on all letters of indemnification that have and/or will be issued by the Company, from one or more of the events detailed in the 2019 Indemnity Letter ("Financial Liability to a Third Party"), shall not exceed an aggregate amount equivalent to 25% of the equity of the Company as per its most recent financial statements published prior to the actual date of payment of the indemnity. Additionally, under the 2019 Indemnity Letter, the indemnity will cover reasonable legal expenses as part of investigation proceedings and legal or administrative proceedings, including reasonable litigation expenses, with respect to damages payable to victims of administrative breaches and with respect to any other liability or expense for which indemnity is permitted by law.

On July 10, 2019, the shareholders' meeting of TASE-CH and MAOF-CH (after obtaining the approvals of their respective boards of directors and audit committees, also in their capacity as compensation committees), approved indemnity letters to officers thereof, under principles similar to those of the 2019 Indemnity Letter.

NOTE 17 - CONTINGENT LIABILITIES (CONT.):

A. Indemnification of Officers (Cont.):

Notwithstanding the above, the maximum indemnity, in the aggregate, from a Financial Liability to a Third Party under the 2019 indemnity letter of TASE-CH was set at the higher of the following: (a) NIS 10 million or (b) 25% of the total equity of TASE-CH plus the total secondary equity, as defined in the resolution, as per the most recent financial statements of TASE-CH, published prior to the actual payment date. The maximum indemnity, in the aggregate, with respect to a Financial Liability to a Third Party under the 2019 indemnity letters of MAOF-CH was set at the higher of the following: (a) NIS 5 million or (b) 25% of the total equity of MAOF-CH as per the most recent financial statements of MAOF-CH published prior to the actual payment date.

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.

In view of the changes in the corporate governance directives that apply to the Company and to TASE-CH and MAOF-CH, stemming from Amendment No. 63 of the Securities Law, the shareholders' meetings of the Company on July 3, 2019 and the shareholders' meetings of TASE-CH and MAOF-CH on July 10, 2019, (after obtaining the approvals of their respective boards of directors and their audit committees, also in their capacity as compensation committees), and including the Nominee Company, approved the granting of an exemption to officers in each company from liability for damages resulting from a breach of the duty of care, subject to the provisions and qualifications of the law.

C. 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 with respect to their operations. In cases where the extent of liability with respect to the above is not material and/or cannot be reasonably estimated, no provision is made in the financial statements.

D. Labor Dispute at TASE by the Histadrut (the New General Federation of Labor in Israel):

On September 17, 2018, a labor dispute was declared at TASE by the Histadrut (the New General Federation of Labor in Israel). The nature of the dispute, according to the notice that was sent from the Histadrut, mainly concerns the implications of the transaction for the sale of the Company's shares on the employees' rights, and the signing of a new collective agreement to secure the economic rights and employment security of the employees.

On October 8, 2018, TASE filed an ex parte motion in a collective dispute to the Tel Aviv Labor Tribunal against the Histadrut and TASE's employees committee, to cancel the collective dispute that was declared by them, as stated. In the Company's opinion, the declaration of the labor dispute constitutes a breach of the collective agreement from 2017 that contains special arrangements in light of the change in the ownership structure.

NOTE 17 - CONTINGENT LIABILITIES (CONT.):

D. Labor Dispute at TASE by the Histadrut (the New General Federation of Labor in Israel) (Cont.):

On December 1, 2019, the Regional Labor Tribunal rejected TASE's ex parte motion, without adjudication of cost of action. On December 15, 2019, the Tel Aviv Stock Exchange Ltd. appealed the ruling of the Regional Labor Tribunal from December 1, 2019 to the National Labor Tribunal. On March 3, 2020, a hearing of the appeal was held in the National Labor Tribunal, and the parties accepted the Tribunal's proposal of mediation with an external mediator regarding their disputes that are not related to the dispute, which is the subject matter of the appeal. The parties selected a mediator and the mediation proceedings are currently underway. At any time, either of the parties in the case may give notice of the discontinuance of the mediation and refer the matter back to the Tribunal. An additional hearing of the case has not yet been scheduled. We are unable to estimate the chances of the appeal, and at any rate the requested remedy is not monetary.

On May 20, 2019, a labor dispute was declared at TASE by the Histadrut. The nature of the dispute, according to the notice that was sent from the Histadrut, is the lack of agreement regarding the rate and date of the distribution of the annual bonus for 2017. The Company has made a provision for the amount of the annual bonus for 2017 that it expects to pay to the employees.

According to the provisions of the Settlement of Labor Disputes Law, 1957, in view of the sending of said notices about labor disputes, the Company's employees are entitled to go on strike. In the framework of the labor dispute that was declared, during the year various sanctions have been imposed by TASE employees, which even led to a late opening of trading on TASE on May 21, 2019.

On May 23, 2019, the Histadrut announced the commencement of expeditious and intensive negotiations to settle the labor relations. On June 12, 2019, the members of TASE's Employees Committee resigned, and on September 9, 2019 the Company employees elected a new Employees Committee.

E. Indemnity for the Pricing Underwriter ("the Prospectus Indemnification")

For the purposes of the marketing and distribution of the Sale Shares, on July 29, 2019 the Company and the holders of the Sale Shares entered into an agreement with the pricing underwriter ("the Pricing Underwriter") for the secondary offering ("the Underwriting Agreement"). The offering of shares in Israel was carried out in accordance with the prospectus (the "Israeli Shares"), while the offering of shares outside Israel (the "International Shares") was carried out on the basis of a designated disclosure document, which consisted primarily of a translation into English of an advanced draft prospectus (the "International Disclosure Package"). In the Underwriting Agreement, the Company has undertaken to indemnify the Pricing Underwriter (including related entities, its officers and employees and anyone acting on its behalf) for claims, liabilities and losses resulting directly or indirectly from a misstatement in the prospectus in relation to the offering of the Israeli Shares (the "Prospectus Indemnification") or in the International Disclosure Package, or from the violation of laws or regulations of foreign countries (i.e., outside Israel and the United States) in which the Sale Shares have been offered or sold. The indemnification undertaking does not apply to a misstatement originating in information provided to the Company by the Pricing Underwriter or by the holders of the Sale Shares for the purpose of inclusion in the prospectus or in the International Disclosure Package.

Notwithstanding the aforesaid, considering the provisions of Section 34.A of the Securities Law, the Underwriting Agreement stipulates restrictions for the maximum amount payable under the Prospectus Indemnification undertaking, so that it will not exceed the overall consideration paid for the Sale Shares, and for the suspension of the undertaking where an amount was paid that represents 25% of the Company's equity as per its most recent financial statements approved prior to the payment date and the Company's Board of Directors determines that an additional payment could impede the ability of the Company to meet its existing and anticipated obligations

NOTE 17 - CONTINGENT LIABILITIES (CONT.):

E. Indemnity for the Pricing Underwriter ("the Prospectus Indemnification")

as they fall due, this until such concern is lifted. It is further stipulated that the payment of the Prospectus Indemnification is subject to additional restrictions that are set out in the Securities Law (primarily, certain qualifications to the payment of the indemnification concerning the good faith of the Pricing Underwriter and regarding a reckless or malicious action).

NOTE 18 - SHARE CAPITAL AND OTHER CAPITAL RESERVES:

A. Composition:

	Number of shares	
	December 31, 2019 and 2018	
	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.

B. Other Capital Reserves:

1. The Company's Part Within the Framework of the Initial Listing of the Shares

   For further details, see note 1 C above.

2. Proceeds from Shareholders Within the Framework of Implementing the Ownership Restructuring

   At the offering date, there were 22,282,501 shares that had been held by shareholders prior to the date of approval of the restructuring arrangement in TASE. In accordance with the TASE Restructuring Law, and to the extent that the consideration from their sale exceeds the value of the means of control sold pursuant to the Law and as stated in note 1 B above, the excess consideration will be transferred to TASE to be used for the purposes stipulated in the Law.

   During the second half of 2019, the shareholders realized 2,793,528 shares held by them prior to the date of approval of the restructuring arrangement in TASE, in consideration of approximately NIS 28.1 million. As stated in note 1 B above and in accordance with the TASE Restructuring Law, the consideration in excess of NIS 5.08 per share is to be transferred to TASE. Accordingly, an amount approximately NIS 13.8 million of the aforesaid sale consideration was transferred to TASE. The aforesaid amount was carried directly to the equity of the Company in its financial statements as of December 31, 2019.

   As of December 31, 2019, to the best of the Company's knowledge, 19,488,973 shares are held by shareholders that had held them prior to the date of approval of the restructuring arrangement in TASE. The price of the share as of March 22, 2020 (shortly before the financial statements' approval date) was NIS 8.12. In accordance with the TASE Restructuring Law and as stated in note 1 B above, if the shareholders should realize the shares that are held by them, the consideration in excess of NIS 5.08 per share will be transferred to TASE to be used for the purposes stipulated in the Law. Such excess consideration will be carried directly to the equity of the Company.

   Regarding the sale agreement with Manikay and other investors, see note 1 B above.

NOTE 19 - ADDITIONAL DETAILS REGARDING REVENUE FROM SERVICES:

A. Major Customers:

The following table shows the percentage of revenue from major customers where the revenue from them constitutes over 10% of all the Group revenue.

	Year Ended December 31,					
	2019		2018		2017	
	NIS, in thousands	%	NIS, in thousands	%	NIS, in thousands	%
Customer A	32,980	12.7	34,560	13.5	31,751	13.1
Customer B	32,928	12.7	35,700	14.0	34,279	14.1
Customer C	32,062	12.3	33,749	13.2	34,112	14.0

B. Composition of Trading and Clearing Commissions:

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Commission for trading and clearing securities, excluding derivatives:			
Shares (*)	32,434	33,976	34,584
Bonds (*)	29,535	32,534	31,923
Mutual funds	23,716	23,900	23,325
Other	2,768	3,903	1,307
	88,453	94,313	91,139
Commission for trading and clearing derivatives:			
TA Index options	13,751	19,158	18,674
Dollar/shekel options	3,784	4,958	4,723
Other derivatives	1,012	926	1,032
	18,547	25,042	24,429
	107,000	119,355	115,568

* Including ETNs and ETFs.

NOTE 19 - ADDITIONAL DETAILS REGARDING REVENUE FROM SERVICES (CONT.):

C. Split of Revenues from Contracts with Customers:

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
By type of service:			
Trading and clearing commissions	107,000	119,355	115,568
Securities listing fees and annual levies	54,678	46,525	39,737
Clearing services	52,331	49,605	44,542
Distribution of trading data and other information	42,419	34,954	36,640
Other revenue	3,573	5,166	5,937
Total	260,001	255,605	242,424
By timing of the provision of the services: (*)			
Revenue recognized at a point in time	157,548	156,418	162,856
Revenue recognized over time	102,453	99,187	79,568
Total	260,001	255,605	242,424

(*) Revenues from listing fees were recognized in 2017 at a point in time, and in 2018 and 2019 they have been recognized over time, under the application of Standard 15. Revenues from listing fees that were recognized in 2019 amounted to NIS 20,188 thousand (2018 – NIS 18,267 thousand and 2017 - NIS 16,631 thousand). For further details see note 2 N and note 14.

NOTE 20 - ADDITIONAL DETAILS REGARDING COST OF REVENUE:

A. Employee Benefit Expenses:

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Salary (including grants and severance payments)	139,607	139,954	131,000
Other non-current employee benefits	516	18	324
Defined contribution plan expenses	3,275	3,089	2,972
Defined benefit plan expenses	5,413	5,101	5,946
	148,811	148,162	140,242
Less – amounts capitalized to intangible assets and property and equipment (see note 12)	(15,838)	(18,892)	(11,544)
	132,973	129,270	128,698

B. Depreciation and Amortization:

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Depreciation of property and equipment (see note 11)	25,670	15,498	13,788
Amortization of intangible assets (see note 12)	17,901	17,174	15,809
	43,571	32,672	29,597

NOTE 21 - FINANCING INCOME (EXPENSES), NET:

Composition:

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Financing expenses:			
Bank fees and commissions	247	161	146
Interest and linkage expense – Income Tax Authority	106	-	-
Lease financing expenses	349	-	-
Other financing expenses	304	-	185
	1,006	161	331
Financing income:			
Net gain (loss) from financial assets held for trading	9,819	(1,436)	592
Net gain on available-for-sale financial assets (bonds)	-	-	969
Total net gain (loss) from financial assets	9,819	(1,436)	1,561
Interest income – short-term bank deposits	112	37	3
Interest and linkage income – Income Tax Authority	9	221	310
Interest income – employee loans	35	35	26
Other financing income	-	244	-
	9,975	(899)	1,900
	8,969	(1,060)	1,569

NOTE 22 - EARNINGS PER SHARE:

Basic and Diluted Earnings per Share

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Profit used to compute basic and diluted earnings per share from continuing operations	17,558	86,422	(14,270)
Weighted average number of ordinary shares used to compute basic earnings per share	100,000,000	100,000,000	95,791,781
Options granted as part of share-based payment arrangements	1,014,349	-	-
Weighted average number of ordinary shares used to compute diluted earnings per share	101,014,349	100,000,000	95,791,781
Basic earnings (loss) per share	0.176	0.864	(0.149)
Diluted earnings (loss) per share	0.174	0.864	(0.149)

The 4,250,000 options granted to the CEO (see note 15 C above) were not included in the 2019 diluted earnings per share computation as their effect was anti-dilutive in said year. The 4,179,797 options granted to officers who report to the CEO (see note 15 B above) were not included in the 2018 diluted earnings per share computation as their effect was anti-dilutive in said year.

NOTE 23 - INTERESTED AND RELATED PARTIES:

A. Benefits to Interested Parties (*):

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Short-term benefits	3,333	2,926	2,337
Post-employment benefits	128	126	125
Share-based payment	356	-	-
Salary and related expenses for the CEO (***)	3,817	3,052	2,462
Number of individuals	1	1	1
Fees of directors, not employed by the Company (**) (****)	1,942	1,907	1,760
Number of individuals	8	6	7

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

(**) Also includes a bonus to the Chairman of the Board of Directors, the qualitative portion of which is subject to the general meeting's approval.

(***) Regarding the compensation model for the CEO, see note 13 E (2)

(****) On December 20, 2016, the organs of TASE resolved to make changes in the terms of the position of Chairman of the Board of Directors, whereby this position would be defined – from January 1, 2017 – as Non-Executive Chairman of the Board of Directors, with the holder engaging in managing the work of the Board of Directors and its committees. Accordingly, the salary of the Chairman of the Board of Directors is included together with the fees of directors that are not employed by the Company. The comparative data have been revised accordingly.

B. Balances with Interested and Related Parties:

(1) Balances with Interested Parties:

	December 31,	
	2019	2018
	NIS, in thousands	
Under current assets: (1)		
Other receivables – MAOF-CH (2) (3)	4,099	6,050
Other receivables – Nominee Company (2) (3)	960	899
Under non-current assets:		
Long-term loan – TASE-CH (3)	60,655	60,472
Under current liabilities: (1)		
Other payables – TASE-CH (2) (3)	2,494	5,822

(1) Regarding receivables and payables with respect to open derivative positions, see note 7 above.

(2) The balances are interest-free and are not linked to the CPI.

(3) Balances with subsidiaries are not included in the Company's consolidated statements.

NOTE 23 - INTERESTED AND RELATED PARTIES (CONT.):

B. Balances with Interested and Related Parties (Cont.):

(2) Balances with Key Management Personnel:

	December 31, 2019	December 31, 2018
	NIS, in thousands	
Under current assets:		
Other receivables (*)	700	-
Under non-current assets:		
Other long-term receivables (*)	2,392	-
Under current liabilities: (**)	927	1,135

(*) Regarding a loan to the CEO, see note 13 E.
(**) Includes a bonus to the Chairman of the Board of Directors, which is subject to the general meeting's approval.

C. Transactions with Interested and Related Parties:

(1) Transactions with Interested Parties:

	Year Ended December 31, 2019	2018 (**)	2017
	NIS, in thousands		
Revenue from services	-	120,535	160,731
Cost of revenue	-	(2,850)	(7,412)
Financing income, net (*)	-	(104)	(326)

(*) 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".

(**) Further to that stated in note 1 B above with regard to the restructuring of TASE and the sale transaction with Manikay and additional investors, the holdings of the TASE shareholders, that held – immediately after the approval of TASE's restructuring arrangement – more than 5% of all the means of control in TASE, fell with the closing of the sale agreements with Manikay and the additional investors on August 27, 2018 to less than 5% and, from the aforesaid date, hence they are no longer interested parties in TASE.

NOTE 23 - INTERESTED AND RELATED PARTIES (CONT.):

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

(2) Transactions with Related Parties:

	Year Ended December 31,		
	2019	2018	2017
	NIS, in thousands		
Transactions with subsidiaries: Participation in revenue and expenses in accordance with the distribution model: (a)			
Participation in revenue			
TASE-CH	(130,043)	(131,874)	(123,020)
MAOF-CH	1,751	2,338	2,877
Nominee Company	(6)	-	-
Participation in expenses			
TASE-CH	94,419	90,103	97,964
MAOF-CH	26,454	23,195	24,885
Nominee Company	4,267	4,813	447
Initiation/balance fees			
TASE-CH	26,832	26,362	19,991
MAOF-CH	(10,360)	(3,019)	-
Nominee Company	(2,358)	(3,269)	-
Share-based payments			
TASE-CH	1,409	-	11,346
MAOF-CH	386	-	2,763
Nominee Company	107	-	-
Financing income with respect to a loan to TASE-CH (b)	2,765	3,273	2,717
Expenses with respect to annual fees paid to the Nominee Company	(8)	-	-

(a) Distribution Model:

TASE and the other Group companies are closely interconnected. This as TASE provides the companies 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. The mixed income was divided according to the ratio between trading and clearing, according to a model based on market prices.

NOTE 23 - INTERESTED AND RELATED PARTIES (CONT.):

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

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

(a) Distribution Model (Cont.):

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. Up to December 31, 2017, the profitability index used as the allocation key under the distribution model is a rate of return on equity. Since January 1, 2018, as part of the validation of the distribution model, the profitability index was updated and is based on the operating profit margin of the Group, since this model is more suitable to the market price principles as defined in the OECD guidelines.

(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 23 - 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.

(2) Officers' and Professional Liability Insurance:

On September 6, 2018, after receiving the approval of the Company's Board of Directors and the Audit Committee, the general meeting of the Company approved the Company's acquisition of liability insurance for directors and officers of the Company and its subsidiaries, for a period of one year commencing August 1, 2018 and ending July 31, 2019.

Each of the policies (the officers' liability insurance policy and the professional liability insurance policy) has a liability limit of USD 50 million (per incident and in aggregate), and an annual premium for both policies together of USD 184 thousand. In addition, the insurance coverage was expanded in the officers' liability policy to provide suitable coverage for a public company, on the date of closing the IPO, for an additional annual premium of approximately USD 7 thousand.

In addition, an engagement in a "Run Off" officers' liability insurance policy was approved to cover past activity up to the date of change of ownership, for an insurance period of 7 years from the date of change of ownership. This policy has a liability limit of up to USD 50 million (per incident and in aggregate), in exchange for a premium for the entire insurance period of 7 years, in the amount of approximately USD 107 thousand.

Each of the subsidiaries will bear its pro-rata share of the cost of the premiums in accordance with the principles of the distribution model set forth in section C (2) (a) above.

On July 31, 2019, after receiving the approval of the Company's Board of Directors and Audit Committee, also in its capacity as the Compensation Committee, the general meeting of the Company approved the Company's acquisition of professional liability insurance and liability insurance for directors and officers of the Company and its subsidiaries, for a period of one year commencing on August 1, 2019 and ending on July 31, 2020.

NOTE 23 - INTERESTED AND RELATED PARTIES (CONT.):

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

(2) Officers' and Professional Liability Insurance (Cont.):

Each of the policies (the officers' liability insurance policy and the professional liability insurance policy) has a liability limit of US$ 50 million (per incident and in aggregate), and an annual premium for both policies together of US$ 252 thousand (as compared to approximately US$ 184 thousand in the corresponding period last year). The officers' liability insurance policy has been adjusted to cover the operations of a public company and includes the requisite expansions and additions. Additionally, the acquisition of an additional layer of insurance in the officers' liability insurance for the Clearing Houses (TASE-CH and MAOF-CH) was approved, in an amount of up to US$ 10 million (per incident and in aggregate) in excess of the liability limit of up to US$ 50 million, for an annual premium of approximately US$ 22 thousand.

Additionally, the acquisition of a designated insurance policy for the offering (Public Offering of Securities Insurance – POSI) was approved to cover the process of the offering and the prospectus for a period of 7 years from issuance date, with a coverage amount of up to US$ 30 million (per incident and in aggregate), in consideration for the payment of a premium of approximately US$ 127 thousand for the entire 7-year insurance period.

Each of the subsidiaries will bear its pro-rata share of the cost of the premiums in accordance with the principles of the distribution model set forth in section C (2) (a) above. The subsidiaries will not bear the cost of the premium with respect to the POSI policy.

(3) Regarding the indemnification of officers and an exemption from liability granted to officers, see note 17 above.

(4) Regarding an agreement with the Bank of Israel, see note 4 B (2) (c).

NOTE 24 - CHARGES:

A. In March 2008, TASE-CH opened a bank account ("the 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.

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.

For further details regarding a liquidity line from a commercial bank, see note 4 B (2) (c).

NOTE 24 - CHARGES (CONT.):

B. 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 NIS 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.

On January 13, 2020, the Company signed an amendment letter for the reduction of the Company's credit facility granted to it by the banking corporation, effective from December 31, 2019. As provided by the amendment letter, the aforesaid credit facility has been reduced from NIS 50 million to a credit facility of NIS 30 million. To date, the Company has not utilized the credit facility (the credit facility is valid until December 31, 2020).

During January 2016, TASE pledged and/or charged, in favor of the banking corporation 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 25 COMMITMENTS:

In May 2019, TASE entered into an agreement with the Israeli Professional Football Leagues Administration 2014 Ltd. (the "Administration") for primary sponsorship over three seasons of matches (as defined in the Code of the Israel Football Association) commencing in the 2019/2020 season and ending in the 2021/2022 season, for a total consideration of NIS 12.3 million, payable in installments. In return, the Administration has committed to a minimum volume of advertising in the various media, as set out in the above agreement.

NOTE 26 - EVENTS AFTER THE END OF REPORTING PERIOD:

a. On March 24, 2020, the Board of Directors of the Company decided on the distribution of a dividend to the shareholders in an amount of NIS 8,770 thousand (representing NIS 0.0877 per share). The record date was set as April 1, 2020 and payment has been scheduled for April 16, 2020.

The exercise price of the options granted to officers who report to the CEO will be adjusted from NIS 5.75 to NIS 5.66 per share. Additionally, the exercise price of the options granted to the CEO will be adjusted from NIS 12 to NIS 11.91 per share

b. Outbreak of the Coronavirus

The outbreak of the new coronavirus in China in January 2020 and its evolving into a “global pandemic” resulted in uncertainty and strong volatility in the capital markets, which were exacerbated by its impact on global economic activities.

To the date of approval of the financial statements, the significant short-term negative effects of the pandemic on the operating results of the Company cannot be estimated, as, in principle, the Company is not directly affected by the prices of the securities, but rather by the trading and clearing turnovers of securities and derivatives. The Company has an operational and technological solution in place that facilitates the operation of TASE and the Clearing House with a significantly lower number of employees that are required to be present at the sites of the Company for the operation of the core trading and clearing systems. It should be noted that the restrictions recently imposed by virtue of the Emergency Regulations do not categorically prohibit the opening of workplaces, but rather stipulate various limitations that are primarily designed to reduce the number of employees in the workplaces and to encourage remote work, in both the public and the private sectors. Nevertheless, to the date of the Report, the Regulations exempt a number of employers, including those operating in the capital market, such as the Company (alongside banks, Stock Exchange members, fund managers, rating firms and more).

The Company's Group has liquid balances of approximately NIS 309 million, of which, as of December 31, 2019, NIS 205 million is managed in portfolios of tradable securities, consisting of Israeli government bonds. As of the date of the Report, the effects of the coronavirus crisis on trading in the Tel Aviv Stock Exchange and the decline in prices of securities resulted in a decrease of NIS 6 million in the total market value of said portfolios. It should be noted that, barring a further change by March 31, 2020, this amount will be recorded as a financing expense in the Company's consolidated interim financial statements as of March 31, 2020.

Moreover, the perseverance and exacerbation of this unprecedented global crisis could also adversely affect business and economic operations in Israel and worldwide, including the volumes of the investment and trading in securities, in a manner and to an extent that, at this stage, cannot be estimated and quantified by the Company. Nevertheless, it is not unreasonable to assume that the current uncertainty will lead to reduced volumes of activity in the primary market (both equity and debt) that will in turn entail a decline in revenues from examination and listing fees in respect of new securities. Furthermore, it is likely that an ongoing erosion in the prices of listed securities could impact the revenues of the Group from custodial services, to some extent, as these are derived from the value of the securities held, and if price levels are not corrected by the end of the year, this could adversely impact the volume of fees from companies in 2021, which are derived from the value of the securities listed as of December 2020. Additionally, persisting uncertainty, in general, and in the capital market, in particular, could defer the Company’s launching of new products or services until the smoke clears. Finally, it should be noted that in the aftermath of the crisis recovery will be gradual. At this stage, the volumes of trading and capital-raising in the recovery period cannot be estimated, as these depend, among others, on the volatility of the markets and the pace at which the public return to invest, directly or indirectly, in securities that are listed on TASE.

THE TEL-AVIV STOCK EXCHANGE LTD.

SEPARATE FINANCIAL INFORMATION FOR 2019

Drawn up in accordance with Section 9(c) of the Securities Regulations
(Periodic and Immediate Reports), 5730-1970

THE TEL-AVIV STOCK EXCHANGE LTD.

SEPARATE FINANCIAL INFORMATION FOR 2019

Contents

	Page
Special Report of the Auditors	2
Financial Statements:	
Financial Position Data	3
Profit or Loss Data	4
Other Comprehensive Income or Loss Data	5
Cash Flow Data	6-7
Supplementary Information to the Separate Financial Information	8-22

To
The Shareholders of
The Tel-Aviv Stock Exchange Ltd.
2 Achuzat Bayit St.
Tel Aviv

Dear Sirs,

Re: Special Report of the Auditor on Separate Financial Information pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information that was prepared in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970 of The Tel-Aviv Stock Exchange Ltd. (hereafter - "the Company") as of December 31, 2019 and 2018 and for each of the three years in the period ended on December 31, 2019. The board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion on this separate financial information based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used in the preparation of the separate financial information and significant estimates made by the board of directors and management, as well as evaluating the overall separate financial information presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the separate financial information is prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv, Israel, March 24, 2020

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

Jerusalem	Haifa	Beer Sheva	Eilat	Nazareth
3 Kiryat Ha'Mada Har Hotzvim Tower Jerusalem, 914510 D. BOX 45396	5 Ma'aleh Hashichrur P.O.B. 5648 Haifa, 3105502	Ha'Energia St. 77, Building 1 Gav-Yam Negev, Advanced Technologies Park Beer Sheva, 8470912	The City Center P.O.B. 583 Eilat, 8810402	9 Marj Ibn Amer St. Nazareth, 16100
Tel: +972 (2) 501 8888 Fax: +972 (2) 537 4173 info-jer@deloitte.co.il	Tel: +972 (4) 860 7333 Fax: +972 (4) 867 2528 info-haifa@deloitte.co.il	Tel: +972 (8) 690 9500 Fax: +972 (8) 690 9600 info-beersheva@deloitte.co.il	Tel: +972 (8) 637 5676 Fax: +972 (8) 637 1628 info-eilat@deloitte.co.il	Tel: +972 (73) 399 4455 Fax: +972 (73) 399 4455 info-nazareth@deloitte.co.il

THE TEL-AVIV STOCK EXCHANGE LTD.
FINANCIAL POSITION DATA

	Supplementary Information	December 31, 2019	December 31, 2018
		NIS, in thousands	NIS, in thousands
Assets			
Current assets			
Cash and cash equivalents	B	72,581	39,194
Financial assets at fair value through profit or loss	C(6)	52,018	31,270
Trade receivables		13,733	15,268
Other receivables		12,104	10,702
Current tax assets		-	1,617
Total current assets		150,436	98,051
Non-current assets			
Restricted cash		541	538
Investment in subsidiaries		120,788	108,995
Other long-term receivables		3,761	-
Property and equipment, net		345,176	336,079
Intangible assets, net		111,875	105,460
Deferred tax assets	D(1)	14,076	11,274
Long-term loan to a subsidiary		60,655	60,472
Total non-current assets		656,872	622,818
Total assets		807,308	720,869
Liabilities and equity			
Current liabilities			
Trade payables		15,376	15,266
Short-term liabilities for employee benefits		33,121	28,751
Current maturities of lease liabilities		9,728	-
Current tax liabilities		231	-
Deferred income with respect to listing fees and levies		19,380	17,203
Other payables		6,188	9,285
Total current liabilities		84,024	70,505
Non-current liabilities			
Non-current liabilities for employee benefits		37,565	19,522
Lease liabilities		12,553	-
Deferred income with respect to listing fees and levies		73,918	70,411
Other liabilities		541	538
		124,577	90,471
Equity			
Remeasurement of net defined benefit liability		(16,905)	(4,331)
Share-based payments reserve		31,238	27,380
Other capital reserves		43,079	13,107
Retained earnings		541,295	523,737
Total equity		598,707	559,893
Total liabilities and equity		807,308	720,869

The accompanying supplementary information an integral part of the separate financial information.

THE TEL-AVIV STOCK EXCHANGE LTD.

Profit or Loss Data

	Supplementary Information	Year ended December 31, 2019	2018	2017
		NIS, in thousands	NIS, in thousands	NIS, in thousands
Revenue from services:				
Trading and clearing commissions		25,483	27,468	34,092
Listing fees and levies		40,404	33,270	23,165
Data distribution and connectivity services		41,781	34,954	36,640
Other revenue		3,078	3,320	3,530
		110,746	99,012	97,427
Revenue from initiation fees, net from investees		14,113	20,074	19,991
Total revenue from services		124,859	119,086	117,418
Cost of revenue:				
Employee benefits expenses		65,661	65,648	63,772
Share-based payments expenses		1,956	-	13,271
Computer and communications expenses		10,226	10,579	10,782
Rent, property taxes and building maintenance expenses		6,311	6,599	6,255
Administrative, fee and general expenses		9,300	8,810	7,997
Marketing expenses		3,491	2,147	2,234
Depreciation and amortization expenses		23,780	14,631	12,267
Reversal of impairment provision		-	(85,108)	-
Other expenses		619	733	199
Total cost of revenues		121,344	24,039	116,777
Profit before financing income, net		3,515	95,047	641
Financing income		4,682	3,505	3,626
Financing expenses		807	153	322
Total financing income, net		3,875	3,352	3,304
Profit after financing income, net		7,390	98,399	3,945
Company's share in profits (losses) of investees		11,792	10,834	(14,147)
Profit (loss) before tax on income		19,182	109,233	(10,202)
Taxes on income	D	1,624	22,811	4,068
Profit (loss) for the year		17,558	86,422	(14,270)
Basic earnings (loss) per share (NIS)		0.176	0.864	(0.149)
Diluted earnings (loss) per share (NIS)		0.174	0.864	(0.149)

The accompanying supplementary information an integral part of the separate financial information.

THE TEL-AVIV STOCK EXCHANGE LTD.
OTHER COMPREHENSIVE INCOME OR LOSS DATA

	Supplementary Information	Year ended December 31,		
		2019	2018	2017
		NIS, in thousands	NIS, in thousands	NIS, in thousands
Profit (loss) for the year		17,558	86,422	(14,270)
Other comprehensive income (loss):				
Items that will not be subsequently reclassified to profit or loss, net of tax:				
Remeasurement of net liability with respect to defined benefit, net of tax		(12,574)	4,763	(1,452)
Items that may be subsequently reclassified to profit or loss, net of tax:				
Share in other comprehensive income of investees, net of tax		-	-	2,113
Comprehensive income (loss) for the year		4,984	91,185	(13,609)

The accompanying supplementary information an integral part of the separate financial information.

THE TEL-AVIV STOCK EXCHANGE LTD.
CASH FLOW DATA

	Year ended December 31,		
	2019	2018	2017
	NIS, in thousands	NIS, in thousands	NIS, in thousands
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit (loss) for the year	17,558	86,422	(14,270)
Share-based payments expenses	3,858	-	13,271
Tax expenses recognized in profit or loss	1,624	22,811	4,068
Net financing income recognized in profit or loss	(3,875)	(3,352)	(3,304)
Reversal of impairment provision	-	(85,108)	-
Loss from disposal of property and equipment and intangible assets	1,358	280	270
Depreciation and amortization	43,571	32,672	29,597
Company's share in profits (losses) of investees	(11,793)	(10,834)	14,147
	52,301	42,891	43,779
Changes in asset and liability items:			
Decrease (increase) in trade receivables and other receivables	553	6,479	(4,735)
Increase (decrease) in trade payables and other payables	(1,548)	1,377	3,481
Increase (decrease) in employee benefits related liabilities	6,083	8,084	(11,999)
Increase in deferred income with respect to listing fees and levies	5,684	2,660	-
	10,772	18,600	(13,253)
Interest received	3,908	3,636	3,643
Interest paid	(614)	(152)	(322)
Tax receipts (payments) - operating activities	1,456	1,533	4,389
	4,750	5,017	7,710
Net cash from operating activities	67,823	66,508	38,236
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments in property and equipment	(6,416)	(20,388)	(4,288)
Proceeds from the disposal of property and equipment	192	41	2
Investments in intangible assets	(11,850)	(14,962)	(4,336)
Refund with respect to overpaid development levies	-	1,788	-
Payments with respect to development costs capitalized to property and equipment and to intangible assets	(15,838)	(18,892)	(11,544)
Acquisition of financial assets at fair value through profit or loss, net	(20,002)	(510)	(14,561)
Net cash used in investing activities	(53,914)	(52,923)	(34,727)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Lease payments	(9,739)	-	-
Company's share in the first-time listing of the shares	15,600	-	-
Receipts from shareholders within the framework of implementing the ownership restructuring, net	13,782	9,907	-
Net cash from financing activities	19,643	9,907	-
Net increase in cash and cash equivalents	33,552	23,492	3,509
Cash and cash equivalents at beginning of the year	39,194	15,575	12,205
Effect of changes in exchange rates on cash balances held in foreign currency	(165)	127	(139)
Cash and cash equivalents at end of the year	72,581	39,194	15,575
APPENDIX A – NON-CASH ACTIVITIES:			
Acquisition of property and equipment with short-term credit	4,320	5,630	6,560
Increase in right-of-use assets and lease liabilities (*)	5,372	-	-
Increase in receivables for lease and lease liabilities (*)	2,256	-	-

(*) For further details regarding lease liabilities, see note 11 B to the consolidated financial statements.

The accompanying supplementary information an integral part of the separate financial information.

A. General

(1) General:

a. The separate financial information of the Company has been drawn up in accordance with Section 9(c) and the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

This separate financial information should be read in conjunction with the consolidated financial statements as of December 31, 2019 and the accompanying notes.

As to the allocation of income and expenses between TASE and the MAOF Clearing House, the TASE Clearing House and the Nominee Company, see Section E2.

b. On July 30, 2015, the general meeting resolved to approve an outline in principle for an arrangement program between the TASE members at that time, 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 (hereafter - “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, relate to anyone that was a TASE member on June 30, 2015.

On April 6, 2017, the Securities Law (Amendment No. 63), 2017 was published, which deals with changes in the ownership structure of TASE (hereafter - “TASE Restructuring 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:

1) 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.

2) 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.

3) 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.

4) 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.

5) 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.

A. General (contd.)

(1) General (contd.):

b. (contd.)

6) Prescribing corporate governance arrangements.

7) 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.

8) 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. 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 15 of the consolidated financial statements.

In December 2017 the Company contacted all of its shareholders, inviting them to submit an offer for the sale and transfer of their shares in the Company, on the basis of a valuation of the Company (100%) of NIS 500 million (i.e. NIS 5 per share), where the Company would be entitled to assign the offers submitted to any third party that it sees fit. In response to this request, the Company received offers from 21 shareholders ("the Selling Shareholders") with respect to 71,717,499 shares, constituting 71.72% of the Company's issued share capital.

On April 16, 2018, the Company entered an agreement for the sale of Company (as be amended on August 8, 2018, "the Sale Agreement with Manikay") with a foreign company registered in Delaware, USA, Manikay Partners LLC (hereafter: "Manikay").

Under the Sale Agreement with Manikay it was agreed that on the date of completion of the transaction Manikay would purchase 19,999,999 shares from the Selling Shareholders at a rate of 19.99% of the Company's issued share capital ("the Purchased Shares"), for consideration of NIS 5.51 per share, and for a total of approximately NIS 110,200,000, and, of this sum, a total of NIS 10.2 million would be paid to the Company (reflecting the amount in excess of NIS 5 per share, the "excess consideration"), and the balance of NIS 100 million would be distributed among the Selling Shareholders.

A. General (contd.)

(1) General (contd.):

b. (contd.)

The balance of the shares of the Selling Shareholders, namely 51.72%, will be earmarked for investors that will be found by Manikay and approved by the Company ("the Additional Investors"), and some will be deposited in trust ("the Trust Shares") with a trustee whose identity will be determined by agreement between the parties ("the Trustee"), pursuant to a trust agreement that will be agreed between the parties (and with the approval of the Securities Authority) ("the Trust Agreement"), at the rates and under the terms set forth below. The Trust Agreement will include an arrangement that ensures that one director at the Company will be a candidate that is recommended by Manikay.

It was also agreed that the Trust Agreement will reflect the following:

(a) Every Additional Investor will enter into an agreement with the Company to purchase the Company's shares, based on the principles of the Sale Agreement, mutatis mutandis;

(b) The price per share is NIS 5 and will be paid on the completion date;

(c) Every Additional Investor is entitled to receive shares in an amount not exceeding 4.99% of the Company's issued share capital. The balance of the Trust Shares will remain with the Trustee until the earlier of December 31, 2019 and the execution of a public offering of the Company's shares (at a net share price that is no less than NIS 5.51) ("Approved IPO"); when an Approved IPO is carried out, the Company will be entitled to decide that Trust Shares in an amount constituting approximately 31.72% of the Company's issued share capital will be sold under the Approved IPO, and in the event that the net share price (that is, net of underwriting and distribution commissions that will be paid by the Additional Investor) in the Approved IPO exceeds NIS 5.51 per share, the surplus amount will be distributed equally between the Additional Investor and the Company;

(d) Every Additional Investor will be entitled to sell, in the Approved IPO, all or some of the Company's shares that it has purchased;

(e) If an Approved IPO has not been carried out by December 31, 2019, the Trust Shares will be sold or distributed to each person, subject to each person not holding shares constituting more than 4.99% of the Company's issued share capital;

(f) The Trust Shares will not be sold or transferred until the earlier of December 31, 2019 and the completion of an Approved IPO.

Manikay has undertaken not to initiate or promote, and even to object to, any offer or decision: (a) to change the name of the Company and its subsidiaries; and (b) to sell or transfer the Company's significant operationsor its core business, unless such a process is required by law or pursuant to a provision of a competent authority, or it has been approved and recommended by the Company's Board of Directors with the support of all independent directors serving at the Company at that time. In addition, Manikay has undertaken not to enter into voting agreements with any person, other than in accordance with the provisions of the Sale Agreement or the Trust Agreement, to support and exercise its voting rights in such a way that will ensure that the majority of the members of the Company's Board of Directors will be Israeli citizens and residents, to support a voting process for the public that will becompleted by December 31, 2019 with a share price that will ensure that the sellers of the shares receive no less than NIS 5.51 per share (together, "Manikay's Undertakings").

A. General (contd.)

(1) General (contd.):

b. (contd.)

In August 2018, at Manikay's suggestion and in accordance with the terms of the Sale Agreement with Manikay, the Company entered into four sale agreements with four Additional Investors: Sunsuper, Novo Nordisk, Dalton and Moelis, pursuant to which each of the Additional Investors purchased 12,929,375 shares in the Company (12.93% of the issued share capital) for consideration of NIS 5 per share, and for a total of NIS 64.6 million, which will be divided among the Selling Shareholders, with each Additional Investor holding, directly or indirectly, shares at a rate of 4.69% of the issued share capital, and the balance of the shares that were purchased by each Additional Investor, at a rate of 8.23% of the issued share capital per Additional Investor will be held by Mr. Moshe Terry as Trustee under the terms of the Trust Agreement. For these purposes, it was agreed that after an Approved IPO has been carried out, the balance of the shares that are held by the Trustee (at a rate of up to 1.2% of the issued share capital) will be returned to the Additional Investors, such that every Additional Investor will hold 4.99% of the Company's share capital. In addition, the Additional Investors took upon themselves similar undertakings to Manikay's Undertakings.

On August 27, 2018, after holding permits were received from the Securities Authority for Manikay and for each of the Additional Investors, as well as for Mr. Moshe Terry as Trustee for 32,917,504 Trust Shares, the Sale Agreement with Manikay was completed, the sale agreements with the Additional Investors were completed, and trust deeds and irrevocable instructions between each of the Additional Investors and Mr. Moshe Terry, as Trustee, were signed, in the format set forth in the Sale Agreement with Manikay, pursuant to all of which, Mr. Terry was authorized, inter alia, to sell the Trust Shares at a net share price of no less than NIS 5.51, and to exercise the voting rights attached to the Trust Shares independently, at his discretion, and for the benefit of the Company, including, without derogating from the generality of the aforesaid, in accordance with that which is described above. In addition, at the same time, the Company received the excess consideration of NIS 10.2 million, which was credited directly to equity, net of costs.

c. Pursuant to a prospectus for an initial public offering by way of a secondary offering of Company shares, dated July 24, 2019, and pursuant to a supplementary notice dated July 29, 2019, on August 1, 2019, 100,000,000 ordinary shares with no par value, existing in the Company's share capital, were listed on TASE, of which 31,717,504 shares were offered in a secondary offering to institutional investors in Israel and overseas, as well as to the public in Israel, and approval was received for the listing of up to 8,429,797 ordinary shares that will result from the exercise of options allotted to the Company's CEO and to officers of the Company.

Regarding the indemnification for the pricing underwriter ("the Prospectus Indemnification"), see note 17 E to the consolidated financial statements as of December 31, 2019.

As stated in note 1 B to the consolidated financial statements as of December 31, 2019, the Company is entitled to 50% of the net consideration (after deduction of costs, as agreed with the sellers) that is received for the shares sold in the secondary offering, in excess of NIS 5.51 per share. The price per share set in the secondary offering is NIS 7.1. The total consideration to the holders of the Sale Shares and the Company received under the secondary offering based on the aforesaid share price is approximately NIS 225.2 million. The Company's share of the net consideration amounted to approximately NIS 15.5 million, which the Company intends to use for investment in technological infrastructures.

The amounts received by the Company, as above, total approximately NIS 16.2 million, after the tax benefit, and were carried directly to the equity of the Company in its financial statements as of December 31, 2019.

For details of the proceeds from shareholders within the framework of implementing the ownership restructuring, see note 18 B to the consolidated financial statements as of December 31, 2019.

A. General (contd.)

(2) 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.

(3) Definitions:

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

Investees - As defined in Note 1C to the consolidated financial statements of the Company as of December 31, 2019.

The Clearing Houses - The Tel-Aviv Stock Exchange Clearing House Ltd. (hereafter - “TASE-CH”) and the MAOF Clearing House Ltd. (hereafter - “MAOF-CH”).

Nominee Company - The Tel Aviv Nominee Company Ltd. (hereafter - “the Nominee Company”).

(4) Accounting policies:

a. The separate financial information was drawn up in accordance with the accounting policies that are set out in note 2 to the consolidated financial statements of the Company, with the exception of the amounts of the assets, the liabilities, the expenses and the cash flows with respect to investees, as described below:

(1) The assets and liabilities reflect their amounts in the consolidated financial statements that are attributable to the Company itself as a parent company, excluding investments in investees.

(2) Investments in investees are presented as the net amount of total assets less the total liabilities, the amount of which in the consolidated financial statements of the Company includes financial data for the investees, including goodwill.

(3) The amounts of income and expenses reflect the income and the expenses that are included in the consolidated financial statements, which are attributable to the Company itself as a parent company, excluding amounts of income and expenses with respect to investees.

(4) The share of the Company in the results of investees is presented as the net amount of total revenue less total expenses, the amount of which in the consolidated financial statements of the Company includes operating results of investees.

(5) The amounts of cash flows reflect the amounts that are included in the consolidated financial statements, which are attributable to the Company itself as a parent company, excluding cash flow amounts with respect to investees.

(6) A loan granted to an investee is presented in the amount that is attributable to the Company itself as a parent company.

(7) Balances, income and expenses with respect to transactions with investees, which were eliminated in the consolidated financial statements, are measured and presented under the relevant items in the financial position data and the profit or loss and comprehensive income data.

A. General (contd.)

(4) Accounting policies (contd.):

b. New Standards, New Interpretations and Amendments to Standards Materially Affecting the Current Period and/or Previous Reporting Periods:

- **IFRS 16, "Leases"**

The Standard is applied for the first time since January 1, 2019. As permitted by the Standard, the Company has elected to adopt the Standard under the modified retrospective approach, under which the balance of the right-of-use asset is identical to the balance of the lease liability.

As to the effect of the application of IFRS 16, see note 2 U to the consolidated financial statements that are published together with this separate financial information.

- **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 effect of the implementation of the interpretation on the Company's financial statements is not material.

c. Reclassification:

The Group has reclassified revenue from connectivity (revenue from communication lines and hosting services) from "other revenue" to "distribution of data and connectivity services". Additionally, revenue from members' levies has been reclassified from "other revenue" to "listing fees and levies".
The new classification more appropriately reflects the composition of the Company's revenues, based on the types of services that it provides. The new classification does not have a material effect on the comparative figures in the Statement of Profit or Loss for periods prior to 2019. Accordingly, the revenues for such periods have not been reclassified.

B. Cash

(1) Composition of cash and cash equivalents:

	December 31,	
	2019	**2018**
	NIS, in thousands	**NIS, in thousands**
Cash and cash equivalents denominated in NIS	72,102	36,746
Cash and cash equivalents denominated in other currencies	479	2,448
Total cash and cash equivalents	72,581	39,194

(2) Restricted cash:

Restricted cash held by TASE is a deposit held in a TASE account as collateral for an operating lease, as described in Note 11C to the consolidated financial statements of the Company.

C. Financial Assets and Liabilities

(1) Balances of financial instruments:

	December 31, 2019	December 31, 2018
	NIS, in thousands	NIS, in thousands
Financial assets (*):		
Cash and cash equivalents	72,581	39,194
Financial assets at fair value through profit or loss - held for trading	52,018	31,270
Trade and other receivables	22,553	24,561
	147,152	95,025
Non-current assets:		
Long-term loan to a subsidiary	60,655	60,472
Restricted cash	541	538
Other long-term receivables	1,369	-
	62,565	61,010
	209,717	156,035
Financial liabilities:		
Financial liabilities measured at amortized cost	19,342	21,280
Lease liabilities – current maturities	9,728	-
	29,070	21,280
Non-current liabilities:		
Other liabilities	541	538
Lease liabilities	12,553	-
	13,094	538
	42,164	21,818

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

(2) Fair value of financial instruments:

The financial instruments of the Company include mainly cash and cash equivalents (including restricted cash), marketable securities, trade receivables, other receivables, loans, trade payables and other payables.

The balances of the Company's financial instruments (excluding the long-term loan) in the Statement of Financial Position as of December 31, 2019 and 2018 closely reflect their fair values.

Presented below are details of the long-term loan to TASE-CH:

	Carrying amount		Fair value	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	NIS, in thousands	NIS, in thousands	NIS, in thousands	NIS, in thousands
Long-term loan to TASE-CH	60,655	60,472	65,672	64,050

The fair value of the financial instruments that are presented in the statement of financial position at fair value is based on quoted prices (record rate), as determined in the trading on the Stock Exchange at the end of the reporting period.

C. Financial Assets and Liabilities (contd.)

(3) Risk management Objectives and Policy:

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

The risk management policy of TASE 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.

(4) Credit Risk Management:

Credit risk is the risk of a counterparty, a custodian bank or another debtor, being unable to fully meet its obligations when due, or at any time in the future.

The Company's exposure to credit risk is immaterial, both in view of its current mix of assets (see Section 1 above) and in view of the investment policy that limits the exposure to credit risk in its portfolio (see Section 6 below).

(5) Liquidity Risk Management:

Liquidity risk is the risk that the Company will not be able to meet its liquidity needs, on time and in full, for financing its operating activities.

As of December 31, 2019, close to 59% of the Company's financial assets are immediate liquid assets (cash and Israeli Government bonds).

The Company has liquid current assets and a credit facility of up to NIS 30 million, as described in Section E(4), and on the other hand - the balance of the Company's liabilities reflects a mix of liabilities with manageable maturities - relating mostly to liabilities to employees and trade receivables.

The expected maturity dates for the trade and other payables are within a period of up to two months.

For details of the expected maturity dates of lease liabilities, based on the undiscounted cash flows of the lease liabilities, see note 4B(1) to the consolidated financial statements.

For details of the risk management and mitigation measures that are employed by the Company in managing the exposure to liquidity risk and for additional information on liquidity risks relating to the operations of the clearing houses, lines of defense and risk management measures, see Note 4B(2) to the consolidated financial statements.

(6) Market Risk Management:

Market risk is the risk of loss that may be caused to the Company from changes in market prices (such as exchange rates, the Consumer Price Index and interest rates), to the extent that these changes cause a decrease in net profit or a loss that leads to a decrease in TASE's equity.

In the ordinary course of business, the Company is exposed to market risk with respect to the holding of securities included in its investment portfolios that are held for trading, such that a downturn in market prices has a direct effect on the Company's profit and loss, or with respect to the holding of deposits at variable interest or in foreign currency. The Company is also exposed to a linkage basis risk with respect to a CPI-linked loan granted to a subsidiary.

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 Company's monetary balances are to be invested in Israeli Government bonds, whose inherent credit risk is not material. The Group also restricts the average duration of the portfolio and the repayment period, as described in Note 4(D) to the consolidated financial statements.

C. Financial Assets and Liabilities (contd.)

(6) Market Risk Management (contd.):

Exposure as of December 31, 2019 and 2018:

Presented below is the composition of the securities and cash investment portfolio:

	December 31, 2019	December 31, 2018
	NIS, in thousands	NIS, in thousands
Israeli Government treasury bills and bonds	52,018	31,270
Cash and cash equivalents	72,581	39,194
Restricted cash	541	538
	125,140	71,002

(7) Interest Risks:

The Company has monetary surpluses that are placed in bank deposits and investments in financial instruments yielding variable interest rates, giving rise to a cash flow exposure to changes in interest.

The following table details the impact of a +/- 1% and a +/- 2% change in interest in 2018 and of a +/- 0.25% and a +/- 0.5% change in interest in 2019 on the aforementioned financial instruments (before the tax effect):

December 31, 2019			December 31, 2018		
Total variable-interest-rate instruments	Change of +/- 0.25%	Change of +/- 0.5%	Total variable-interest-rate instruments	Change of +/- 1%	Change of +/- 2%
NIS, in millions					
75.4	0.19	0.38	28.70	1.51	3.01

In addition, the Company has investments in financial instruments (government bonds) yielding fixed interest rates, which are measured at fair value through profit or loss, and is therefore exposed to changes in fair value as a result of changes in the interest rates.

The following table details the impact of a +/- 1% and a +/- 2% change in 2019 and of a +/- 0.25% and a +/- 0.5% change in 2019 in the fair value of the aforesaid bonds (before the tax effect):

December 31, 2019			December 31, 2018		
Total fixed-interest-rate instruments	Change of +/- 0.25%	Change of +/- 0.5%	Total fixed-interest-rate instruments	Change of +/- 1%	Change of +/- 2%
NIS, in millions					
48.6	0.44	0.88	29	2	3

Additionally, the operations of the Company do not involve a material exposure to linkage basis risks.

The Company granted a CPI-linked, fixed interest, loan to a subsidiary, with respect to which the Company has an immaterial exposure to changes in the CPI and in interest rates. For additional information on the loan, see Section E2(b).

D. Income Taxes:

(1) Deferred tax balances:

Composition and movement:

	Financial assets at fair value through profit or loss	Property and equipment and intangible assets	Deferred taxes with respect to deferred income	Provisions (mainly with respect to employee benefits)	Total
	NIS, in thousands	NIS, in thousands	NIS, in thousands	NIS, in thousands	NIS, in thousands
Balance as of January 1, 2018	(16)	5,649	-	8,675	14,308
Initial application of IFRS 15	-	-	19,539	-	19,539
Movement in the reporting year:					
Movement in profit or loss in the reporting year	163	(22,225)	612	300	(21,150)
Movement in other comprehensive income in the reporting year	-	-	-	(1,423)	(1,423)
Balance as of December 31, 2018	147	(16,576)	20,151	7,552	11,274
Movement in the reporting year:					
Movement in profit or loss in the reporting year	(163)	(2,493)	1,308	395	(953)
Movement in other comprehensive income in the reporting year	-	-	-	3,755	3,755
Balance as of December 31, 2019	(16)	(19,069)	21,459	11,702	14,076

(2) Timing differences on investments in subsidiaries, without recognition of any deferred tax liability:

	December 31, 2019	December 31, 2018
	NIS, in thousands	NIS, in thousands
Subsidiaries	87,666	75,842

(3) Tax relating to components of other comprehensive income:

	Amount before tax	Tax effect	Amount net of tax
	NIS, in thousands	NIS, in thousands	NIS, in thousands
As of December 31, 2019:			
Actuarial loss with respect to defined benefit plan	(16,330)	3,756	(12,574)
As of December 31, 2018:			
Actuarial gain with respect to defined benefit plan	6,186	(1,423)	4,763
As of December 31, 2017:			
Actuarial loss with respect to defined benefit plan	(1,886)	434	(1,452)

D. Income Taxes (contd.):

(4) Income tax expenses recognized in profit or loss:

	Year ended December 31,		
	2019	2018	2017
	NIS, in thousands	NIS, in thousands	NIS, in thousands
Current assets:			
Current assets	1,571	2,011	903
Tax expense (tax benefit) with respect to previous years	(384)	(153)	544
Total current assets	1,187	1,858	1,447
Deferred taxes:			
Deferred tax expense with respect to recognition and reversal of temporary differences	1,091	21,150	3,536
Deferred tax income with respect to previous years	(138)	-	(347)
	953	21,150	3,189
Participation in expenses by the Clearing Houses			
Income from current participation in tax expenses by the Clearing Houses	(559)	(197)	(245)
Income from participation in tax expenses by the Clearing Houses in previous years	43	-	(323)
	(516)	(197)	(568)
Total tax expenses	1,624	22,811	4,068

(5) Amounts for Which Deferred Tax Assets Were Not Recognized:

The balance of capital losses for tax purposes for which deferred tax assets were not recognized as of December 31, 2019 is approximately NIS 1,551 thousand.

(6) Income Taxes Recognized Directly in Equity

In 2019, current taxes of approximately NIS 590 thousand with respect to the first-time listing of the shares were carried directly to equity.

(7) Supplementary Information:

The Company has been issued tax assessments that are considered as final through tax year 2014.

E. Balances, Commitments and Material Transactions with Investees:

(1) Balances with investees:

	Year ended December 31, 2019 NIS, in thousands	Year ended December 31, 2018 NIS, in thousands
Among current assets - other receivables (*):		
Subsidiaries	5,059	6,949
Among non-current assets:		
Long-term loan to TASE-CH - see Section E2(b) below	60,655	60,472
Among current liabilities - other payables (*):		
Subsidiaries	2,494	5,822

(*) The balances are not linked to the CPI and do not bear interest.

(2) Transactions with investees:

	Year ended December 31, 2019 NIS, in thousands	2018 NIS, in thousands	2017 NIS, in thousands
Transactions with subsidiaries:			
Participation in income and expenses pursuant to the distribution model: (see Section a. below)			
Participation in revenue			
Participation in revenue - TASE-CH	(130,043)	(131,874)	(123,020)
Participation in revenue - MAOF-CH	1,751	2,338	2,877
Participation in revenue - Nominee Company	(6)	-	-
Participation in expenses			
Participation in expenses - TASE-CH	94,119	90,103	97,964
Participation in expenses - MAOF-CH	26,454	23,195	24,885
Participation in expenses - Nominee Company	4,267	4,813	447
Initiation/balancing fees			
Initiation fees - TASE-CH	26,832	26,362	19,991
Balancing fees - MAOF-CH	(10,360)	(3,019)	-
Balancing fees - Nominee Company	(2,358)	(3,269)	-
Share-based payments			
Share-based payments - TASE-CH	1,409	-	11,346
Share-based payments - MAOF-CH	386	-	2,763
Share-based payments - Nominee Company	107	-	-
Interest income and linkage differences on long-term loan from TASE (b)	2,765	3,273	2,717
Expenses with respect to annual fees to the Nominee Company	(8)	-	-

E. Balances, Commitments and Material Transactions with Investees (contd.):

(2) Transactions with investees (contd.):

(a) Distribution model:

TASE and the other Group companies are closely interconnected. This as TASE provides the companies 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. The mixed income was divided according to the ratio between trading and clearing, according to a model based on market prices.
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. Up to December 31, 2017, the profitability index used as the allocation key under the distribution model is a rate of return on equity. Since January 1, 2018, as part of the validation of the distribution model, the profitability index was updated and is based on the operating profit margin of the Group, since this model is more suitable to the market price principles as defined in the OECD guidelines.

(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).

E. Balances, Commitments and Material Transactions with Investees (contd.):

(3) Additional information on Transactions with Investees:

(a) 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.

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 the separate financial information, no such loans have been requested or granted.

TASE is under no obligation to the Clearing Houses to provide the aforesaid loans.

(b) Officers', Professional Liability and Issuance Insurance:

On September 6, 2018, after receiving the approval of the Company's Board of Directors and Audit Committee, the general meeting of the Company approved the Company's acquisition of liability insurance for directors and officers of the Company and its subsidiaries, for a period of one year commencing on August 1, 2018 and ending on July 31, 2019.

Each of the policies (the officers' liability insurance policy and the professional liability insurance policy) has a liability limit of USD 50 million (per incident and in aggregate), and an annual premium for both policies together of USD 184 thousand. In addition, the insurance coverage was expanded in the officers' liability policy to provide suitable coverage for a public company, on the date of completion of the IPO, for an additional annual premium of approximately US$ 7 thousand.

In addition, an engagement in a "Run Off" officers' liability insurance policy was approved to cover past activity up to the date of change of ownership, for an insurance period of 7 years from the date of change of ownership. This policy has a liability limit of up to USD 50 million (per incident and in aggregate), in exchange for a premium for the entire insurance period of 7 years, in the amount of approximately USD 107 thousand.

On July 31, 2019, after receiving the approval of the Company's Board of Directors and Audit Committee, also in its capacity as the Compensation Committee, the general meeting of the Company approved the Company's acquisition of professional liability insurance and liability insurance for directors and officers of the Company and its subsidiaries, for a period of one year commencing on August 1, 2019 and ending on July 31, 2020.

E. Balances, Commitments and Material Transactions with Investees (contd.):

(3) Additional information on Transactions with Investees (contd.):

(b) Officers', Professional Liability and Issuance Insurance (contd.):

Each of the policies (the officers' liability insurance policy and the professional liability insurance policy) has a liability limit of US$ 50 million (per incident and in aggregate), and an annual premium for both policies together of US$ 252 thousand (as compared to approximately US$ 184 thousand in the corresponding period last year). The officers' liability insurance policy has been adjusted to cover the operations of a public company and includes the requisite expansions and additions. Additionally, the acquisition of an additional layer of insurance in the officers' liability insurance for the Clearing Houses (TASE-CH and MAOF-CH) was approved, in an amount of up to US$ 10 million (per incident and in aggregate) in excess of the liability limit of up to US$ 50 million, for an annual premium of approximately US$ 22 thousand.

Additionally, the acquisition of a designated insurance policy for the offering (Public Offering of Securities Insurance – POSI) was approved to cover the process of the offering and the prospectus for a period of 7 years from issuance date, with a coverage amount of up to US$ 30 million (per incident and in aggregate), in consideration for the payment of a premium of approximately US$ 127 thousand for the entire 7-year insurance period.

Each of the subsidiaries will bear its pro-rata share of the cost of the premiums in accordance with the principles of the distribution model set forth in section E (2) (a) above. The investees will not bear the cost of the premium with respect to the POSI policy.

(c) See Note 17 to the consolidated financial statements of the Company as of December 31, 2019 for information regarding indemnification of officers and exemption from liability granted to officers.

(d) See Note 4B(2)(c) to the consolidated financial statements of the Company as of December 31, 2019 regarding an agreement with the Bank of Israel.

(4) Charges:

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 any event no later than the date of the credit facility's termination.

On January 13, 2020, the Company signed an amendment letter for the reduction of the Company's credit facility granted to it by a banking corporation, effective from December 31, 2019. As provided by the amendment letter, the aforesaid credit facility has been reduced from NIS 50 million to a credit facility of NIS 30 million. To date, the Company has not utilized the credit facility (the credit facility is valid until December 31, 2020).

During January 2016, TASE mortgaged and/or pledged, in favor of the banking corporation 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 Block 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 Block 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.

E. Balances, Commitments and Material Transactions with Investees (contd.):

(4) Charges (contd.):

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 (hereafter - "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.

F. Contingent Liabilities:

See Note 17 to the consolidated financial statements.

G. Material Events After the End of the Reporting Period:

1. As to the Board of Directors' decision on a dividend distribution after the end of the reporting period, see Note 26 A to the consolidated financial statements.

2. As to the effect of the coronavirus outbreak, see Note 26 B to the consolidated financial statements.

This English version is only for convenience purposes. This is not an official translation and has no binding force. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the Hebrew version. In the event of any discrepancy between the Hebrew version and this translation, the Hebrew version shall prevail.

PERIODIC REPORT FOR 2019

Part Four - Additional Information on the Company

Regulation 10A: Condensed Quarterly Statements of Comprehensive Income

Attached herein is the Company's consolidated statement of comprehensive income for each of the quarters of 2019, in interim report format (see Section 1.3 of the Board of Directors' Report as of December 31, 2019 above).

Regulation 11: List of Investments in Subsidiaries and Related Companies

The following table specifies the Group's holdings in subsidiaries and related companies as of December 31, 2019:

Holding company (directly or indirectly)	Name of company	Total par value	Percentage holding of the company in equity and voting	Net asset value as of December 31, 2019 (NIS, in thousands)
The Company	The Tel-Aviv Stock Exchange Clearing House Ltd.	NIS 30,000,002	100%	76,185
The Company	MAOF Clearing House Ltd.[1]	NIS 3,000,079	100%	45,103
The Company	The Tel-Aviv Stock Exchange Nominee Company Ltd.	-	100%	(501)

Presented below is the balance of the Company's loans to subsidiaries and related companies and details of other investments

Name of company	Percentage holding as of December 31, 2019	Balance of loans/ capital notes as of December 31, 2019 (NIS)	Terms of the loans
The Tel-Aviv Stock Exchange Clearing House Ltd.	100%	(60,655)	1. The rights by virtue of the loan are subordinate to those of other creditors of TASE-CH. No collateral was provided against the loan. 2. The period to maturity of the loan is 10 years (granted in December 2015) 3. The loan is linked to the CPI and bears annual interest at a rate of 4.25%. 4. Early repayment of the loan will only be permitted after the elapse of five years and only at the demand of TASE-CH.

The following table specifies the intercompany balances (*), as included in the accounts of the Group companies as of December 31, 2019 (NIS, in thousands)

In the accounts of the company	Intercompany balances (**)
The Tel-Aviv Stock Exchange Clearing House Ltd.	2,494
MAOF Clearing House Ltd.[2]	(4,099)
The Tel-Aviv Stock Exchange Nominee Company Ltd.	(960)

* Asset / liability in the accounts of the company.

** Repaid close to the date of this Periodic Report.

[1] One share of MAOF Clearing House Ltd. is held by the Tel-Aviv Stock Exchange Clearing House Ltd.

[2] One share of MAOF Clearing House Ltd. is held by the Tel-Aviv Stock Exchange Clearing House Ltd.

Regulation 13: Revenues of Subsidiaries and Related Companies and the Company's Income Therefrom

Profits (Losses) of Subsidiaries and Related companies (by Direct Holding Only), Dividend, Interest and Management Fees Received from Subsidiaries and Related Companies[3]

Profits (losses) - (NIS, in thousands) in 2019			
Name of company	**Profit (loss) before tax**	**Profit (loss) after tax**	**Comprehensive income (loss) for the year**
TASE-CH	12,489	9,475	9,475
MAOF-CH	3,244	2,348	2,348
Nominee Company	6	(31)	(31)

2019		
Name of company	**Dividend (NIS, in thousands)**	**Interest income (expenses) (NIS, in thousands)**
TASE-CH	-	* (2,581)
MAOF-CH	-	-
Nominee Company	-	-

* Excluding Linkage to the CPI.

3 For details regarding the model for the distribution of revenues, expenses and profits between the Company and the Clearing Houses, see Section 1.17.2 of Part One - "Description of the Company's Business", above, and note 21 to the consolidated financial statements of the Company as of December 31, 2019 above.

Regulation 21: Compensation for Interested Parties and Senior Officers

a. The following table shows details of the compensation [4] given to each of the five highest paid senior officers of the Company or a corporation under its control, in connection with their service at the Company or at a corporation under its control, in 2019 (NIS, in thousands):

Name	Position	Position Percentage	Rate of Holding of Company's Equity	Salary (*)	Bonus Approved and Payable for 2019	Share-Based Payment (**)	Management Fees	Consulting Fees	Sum Total
Ittai Ben-Zeev	CEO	100%	-	2,783	678	356	-	-	3,817
Hani Shitrit-Bach	EVP	100%	-	1,161	120	456	-	-	1,737
Sraya Orgad	EVP	100%	-	988	177	539	-	-	1,704
Yehuda van der Walde	EVP	100%	-	985	178	537	-	-	1,700
Uri Shavit	EVP	100%	-	978	113	513	-	-	1,604

(*) Including salary benefits.

(**) Including expenses for 2018 recognized in 2019. For further details, see note 15 B to the consolidated financial statements as of December 31, 2019.

Below are additional details in connection with the compensation recipients set forth above:

(1) Ittai Ben-Zeev

Mr. Ittai Ben-Zeev ("**the CEO**") has served as CEO of the Company since January 1, 2017, and until July 5, 2018 he also served as a director of the Company.

Following are details of the CEO's employment:

(a) Pursuant to his employment agreement (as amended), the CEO's period of employment at the Company is not limited in time. Either party may terminate the agreement upon 90 days' advance written notice, subject to generally accepted exceptions.

The CEO's gross monthly salary is NIS 155,000, following its update with effect from June 2019 as set out in and subject to subsection (F) below (linked to the increase in the CPI - NIS 125,000 linked to the CPI for November 2016 and the balance is linked to the CPI for April 2019).It should be noted that the CEO's salary includes a recreation pay component, and the CEO is not entitled to a payment of additional recreation pay.

[4] "**Compensation**" – includes an undertaking to provide compensation, directly or indirectly, and including a monetary amount and anything else that is a monetary equivalent, salary, bonus, management fees, consultancy fees, rental fees, commission, interest, share-based payment, retirement compensation that is not a pensionary payment, benefit and any other benefit, all except a dividend. The compensation amounts in the table are shown in cost terms to the Company.

(b) Salary benefits and contributions:

The Company provides the CEO with a company car and bears the full cost of the vehicle expenses (excluding parking tickets and/or fines), and the tax gross-up in respect of the usage value of the vehicle.

The CEO is entitled to 25 paid vacation days per year, and 23 sick days per year. The CEO is entitled to other benefits that are standard practice at the Company, such as refunds of reasonable expenses, telephones, internet, professional license fees, participation in conferences/seminars, participation in Company trips, three daily newspapers, annual medical check-ups, gifts, etc. The Company or the CEO will bear the costs of the tax in respect of the value of the benefits (as applicable) in accordance with the provisions of the employment agreement.

In addition, contributions by the Company and the CEO to managers' insurance/pension funds/provident funds ("**the Funds**"), severance pay, incapacity and contributions to an advanced study fund, at the standard rates, will be made in connection with the CEO's employment.

(c) Bonuses:

The CEO's employment agreement states that from time to time the Company will consider granting bonuses to the CEO, at the full and absolute discretion of the Company, subject to certain conditions.

Accordingly, on April 17, 2018 (after obtaining the approval of the Company's Board of Directors, Audit Committee and Compensation Committee), the general meeting of the Company approved a compensation plan for the CEO and the Chairman of the Board of Directors that includes a monetary bonus, according to which, subject to meeting certain targets, the CEO will be entitled to receive an annual bonus of up to 6 monthly salaries in 2018 to 2020. For further details, see section 1.26.7.1 of Part One, "Description of the Company's Business", above.

(d) Termination of the CEO's employment:

On the termination of his employment at the Company, for any reason whatsoever, the CEO will be entitled to receive all the monies that have accumulated in his favor in the Funds (unless his right to receive severance pay has been revoked or reduced) and the advanced study fund as set forth above (with this being subject to fulfilment of the undertaking given by the CEO to the Company within the framework of the loan in the event of retirement, as set forth in section F(2) below). It should be noted that the Company's contributions to the Funds are instead of severance pay in accordance with the provisions of the General Approval concerning Employers' Contributions to Pension Funds and Insurance in Lieu of Severance Pay under section 14 of the Severance Pay Law, 1973 ("**the General Approval;** "**Section 14 of the Severance Pay Law**"). In addition, in the event that the Company decides to terminate the CEO's employment at the Company (other than in circumstances in which it is possible under the law to revoke the CEO's right to severance pay), the CEO will be entitled to an adjustment grant in an amount equal to three months' salary (without benefits).

Under the employment agreement, obligations have been imposed on the CEO in connection with his employment by entities connected to the Company for a period of 12 months, as well as a confidentiality undertaking, without any time limit.

(e) The provisions of the Collective Agreement (as set forth in section 1.26.10 of Part One - “Description of the Company's Business”, above; “**the Collective Agreement**”) do not apply to the CEO.

(f) Retention plan for the CEO

On May 1, 2019, the general meeting of the Company (after receiving the approval of the Compensation Committee and the Board of Directors) approved a retention plan for the CEO of the Company, which comprises three components, as follows:

(1) accordingly, and as set out above, an additional monthly payment of NIS 30 thousand per month is paid to the CEO starting from the June 2019 salary, which, subject to the law, does not constitute a basis for any social benefit contributions (pension, provident, advanced study, but does include a component for severance pay) or for any bonuses. Starting from the January 2022 salary, the CEO will be paid an additional monthly payment of NIS 33 thousand per month, which, subject to the law, will not constitute a basis for any social benefit contributions (pension, provident, advanced study, but does include a component for severance pay) or for any bonuses;

(2) the provision of a retention loan to the CEO of NIS 3.5 million (“**the Loan**”) for a period of 5 years (valid from the date of its granting on June 1, 2019). If the CEO continues to work at the Company until the end of the five-year period from the date of the granting of the Loan, the entire Loan will convert into a one-time bonus for the CEO. If, before the end of the period, the CEO gives notice of his resignation, the CEO must return the full amount of the Loan to the Company. The Loan will bear annual imputed interest (in accordance with the provisions of Section 3(i) of the Income Tax Ordinance), the cost of which the Company will bear, including the tax gross-up in respect of it. The Loan and the bonus amount (should there be any) do not constitute a basis for any social benefits or for any bonuses, and they will not be taken into account for the purpose of salary calculations or for the purpose of severance pay, vacation pay, sick pay and notice pay;

(3) approval of an equity-based compensation plan for the CEO, pursuant to which 4,250,000 options that are convertible into shares of the Company at a price that reflects a Company valuation of NIS 1.2 billion, which will vest in one installment five years from the date of the allocation, have been approved to be allocated to a trustee for the CEO. For further details regarding the equity-based compensation plan for the CEO, see section 1.26.7.1 of Part One, “Description of the Company’s Business”, above.

(g) It should be noted that the retention plan for the CEO has been approved, as required, by the organs of the Company and its general meeting, as it is not in accordance with the Company's compensation policy. The other provisions of the employment agreement do not deviate from the Company's compensation policy.

(2) Hanna (Hani) Shitrit-Bach

Ms. Hani Shitrit-Bach has served as Executive Vice President, in the role of head of the Economic Department, since October 2, 2011.

Ms. Shitrit-Bach's gross monthly salary is NIS 65,695 (linked to the increase in the CPI for August 2013). The period of Ms. Shitrit-Bach's employment is unlimited in time, and either party may terminate the agreement upon 90 days' advance written notice, subject to generally accepted exceptions. The Company provides a car for Ms. Shitrit-Bach's use, and it bears all the costs of the vehicle, including maintenance expenses and tax to a certain level in respect of part of the charge of the vehicle value. Ms. Shitrit-Bach is entitled to participation in expenses and salary benefits as is standard practice at the Company.

In the event of dismissal, Ms. Shitrit-Bach will be entitled to an adjustment grant in an amount equal to three months' salary (other than in circumstances in which it is possible under the law to deny severance pay).

Pursuant to the Company's compensation plan for 2018-2020 (as set forth in section 1.26.7.2 of Part A, "Description of the Company's Business", above), Ms. Shitrit-Bach will be entitled to an annual bonus of up to three monthly salaries in 2018 to 2020, the scope of which will be determined based on qualitative rather than quantitative criteria, as set out in the Company's compensation policy. For further details, see section 1.26.7.2 of Part One, "Description of the Company's Business", above.

Pursuant to the Company's options plan for persons subordinate to the CEO (as set forth in section 1.26.7.3 of Part A, "Description of the Company's Business", above; "**the Options Plan**"), on July 4, 2018, the Company allocated 544,310 options that are convertible into the Company's shares in favor of a trustee for Ms. Shitrit-Bach.

The provisions of the Collective Agreement do not apply to Ms. Shitrit-Bach. It should be noted that the provisions of Ms. Shitrit-Bach's employment agreement do not deviate from the Company's compensation policy.

(3) Sraya Orgad

Mr. Sraya Orgad has served as Executive Vice President for Strategy and Business Development since January 1, 2015.

Mr. Orgad's gross monthly salary is NIS 58,200 (linked to the increase in the CPI for November 2014). The period of Mr. Orgad's employment is unlimited in time, and either party may terminate the agreement upon 90 days' advance written notice, subject to generally accepted exceptions.

The Company provides a car for Mr. Orgad's use, and it bears all the costs of the vehicle, including maintenance expenses (but excluding in respect of the tax value of the vehicle). Mr. Orgad is entitled to participation in expenses and salary benefits as is standard practice at the Company.

In the event of dismissal, Mr. Orgad will be entitled to an adjustment grant in an amount equal to three months' salary (other than in circumstances in which it is possible under the law to deny severance pay).

Pursuant to the compensation plan, Mr. Orgad will be entitled to an annual bonus of up to three monthly salaries in 2018 to 2020, the scope of which will be determined based on qualitative rather than quantitative criteria, as set out in the Company's compensation policy. For further details, see section 1.26.7.2 of Part One, "Description of the Company's Business", above.

Pursuant to the Options Plan, on July 4, 2018 the Company allocated 642,947 options that are convertible into the Company's shares in favor of a trustee for Mr. Orgad.

The provisions of the Collective Agreement do not apply to Mr. Orgad. It should be noted that the provisions of Mr. Orgad's employment agreement do not deviate from the Company's compensation policy.

(4) Yehuda van der Walde

Mr. Yehuda van der Walde has served as Executive Vice President in the role of head of the Finance and Administration Department since February 23, 2018.

Mr. van der Walde's gross monthly salary is NIS 58,000 (linked to the increase in the CPI for October 2017). The period of Mr. van der Walde's employment is unlimited in time, and either party may terminate the agreement during the second year of his employment, upon 60 days' advance written notice, and from the third year of his employment, upon 90 days' advance written notice, subject to generally accepted exceptions. The Company provides a car for Mr. van der Walde's use, and it bears all the costs of the vehicle, including maintenance expenses (but excluding in respect of the tax value of the vehicle). Mr. van der Walde is entitled to participation in expenses and salary benefits as is standard practice at the Company.

In the event of dismissal, Mr. van der Walde will be entitled to an adjustment grant in an amount equal to three months' salary (other than in circumstances in which it is possible under the law to deny severance pay).

Pursuant to the compensation plan, Mr. van der Walde will be entitled to an annual bonus of up to three monthly salaries in 2018 to 2020, the scope of which will be determined based on qualitative rather than quantitative criteria, as set out in the Company's compensation policy. For further details, see section 1.26.7.2 of Part One, "Description of the Company's Business", above.

Pursuant to the Options Plan, on July 4, 2018 the Company allocated 640,737 options that are convertible into the Company's shares in favor of a trustee for Mr. van der Walde.

The provisions of the Collective Agreement do not apply to Mr. van der Walde. It should be noted that the provisions of Mr. van der Walde's employment agreement do not deviate from the Company's compensation policy.

(5) <u>Uri Shavit</u>

Mr. Uri Shavit has served as Executive Vice President in the role of Chief Information Officer since February 14, 2017.

Mr. Shavit's gross monthly salary is NIS 55,000 (linked to the increase in the CPI for December 2016). The period of Mr. Shavit's employment is unlimited in time, and either party may terminate the agreement from the third year of his employment, upon 90 days' advance written notice, subject to generally accepted exceptions. The Company provides a car for Mr. Shavit's use, and it bears all the costs of the vehicle, including maintenance expenses (but excluding in respect of the tax value of the vehicle). Mr. Shavit is entitled to participation in expenses and salary benefits as is standard practice at the Company.

In the event of dismissal, Mr. Shavit will be entitled to an adjustment grant in an amount equal to three months' salary (other than in circumstances in which it is possible under the law to deny severance pay).

Pursuant to the compensation plan, Mr. Shavit will be entitled to an annual bonus of up to three monthly salaries in 2018 to 2020, the scope of which will be determined based on qualitative rather than quantitative criteria, as set out in the Company's compensation policy. For further details, see section 1.26.7.2 of Part One, "Description of the Company's Business", above.

Pursuant to the Options Plan, on July 4, 2018 the Company allocated 611,838 options that are convertible into the Company's shares in favor of a trustee for Mr. Shavit.

The provisions of the Collective Agreement do not apply to Mr. Shavit. It should be noted that the provisions of Mr. Shavit's employment agreement do not deviate from the Company's compensation policy.

b. <u>Below are details of the compensation given in 2019 by the Company or corporations under its control, to any interested party in the Company that is not included in the compensation recipients set forth above</u>:

Name	Position	Position Percentage	Rate of Holding of Company's Equity	Salary	Bonus Approved and Payable for 2019	Share-Based Payment	Management Fees	Consulting Fees	Sum Total
Amnon Neubach	Chairman of the Board of Directors	**	-	-	(*) 271	-	616	-	887

(*) Subject to approval by the general meeting.

(**) In accordance with the management agreement between the Company and a company wholly owned by Mr. Neubach, dated May 11, 2014 ("**the Management Agreement**"), it was determined that Mr. Neubach would devote the majority of his effort and time, as well as his work capacity, his skills and his expertise, to the advancement of TASE and its interests, and that he would devote the time required to perform his role to the best of his ability. However, in the framework of an addendum to the agreement, dated December 9, 2016, it was determined that from January 1, 2017, Mr. Neubach's role would be defined as a non-executive chairman of the Board of Directors, with a scope of 8 days per month.

(6) <u>Amnon Neubach</u>

The Company receives management services under an agreement valid from April 2, 2014 between the Company and a company owned and controlled by Mr. Amnon Neubach ("**the Management Company**"), as amended on December 29, 2016 (together: "**the Services Agreement**"). Under the Services Agreement, the following provisions, inter alia, were set forth:

(a) The Management Company will provide the Company with management services via Mr. Neubach, who will serve in the position of non-executive chairman of the Board of Directors, with a scope of eight days per month ("**the Chairman Services**") (until December 31, 2016, Mr. Neubach served as executive chairman of the Board of Directors, in a full-time position). Mr. Neubach may engage in other occupations, as set out in the Services Agreement.

(b) In consideration for the Chairman Services, the Company pays the Management Company a total of NIS 50,000 per month, plus VAT, as required by law (linked to the CPI for December 2016) ("**the Monthly Consideration**").

(c) Either party may terminate the Services Agreement, for any reason, upon written notice sent to the other party 90 days in advance.Notwithstanding the aforesaid, the Company may cease the engagement in the Services Agreement with immediate effect and without advance notice under certain circumstances (including circumstances in which, if Mr. Neubach were an employee, he would not be entitled to severance pay) or in the event of Mr. Neubach's failure to comply with the qualification conditions set forth in the law for service as the chairman of the Board of Directors of the Company.

In addition, in the event of the cessation of Mr. Neubach's services as the chairman of the Board of Directors of the Company, for any reason, the Services Agreement will be cancelled immediately on the said cessation of service.

(d) The Services Agreement stipulates that, from time to time, the Company will consider granting bonuses to the Management Company, at the Company's full and absolute discretion, subject to certain conditions. Accordingly, on April 17, 2018, the general meeting of the Company approved a compensation plan for the CEO and the Chairman of the Board of Directors that includes a monetary bonus, according to which, subject to meeting certain targets, the CEO will be entitled to receive an annual bonus of up to 6 monthly salaries in 2018 to 2020. For further details, see section 1.26.7.1 of Part One, "Description of the Company's Business", above.

(e) The Management Company is entitled to a reimbursement of expenses incurred during the performance of the Services, including overseas travel and lodging expenses.

(f) In the Services Agreement, restrictions were imposed concerning Mr. Neubach's employment at entities connected to the Company for a period of 12 months, as well as a confidentiality undertaking, unlimited in time.

(g) The officers' liability and officer's indemnification insurance arrangements that will apply at the Company from time to time will also apply to Mr. Neubach, as an officer at the Company.

It should be noted that the provisions of the Services Agreement do not deviate from the Company's compensation policy.

c. Directors' remuneration and related expenses that do not deviate from the standard practice, that were paid by the Company to all the directors of the Company (including in respect of the service of some of the directors of the TASE Clearing Houses), amounted to a total of NIS 1,055 thousand in 2019.

On August 9, 2018, the Company's Board of Directors, after receiving the approval of the Company's Audit Committee and Compensation Committee, approved the payment of remuneration to all the directors serving at the Company and that will serve at the Company from time to time, including the independent directors (as defined in section 50B1 of the Securities Law), but excluding the chairman of the Board of Directors, Mr. Amnon Neubach, who is employed under a separate services agreement, annual remuneration and participation remuneration in an amount equal to the "set amount" as set forth in the Companies Regulations (Rules regarding Remuneration and Expense Reimbursement of External Directors), 2000, including concerning an expert external director, in accordance with the Company's ranking as set forth in these regulations. It is hereby clarified that all the directors at the Company are entitled to exemption, indemnification and senior officers' insurance, as is standard practice at the Company from time to time. In addition, on February 28, 2019, the general meeting approved a reimbursement of expenses directly related to the participation in the Board of Directors for a director that does not live in the State of Israel, in lieu of the annual remuneration and the participation remuneration.

<u>Regulation 22: Transactions with Controlling Shareholders or in which Controlling Shareholders Have a Personal Interest</u>

From the date of its incorporation until the publication date of the Annual Report, there has been no shareholder that is defined as a controlling shareholder of the Company.

<u>Regulation 24: Holdings of Interested Parties and Senior Officers</u>

To the best of the knowledge of the Company and the Company's Board of Directors, the securities that interested parties and senior officers at the Company hold in the Company or in any of its subsidiaries or in its affiliate company, close to the date of the Report, are as set out in the Company's immediate report dated July 31, 2019 (reference no.: 2019-01-065739). The information that is provided in said report is included herein by way of reference.

<u>Regulation 24a: Authorized Share Capital, Issued Share Capital</u>

The authorized share capital of the Company as of the date of the Report is 150,000,000 ordinary shares, with no par value.

Until September 2017, the Company was a limited liability company, with no share capital.

Upon the conclusion of the arrangement for the restructuring of TASE (as defined in Section 1.1.1.2 Part One, "Description of the Company's Business", above), on September 7, 2017, the Company became a company with an ordinary share capital that has no par value.

The arrangement for the restructuring of TASE sets the authorized share capital of the Company at 150,000,000 ordinary shares, with no par value.

The issued and paid-up share capital of the Company as of the date of the Report is 100,000,000 ordinary shares, with no par value.

To the date of the Report, the Company has allotted to a trustee on behalf of the Company CEO 4,250,000 non-listed options that are exercisable into up to 4,250,000 ordinary shares of the Company with no par value (subject to adjustments.). Additionally, the Company has allotted to a trustee on behalf of the officers who report to the CEO 4,179,797 non-listed options that are exercisable into up to 4,179,797 ordinary shares of the Company with no par value (subject to adjustments.). For further details, see section 1.26.7.1 and section 1.26.7.3 of Part One, "Description of the Company's Business", above.

<u>Regulation24b: Company's Shareholder Register</u>

For details regarding the Company's shareholder register close to the Reporting Date, see the Company's immediate report dated July 31, 2019 (reference no.: 2019-01-065811). The information that is provided in said report is included herein by way of reference.

Regulation 25A: Registered Address, Telephone and Facsimile

Name of Company: The Tel-Aviv Stock Exchange Ltd.

Registered Address of the Entity: #2 Achuzat Bayit St., Tel Aviv-Jaffa

No. with Companies' Registrar: 520020033

E-mail: sigalb@tase.co.il

Telephone no.:076-8160571

Facsimile no.: 076-8160331

Regulation 26: Board of Directors of the Company

Name ID no. Date of birth Citizenship	Address for the service of process	Member of Board of Directors' committees; independent director/ external director as defined in the Companies Law - Yes/No;	Employee of the Company, of a subsidiary thereof, of a related company thereof or of an interested party therein - position or positions held by the director as aforesaid	Date of commencement of office as director in the Company	Education and occupation in the past 5 years, including the professions or areas for which the education was acquired, the institution where education was acquired and the academic degree or diploma held by the director, and details of the entities in which he/she serves as director	To the best knowledge of the Company and the other directors therein, is the director related to another interested party in the Company - Yes/No, specify details	Does the Company consider the director to possess accounting and financial expertise?
Amnon Neubach 003432432 April 14, 1944 Israeli citizenship	#12 HaMa'agal St., Kiryat Ono	The Company's Risk Management Committee. He is not an external and/or an independent director, but is qualified to serve as external director.	No.	April 1, 2014	Education: BA in Economics and Business Administration, Bar Ilan University. MA in Economics, Bar Ilan University. Occupation in the past 5 years: Serves as Chairman of the Board of Directors of the Company, Chairman of the Board of Directors of MAOF-CH (since May 15, 2014), Chairman of the Board of Directors of TASE-CH (since May 29, 2014). Other corporations in which he serves as a director: Chairman of the Board of Directors of TASE-CH, Chairman of the Board of Directors of MAOF-CH, A.A. Neubach Ltd., Neubach Family Assets Ltd., member of the Administrative Committee and Chairman of the Finance Committee of Givat HaTachmoshet National Landmark (voluntary).	No	Yes
Meirav Ben Cnaan Heller 029641883 September 19, 1972, Israeli citizenship	#38 Shimon Ben Tzvi St., Givatayim	External director and independent director recommended by the Nominating Committee .	No.	December 9, 2016	Education: BA in Accounting and Business Administration - College of Management. Certified Public Accountant. Occupation in the past 5 years: VP Finance and Business Development, Alon Israel Group (real estate, energy in	No	Yes

		Member of the Company's Audit Committee (including when acting as the Compensation Committee and as the Committee for the Review of the Financial Statements) and member of the Company's Risk Management Committee.			Israel and overseas, transportation, finance, retail); VP of Midroog Ltd. (subsidiary of Moody's); business consulting; member of the Classification Committee of the Government Companies Authority. Other corporations in which she serves as a director: TASE-CH, MAOF-CH, Migdal Insurance Company Ltd., Migdal Insurance Holdings and Finance Ltd., Divergon General Partner 1 Ltd., Halman Aldubi Urban Renewal Limited Partnership, Mei Givatayim Ltd., MBC Financial Services (2017) Ltd., Classification Committee of the Government Companies Authority, Chairman of the Board of Thelma Yellin (voluntary).		
Itzhak Halamish 007812795 August 22, 1948 Israeli citizenship	#17 HaAdmor of Ruzhyn St. Bnei Brak	External director and independent director recommended by the Nominating Committee . Chairman of the Audit Committee (including when acting as the Compensation Committee and as the Committee for the Review of the Financial Statements) and member of the Company's Risk Management Committee.	No.	December 9, 2012	Education: LLB, Netanya College. LLM, Legal studies, Bar Ilan University; MSc in Business Administration - Operations Research, Tel Aviv University; BSc in Mathematics and Physics, Hebrew University of Jerusalem; MA in Talmud, Bar Ilan University. Occupation in the past 5 years: Manager of companies. Other corporations in which he serves as a director: TASE-CH, MAOF-CH, Arad Investment & Industrial Development Ltd., Boyer Brothers Trade and Investments Company Ltd. (director and CEO), Yavne Company Maintenance and Management Services Ltd., I. Halamish Holdings Ltd. (director and CEO). Member of the Board of Trustees of the Netanya Academic College. Board member of Hakvutza - Tormim Shakuf Society (R.S.).	No	Yes
Salah Saabneh 23231632 May 12, 1968 Israeli citizenship, U.S. resident	1280 5th Ave., 6BC, New-York, NY 10029	No.	Partner and Manager in the Manikay Group	September 6, 2018	Education: LLB, Hebrew University of Jerusalem. LLM, Georgetown University. MBA, Columbia University. Occupation in the past 5 years: Partner and Manager in an investment management firm, Manikay Partners LLC. Additional entities in which he serves as director: None.	No	Yes

Yoav Chelouche 031157746 July 18, 1953 Israeli citizenship	#53/A Lamerchav St., Ramat Hasharon	External director and independent director recommended by the Nominating Committee . Member of the Audit Committee (including when acting as the Compensation Committee and as the Committee for the Review of the Financial Statements).	No.	February 28, 2019	<u>Education</u>: MBA, Business Administration, INSEAD (European Institute of Business Administration); BA in Accounting and Statistics, Tel Aviv University. <u>Occupation in the past 5 years</u>: Managing Partner at Aviv Venture Capital Fund. Director in companies, investor in emerging technology companies and mentor for entrepreneurs. <u>Other corporations in which he serves as a director</u>: TASE Clearing House; MAOF Clearing House; Tower Semiconductor Ltd.; Check Point Software Technologies Ltd.; Yunsen Ltd.; Aviv Venture Capital Fund; chairman of the board of Shieldox Security Ltd.; ScaleMP Ltd.; Oz Vision Holdings Ltd.; Twine Solutions Ltd.; Nucleix Ltd.; Vessl Therapeutics Ltd.	No	Yes

<u>Regulation 26a: Senior Officers of the Company</u>

a.	**Name:**	**Ittai Ben-Zeev**
	ID no.:	032166225
	Date of birth:	February 23, 1975
	Commencement of office:	January 1, 2017
	Position in the Company, in a subsidiary or in an interested party therein:	Company CEO, director in the Nominee Company.
	Business experience in the past 5 years:	His office. Previously: Member of Management - Senior VP, Director of Capital Markets Division, Bank Leumi Le Israel Ltd. (“**Bank Leumi**”). Deputy Director of Capital Markets Division, Bank Leumi. Director in Leumi Capital Market Services. Director in Leumi LISI, United States. Director in Leumi BLUK, United Kingdom.
	Education:	LLB, Tel Aviv University. Analyst Program graduate - Merrill Lynch. Executive Education Program graduate - INSEAD France. Directors’ Program graduate - Interdisciplinary Center.
	Is he an interested party in the Company:	No
	Is he a relative of another senior officer or of another interested party in the Company:	No

b.	**Name:**	**Hanna Shitrit-Bach**
	ID no.:	056098122
	Date of birth:	October 14, 1959
	Commencement of office:	June 2, 2011
	Position in the Company, in a subsidiary or in an interested party therein:	EVP, Head of Economics Department.
	Business experience in the past 5 years:	Her office.
	Education:	BA in Economics and Sociology, Hebrew University of Jerusalem. MBA, Hebrew University of Jerusalem.
	Is she an interested party in the Company:	No
	Is she a relative of another senior officer or of another interested party in the Company:	No

c.	**Name:**	**Reuven (Robby) Goldenberg**
	ID no.:	057314320
	Date of birth:	November 2, 1961
	Commencement of office:	March 15, 2012
	Position in the Company, in a subsidiary or in an interested party therein:	EVP, Head of Trading, Derivatives and Indexes.
	Business experience in the past 5 years:	His office. Previously: Director of MAOF Clearing House. Also lectures at the School of Business Administration of Tel Aviv University.
	Education:	BA in Accounting and Economics, Tel Aviv University. MBA, Tel Aviv University.
	Is he an interested party in the Company:	No
	Is he a relative of another senior officer or of another interested party in the Company:	No

d.	**Name:**	**Sraya Orgad**
	ID no.:	25723842
	Date of birth:	March 19, 1974
	Commencement of office:	January 1, 2015
	Position in the Company, in a subsidiary or in an interested party therein:	EVP, Head of Business Development and Strategy Department.
	Business experience in the past 5 years:	His office. Additionally: Lectures at the College of Management's Accounting Department on aspects of the capital market and of the work of the Securities Authority. Lectures at the School of Business Administration of the Hebrew University of Jerusalem.
	Education:	LLB, Haifa University. European Master in Law and Economics, European Union, Rotterdam University.
	Is he an interested party in the Company:	No
	Is he a relative of another senior officer or of another interested party in the Company:	No

e.	Name:	Yehuda Menachem van der Walde
	ID no.:	028570364
	Date of birth:	July 25, 1971
	Commencement of office:	February 23, 2018
	Position in the Company, in a subsidiary or in an interested party therein:	EVP, Head of Finance and Administration.
	Business experience in the past 5 years:	His office. Previously: CFO in Alon Blue Square Israel Ltd., director in the public companies, Blue Square Real Estate Ltd., Dor Alon Energy in Israel (1988) Ltd., Naaman Group (N.V.) Ltd. and other companies in the Alon Blue Square Israel Ltd. group.
	Education:	BA in Accounting and Economics, Bar Ilan University. MA in Accounting, Bar Ilan University.
	Is he an interested party in the Company:	No
	Is he a relative of another senior officer or of another interested party in the Company:	No

f.	Name:	Meirav Leshem
	ID no.:	022647317
	Date of birth:	October 29, 1966
	Commencement of office:	March 2, 2017
	Position in the Company, in a subsidiary or in an interested party therein:	EVP - Legal Counsel and Head of the Legal Department.
	Business experience in the past 5 years:	Her office. Previously: Head of Division in the Company’s Legal Department.
	Education:	LLB, Hebrew University of Jerusalem. MA in Hebrew Literature, Ben Gurion University. MBA, Israel Institute of Technology.
	Is she an interested party in the Company:	No
	Is she a relative of another senior officer or of another interested party in the Company:	No

g.	Name:	Uri Shavit
	ID no.:	059596726
	Date of birth:	June 12, 1965
	Commencement of office:	February 14, 2017
	Position in the Company, in a subsidiary or in an interested party therein:	EVP, Head of IT and Operation Department. Head of IT Department, TASE-CH. Head of IT Department, MAOF-CH.
	Business experience in the past 5 years:	His office. Previously: Project Manager of the merger of the Arab-Israeli Bank into Bank Leumi. CEO of Leumi Capital Market Services Ltd. (a subsidiary of Bank Leumi).
	Education:	BA in Economics and Political Science, Tel Aviv University. MA in Public Policy, Tel Aviv University. CIO Program, Off-Campus Programs Division of the Israel Institute of Technology.

	Is he an interested party in the Company:	No
	Is he a relative of another senior officer or of another interested party in the Company:	No

h.	**Name:**	**Orly Grinfeld**
	ID no.:	029731544
	Date of birth:	December 19, 1972
	Commencement of office:	March 19, 2017
	Position in the Company, in a subsidiary or in an interested party therein:	EVP, Manager of TASE-CH and MAOF-CH and CEO of the Nominee Company.
	Business experience in the past 5 years:	Her office. Previously: Israel Railways - Chief Risk Management Officer.
	Education:	BA in Accounting, Tel Aviv University. MBA, Ben Gurion University.
	Is she an interested party in the Company:	No
	Is she a relative of another senior officer or of another interested party in the Company:	No

i.	**Name:**	**Adi Barkan**
	ID no.:	038724001
	Date of birth:	June 17, 1976
	Commencement of office:	July 1, 2015
	Position in the Company, in a subsidiary or in an interested party therein:	EVP,Compliance and Enforcement Officer of the Company. Compliance and Enforcement Officer of TASE-CH. Compliance and Enforcement Officer of MAOF-CH.
	Business experience in the past 5 years:	Her office. Previously: Director of MAOF-CH.COO Securities, Psagot Investments House.
	Education:	BA in Accounting and Management, College of Management. MBA, Tel Aviv University.
	Is she an interested party in the Company:	No
	Is she a relative of another senior officer or of another interested party in the Company:	No

j.	**Name:**	**Fradin Viacheslav**
	ID no.:	304132350
	Date of birth:	July 15, 1977
	Commencement of office:	February 8, 2016
	Position in the Company, in a subsidiary or in an interested party therein:	EVO, Chief Risk Officer in the Company and the Clearing Houses.
	Business experience in the past 5 years:	His office. Previously: Executive risk management positions in leading banks in Israel and in CEE.
	Education:	BA in Accounting and Economics, Tel Aviv University. MBA, Tel Aviv University.

	Is he an interested party in the Company:	No
	Is he a relative of another senior officer or of another interested party in the Company:	No
k.	**Name:**	**Sharon Witkowski-Tabib**
	ID no.:	024963589
	Date of birth:	April 14, 1970
	Commencement of office:	April 15, 2011
	Position in the Company, in a subsidiary or in an interested party therein:	Internal Auditor of the Company, of the Clearing Houses and of the Nominee Company.
	Business experience in the past 5 years:	Her office. Previously: Partner and Head of Internal Audit and Risk Management at BDO Ziv Haft Consulting & Management Ltd.
	Education:	BBA (Accounting and Finance), College of Management. MA in Public Administration, Bar Ilan University.
	Is she an interested party in the Company:	No
	Is she a relative of another senior officer or of another interested party in the Company:	No.

Regulation 27: Auditors of the Entity

Auditors of the Company:

Brightman Almagor Zohar & Co. of #1 Azrieli Center, Tel Aviv.

Regulation 28: Amendments of the Memorandum or the Articles of Association in the Reporting Year

On July 3, 2019, the general meeting of TASE decided to approve the amendment of TASE's Articles of Association as regarding exemption, insurance and indemnification of directors and officers, and to approve the amendment of the Company's Articles of Association to reflect its public company status.

Regulation 29: Recommendations and Resolutions of the Board of Directors and Resolutions of a Special General Meeting

1. At the special general meeting of the Company held on February 28, 2019, it was resolved as follows:

   1.1. To amend TASE's compensation policy for the years 2018-2020 in connection with the reimbursement of expenses to a director residing overseas.

   1.2. To approve the reimbursement of expenses to a director residing overseas.

   1.3. To appoint Mr. Amnon Neubach as a director for another term.

   1.4. To appoint as independent directors recommended by the Nominating Committee: Ms. Meirav Ben Cnaan Heller, Ms. Naomi Sandhaus, Mr. Itzhak Halamish and Mr, Yoav Chelouche.

2. <u>At the special general meeting of the Company held on May 1, 2019, it was resolved as follows</u>:

   2.1. To approve a bonus of approximately NIS 761 thousand to the Company CEO for 2018.

   2.2. To approve a bonus of approximately NIS 304 thousand to the Chairman of the Company's Board of Directors for 2018.

   2.3. To amend TASE's compensation policy for the years 2018-2020, such that the exercise of the options under the Company's option plan would not be contingent upon the listing for trading of the Company's shares.

   2.4. To approve a retention plan for the Company CEO, as set out in Regulation 21(1)(F) above.

3. <u>At the special general meeting of the Company held on July 3, 2019, it was resolved as follows:</u>

   3.1. To amend the Company's Articles of Association, as set out in Regulation 28 above.

   3.2. To approve TASE's letter of indemnity and the granting thereof to all officers of the Company, within the meaning of this term in the indemnity letter, currently serving or as will serve from time to time.

   3.3. To approve the cancellation of any indemnity letter previously provided by the Company to officers in TASE Clearing House (serving on the date of the resolution) for their service in TASE Clearing House. The new letter of indemnity proposed by TASE Clearing House will be issued to said officers in lieu of the cancelled indemnity letter.

   3.4. To approve the Company's deed of exemption and the granting thereof to all officers of the Company, within the meaning of this term in the deed of exemption, currently serving or as will serve from time to time.

   3.5. To approve the Company's voting in favor of the following resolutions: approval of TASE Clearing House's indemnity letter at the general meeting of TASE Clearing House.

   3.6. To approve the Company's voting in favor of the following resolutions at the general meetings listed below:

      3.6.1. General meeting of TASE Clearing House:

         3.6.1.1. Approval of the indemnity letter.

         3.6.1.2. Approval of the deed of exemption.

3.6.2. General meeting of MAOF Clearing House:

3.6.2.1. Approval of the indemnity letter.

3.6.2.2. Approval of the deed of exemption.

3.6.3. General meeting of the Nominee Company:

Approval of the deed of exemption.

4. <u>At the special general meeting of the Company held on July 31, 2019, it was resolved as follows:</u>

   To approve the Company's acquisition of group professional liability and officers' liability insurance policies as well as a Public Offering of Securities Insurance (POSI) with respect to the Company's IPO and prospectus dated July 24, 2019, for a period of seven years from the date of the IPO.

5. <u>At the special general meeting of the Company held on December 4, 2019, it was resolved as follows:</u>

   5.1. To appoint Ms. Meirav Ben Cnaan Heller, who is currently serving at the Company as an independent director recommended by the Nominating Committee, as an external director at the Company. Ms. Ben Cnaan Heller's term of service shall commence on the date of the general meeting approving her appointment as an external director and shall end on February 27, 2022.

   5.2. To appoint Mr. Itzhak Halamish, who is currently serving at the Company as an independent director recommended by the Nominating Committee, as an external director at the Company. Mr. Halamish's term of service shall commence on the date of the general meeting approving his appointment as an external director and shall end on December 8, 2021.

   5.3. To appoint Mr. Yoav Chelouche, who is currently serving at the Company as an independent director recommended by the Nominating Committee, as an external director at the Company. Mr. Chelouche's term of service shall commence on the date of the general meeting approving his appointment as an external director and shall end on February 27, 2022.

Regulation 29a: Resolutions of the Company

1. Officers' liability insurance

   For details regarding officers' liability insurance policies, see section 1.26.11 of Part One, "Description of the Company's Business", above.

2. Letters of indemnity for events

   For details regarding indemnity letters for events, see Regulation 29(3) above.

3. Exemption

   For details regarding deeds of exemption, see Regulation 29(3) above.

Date: March 24, 2020