The CAL Group, the Board of Directors, the management and its staff, bow their heads in memory of those murdered in the October 7 disaster and the fallen in the Swords of Iron war and we are praying for the safety and the speedy return of the abductees and the missing and for a complete recovery for those who have been injured in body or mind.

The Group is supporting, accompanying and embracing all of the citizens of Israel, those who have been hurt by the disaster, the evacuees from the South and the North and the IDF soldiers, both in the standing army and in the reserve forces, and it will continue to be a central partner in the rehabilitation and renewed growth of the Israeli economy and society.

TABLE OF CONTENTS

FINANCIAL REPORT

REPORT ON CORPORATE GOVERNANCE AUDIT AND OTHER DETAILS

Cal.

Members of the Board of Directors of the Company

Barak Nardi, Chairperson

Ilan Biran

Ella Golan

Eli Eliezer Gonen

Eyal Hayardeny

Eli Zahav

Nachman Nitzan

Nitzan Sandor

Adi Kaplan

BOARD OF DIRECTORS AND MANAGEMENT REPORT

Statement of the Chairperson of the Board of Directors

Dear Stakeholders,

Today, CAL is publishing the financial statements for the year 2023, at the height of a difficult, complex war, which was forced upon us on the seventh of October. Since the outbreak of the war, CAL has been working to provide an appropriate and sensitive response to its customers, and it has continued to provide continuous service in the range of channels, flexibility and speedily. Since October, the Company has been providing a range of credit solutions, as well as promoting smart advanced payment solutions through CAL's payments platform to thousands of evacuee families, providing benefits and reliefs to our business and private customers, declaring an exemption from credit card fees and deferring payments without charging interest for customers who are residents of areas that have suffered damage and other solutions.

Furthermore, CAL has executed a series of social initiatives, the object of which is to support populations that have been injured and to strengthen them. Inter alia, and together with additional organizations, CAL has participated in the distribution of millions of shekels to families that have been evacuated from their homes, by means of providing them with pre-charged cards, without cost; it has donated medicines, medical, technical and other vital equipment to fighters and to volunteers in the rescue services; it has donated funds to evacuees as well as other contributions. The Company is continuing and will continue its widespread and deep-seated activity for the community and for society, in support of the rehabilitation and strengthening of our resilience.

In the shadow of this frustrating reality, CAL is publishing its annual financial reports, which summarize the year 2023. CAL is publishing excellent results, which reflect the continuation of the momentum of growth in the Company. The net income amounts to NIS 277 million, after eliminating the non-recurring profits, which derive, inter alia from the sale of the CAL building in Givatayim, with a yield on equity of 12% and the Company is presenting growth in turnover from both issuing and acquiring, an increase in the number of active cards and growth in the credit balances. The Company's operations are affected directly by the level of activity in the Israeli economy and accordingly the outbreak and continuation of the war have had a significant impact in the short-term on the Company's transactions turnover, the extent of the demand for credit card and the credit losses, which have resulted in an adverse impact on the Company's profitability in the short-term. However, in light of its multi-year strategy and the business resilience, which CAL demonstrates, the Company has succeeded in presenting excellent results despite the implications of the war.

These financial results give expression to the determined and successful implementation of a focused strategic plan, which has been built opposite ambitious growth targets. The plan is based on the continuation of the placing of the Company as a leader in payments and non-banking credit activities by means of flexibility, innovation and cooperations, together with striving to provide an optimal customer experience and taking the perpetual changes in the competitive environment in which CAL operates into consideration. CAL will continue to take action to create engines for future growth, both in the consumer and business credit worlds and also by means of a technological payments platform that it has developed, together with which it will continue to continue to base its leading position on the core activities of non-banking issuing and the operating of banking issuing.

The uncertainty in the economy, which was prevalent in 2023, which has been typified by moves to rein in inflation and by fluctuations in the exchange rates and in the labor market, together with the recent lowering of the State's credit rating by Moody's, the impact of the "Swords of Iron" war, which is continuing to accompany us in 2024, is expected find expression, inter alia, in a slow-down in growth in the economy, together with concern of a decrease in the level of per capita GDP and ongoing damage to the economy. In this environment, CAL has been acting and will continue to act responsibly, managing risks in a focused manner, in accordance with an adjusted business plan and a continuation of focused activity in order to maximize value for stakeholders and be prepared for the economy's recovery at the end of the war.

CAL is a strong and stable company – financially, professionally and from the personnel perspective, and I am sure that our unique expertise and the continuation of our professional empowerment, our service orientation and fields of expertise, will lead CAL to overcome the challenges facing it, to continue to grow among both existing and potential customers and to reach further new heights.

On January 30, 2023, the Knesset's Finance Committee approved the Banking Regulations (Licensing) (A bank having a broad volume of activity) – 2023, pursuant to which Discount Bank is required to sell the means of control, which it holds in CAL, which is to be done within three years, or within four years in certain circumstances if it is decided to follow a floatation route. Accordingly, the Company is making preparations for the process of separating from Discount Bank, and is working with Discount in coordination in order to assure that the process is conducted optimally, paying stringent attention to the continuing high intensity management of the regular business processes combined with developing long-term engines for growth.

Beside the considerable activity, we are all living through a complex reality. We salute the soldiers in the standing army and those serving in the reserves, we send our support and wishes for a full physical and mental health recovery to the wounded and our commiseration to the families of those who were murdered and those who have fallen for the country, and pray for the speedy return of the abductees.

In my name and in the name of the members of the Board of Directors, I would like to thank all of CAL's members of staff for another year of strenuous and uncompromising work, facing complex, unusual challenges, and for their tremendous commitment and dedication to our customers. Furthermore, I would like to thank the Company's management for the professional and responsible way in which they have led the response to the challenges that we have faced in the past year in general and in recent months in particular, and for the determination and the sensitivity, which have accompanied and will continue to accompany our activity, on the way to the realization of the business targets, for the sake of CAL, its customers and its employees.

Yours sincerely

Barak Nardi

Chairperson of the Board of Directors

March, 2024

Board of Directors and Management Report - December 31, 2022

At its meeting held on March 7, 2024, the Board of Directors resolved to approve and publish the Annual Report of Israel Credit Cards Ltd. ("CAL" or "the Company") for the year ended December 31, 2023.

General Survey, Targets and Strategy

Summary description of the Company

CAL Group - General background and group structure

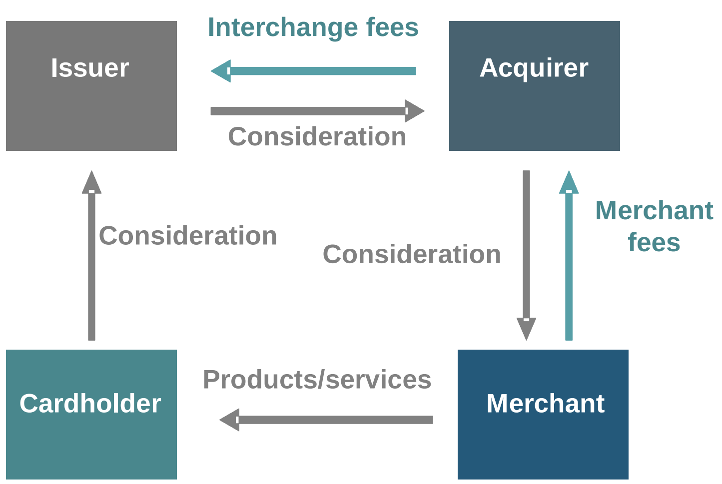
CAL was established in 1979 and is a private company under the Companies Law. CAL is engaged in the operation of credit cards and in the development of payment solutions and financial products. The Company is an "auxiliary corporation" and an "acquirer" under the Banking (Licensing) Law, 1981 and in accordance with a temporary license that has been given to it to serve as an acquirer by the Bank of Israel.

See the Chapter on "Changes that have occurred recently or which are about to occur and the impact thereof on the Company" regarding the separation of the Company from Discount Bank.

The two main areas of activity in which the Company is engaged are: the issuing of credit cards (including financing for private individuals) and the acquiring of credit card transactions.

The use of credit cards as a means of payment is facilitated by the existence of a combination of several parties, comprising the issuer, the acquirer, the merchant and the customer (cardholder), who are interconnected through a series of separate and independent agreements (both by direct agreements and also, indirectly, by virtue of the acquirers and the issuers' membership in the international organization granting the franchise for the brand name of the credit card), with there being instances where the acquirer is also the issuer of the credit cards as well as instances where the identity of the acquirer and the identity of the issuer are not one and the same. The aforementioned relationships represent the basis for the transfer of relevant information relating to payment arrangements for credit card transactions.

The following diagram depicts the stages of a credit card transaction:



The Company’s revenues consist primarily of commissions derived from the issuance and operation of credit cards and providing payment solutions, as well as financing income from credit, which are paid by its customers: the cardholder and the merchant. The Company has holdings in a number of subsidiaries and an associate, through which it operates in providing some of the services to its customers.

In 2023, these services were provided by Diners Club Israel Ltd., CAL Financing Ltd., Diners Financing Ltd., Yatzil Finances Ltd. and CAL Deposits Ltd. - companies that are wholly controlled by the Company.

In addition, the Company has a 20% holding in the share capital of Shlomo CAL Ltd. and a 10% holding in the share capital of Casponet Ltd.

These companies provide services that supplement those provided by the Company, and are provided in cooperation with the Company, with the aim of supplying customers with a services platform that is as broad as possible.

The Company issues, markets and operates directly "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and has entered into joint issuing agreements with co-brand banks. The Company acquires "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and also “Isracard” credit cards (valid solely in Israel).

The Company's auditors since its establishment in 1979 are Somekh Chaikin, KPMG, Certified Public Accountants.

According to statistics published by the Central Bureau of Statistics, more than 90% of the adult population in Israel uses credit cards as a means of payment, and that the Israeli consumer has an average of 2.3 credit cards in his wallet. It further estimates that there were approximately 13.7 million credit cards in Israel as at December 31, 2023. Furthermore, there are approximately 250 thousand terminals of merchants and chains in Israel, which allow purchases to be made with credit cards.

Summary of main financial data

Condensed financial information - multi-period data

	Year ended December 31				
	2023	2022	2021	2020	2019
Principal performance metrics					
Return on equity	19.5%	14.3%	13.2%	6.2%	11.0%
Return on equity, excluding non-recurring events	12.0%	13.3%	11.9%	4.8%	10.2%
Efficiency ratio (1)	69.4%	77.9%	80.8%	80.4%	77.3%
Efficiency ratio when eliminating non-recurring impacts	74.3%	78.9%	82.0%	81.5%	76.6%
Common equity Tier 1 ratio	13.3%	12.4%	15.3%	13.8%	12.9%
Leverage ratio	9.8%	9.2%	11.1%	8.7%	8.0%
Principal credit quality metrics					
Allowance for credit losses as percentage of credit to the public	2.62%	1.98%	2.27%	2.17%	1.58%
Non-accrual debts as percentage of credit to the public	1.00%	0.48%	0.72%	0.77%	0.31%
Accounting write-offs, net, as percentage of average credit to the public	1.16%	0.64%	0.22%	0.63%	0.62%
Allowance for credit losses as percentage of credit to the public for which the Company is responsible	3.47%	2.66%	3.18%	4.07%	2.84%

	Year ended December 31				
	2023	2022	2021	2020	2019
Non-accrual debts as percentage of credit to the public for which the Company is responsible	1.33%	0.65%	1.02%	1.47%	0.58%
Accounting write-offs, net, as percentage of average credit to the public for which the Company is responsible	1.56%	0.88%	0.36%	1.17%	1.13%
Principal profit and loss data for the reporting year					
Net profit attributable to equity holders of the Company (in NIS millions)	450	309	271	115	201
Net profit attributable to equity holders of the Company, excluding non-recurring events (in NIS millions) (2)	277	286	246	90	188
Income from credit card transactions (in NIS millions)	1,751	1,651	1,432	1,254	1,356
Net interest income (in NIS millions)	822	680	548	530	505
Expenses for credit losses (in NIS millions)	285	97	(9)	223	147
Operating expenses (in NIS millions)	819	815	684	657	617
Of which, salaries and related expenses (in NIS millions)	280	263	244	248	237
Operating expenses, excluding non-recurring events (in NIS millions) (2)	801	815	684	636	634
Of which, salaries and related expenses, excluding non-recurring events (in NIS millions) (2)	269	263	244	227	237
Net income per ordinary share for the reporting year					
Basic and diluted earnings per ordinary share for the reporting year (in NIS)	409.9	281.5	246.9	104.8	183.1
Basic and diluted earnings per ordinary share for the reporting year, excluding non-recurring events (in NIS) (2)	251.8	260.2	246.9	81.6	170.4
Principal balance sheet data for the reporting year (in NIS millions)					
Total assets	19,378	18,547	16,076	18,535	19,159
Of which: cash	63	54	57	52	67
Receivables for activity on credit cards, net (3)	13,589	12,824	10,883	9,263	10,003
Total liabilities	16,931	16,427	13,860	16,605	17,338
Payables on credit card transactions	12,361	12,346	11,633	10,918	10,272
Equity attributable to equity holders of the Company	2,447	2,120	2,216	1,930	1,821
Additional data					
Number of valid cards as at December 31 (in thousands)	4,403	4,205	3,982	3,726	3,563
Transaction turnover (in NIS millions)	163,002	149,851	128,864	107,929	107,096
Number of full-time positions as at December 31	1,446	1,418	1,416	1,360	1,452

See the comments on the following page.

(1) The total expenses after eliminating credit loss expenses divided by total revenues.

(2) In 2023, after eliminating income before tax from the sale of the CAL building in an amount of NIS 296 million, after deducting expenses, before tax, in respect the provision for the phantom option and less additional expense of a non-recurring nature, before tax, in respect of the transfer of CAL House, in an amount of NIS 19 million, and in respect of additional operating expenses in an amount of NIS 7 million. See Note 15 to the financial statements – Buildings and equipment, for additional details regarding the sale of the CAL building. See Section F(4) of Note 22 to the financial statements – Contingent liabilities and commitments for additional details regarding a provision for a phantom option.

In 2022 – after eliminating the impact of a transaction for the sale of shares in Visa Inc. – income in an amount of approximately NIS 30 million and income of approximately NIS 23 million, net of tax.

In 2021 – after eliminating the impact of a decrease in certain customer benefit programs.

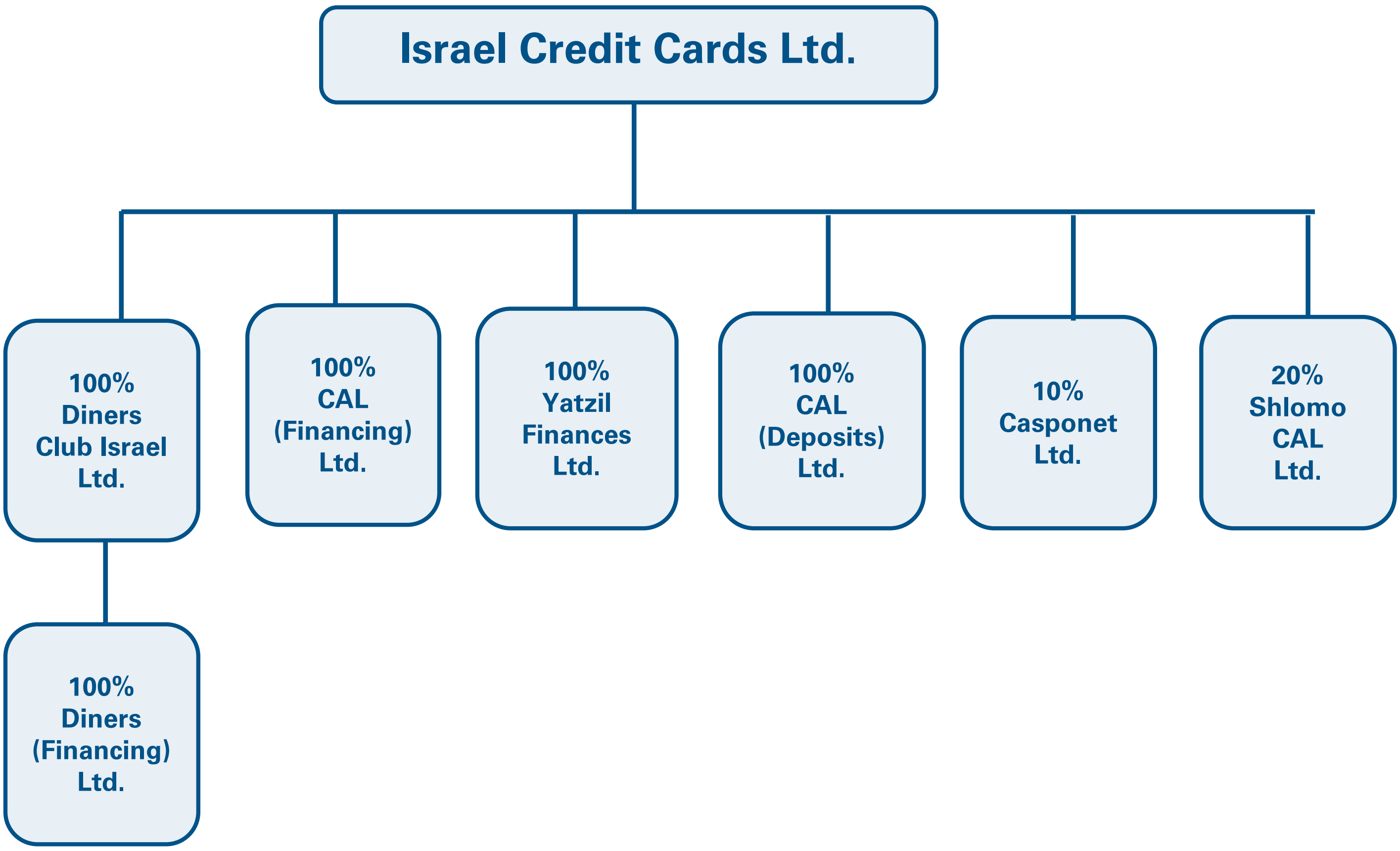
In 2020 – after eliminating income of NIS 64 million (before tax) in respect of the sale of shares in Visa Inc., and on the other hand, an expense of NIS 31 million (before tax) in respect of expenses relating to a voluntary retirement plan.

In 2019 – after eliminating certain provisions in an amount of NIS 17 million (before tax) of a non-recurring nature.

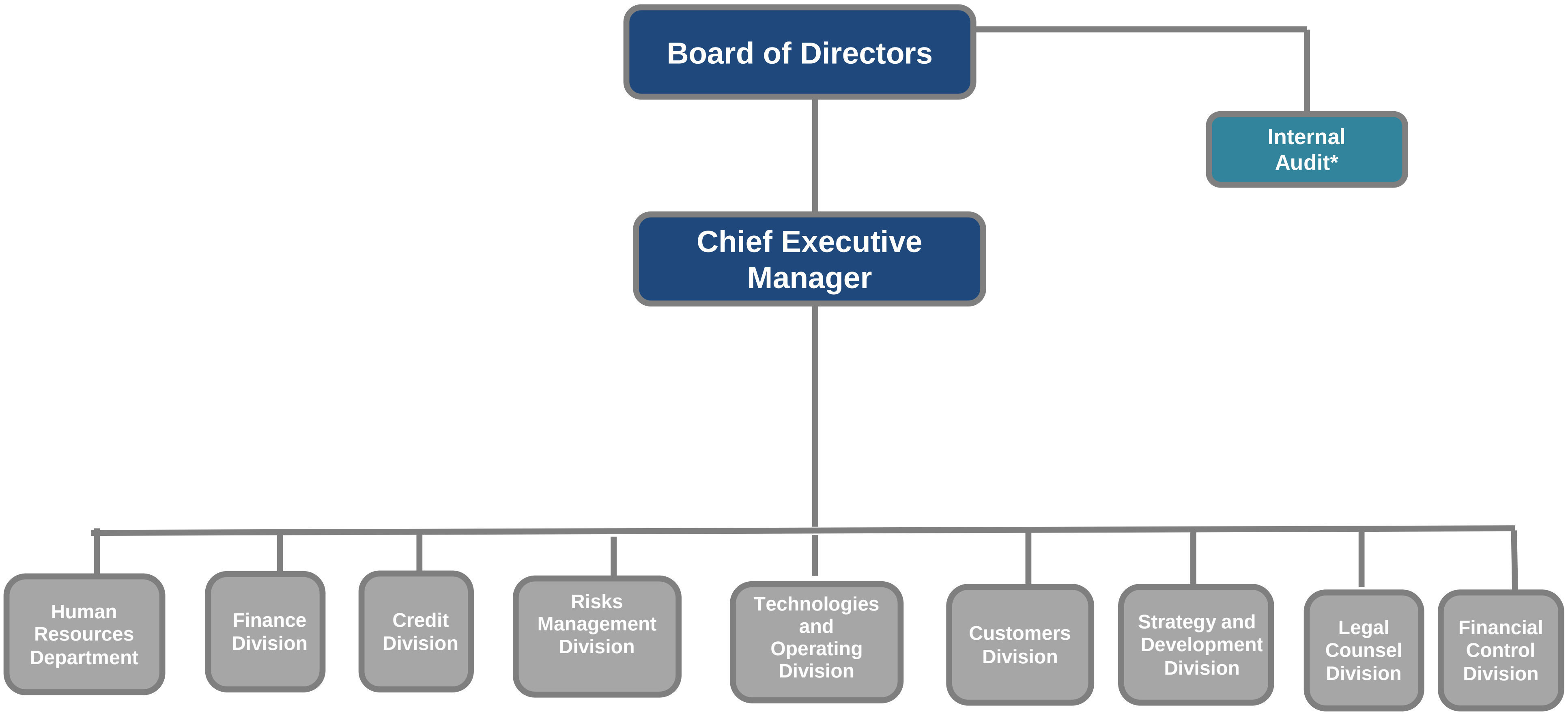
(3) The comparative figures are presented after deducting credit that is guaranteed by banks.

See page 241 in the Report on corporate governance, additional details and appendices for disclosure regarding the Consolidated Statement of Profit and Loss - multi-period data and the Consolidated Balance Sheet – multi-period data.

Holding structure



Organizational structure



* Subordinate to the Chairman of the Board of Directors.

Summary description of the main risks to which the Company is exposed

CAL Group is active in a wide range of financial activities that involve the taking of risk. The nature of the Group's business exposes the Group to an environment with various different commercial and regulatory characteristics. Furthermore, by the very nature of their activities, acquirers are exposed to an array of risks, the principal of which are: credit risk, operational risk, compliance risk and IT risk. A description of these risks and their management are detailed in this chapter below (General description of the risks and their management), and in the report on the "Basel third pillar disclosures and additional information on risk" on the Company's Hebrew website:

Business targets and strategy, and development expectations in the coming year

Changes that have occurred recently, or which may occur, and which affect the Company:

The "Swords of Iron" war

Background

The Swords of Iron war broke out on October 7, 2023, following a surprise attack by the Hammas terrorist organization and its partners on the area around the Gaza Strip, in the course of which the terrorist organization and its partners murdered around 1,200 Israeli and foreign civilians and kidnapped approximately 240 Israel and foreign civilians. The surprise attack started under the cover of a heavy barrage of rockets directed at the area around the Gaza Strip and additional areas of the country. The attack was conducted as the slaughter of civilians in the area around the Gaza Strip, which also included the taking over of Israeli army bases, the kidnapping of soldiers and civilians, including women, children, the elderly and foreign civilians, whilst committing crimes against humanity and war crimes, which included the massacre at the party being held in a nature reserve near Re'im. In the wake of the attack, the State of Israel entered a state of national emergency and declared a state of war. The IDF called up 360 thousand soldiers, the largest call up of reservists in the Country's history.

In the days following the outbreak of the war, the Hezbollah terrorist organization and its partners initiated various aggressive actions on the Northern border, both on the border with Lebanon and that with Syria (the firing of rockets, attempts to penetrate Israeli territory the launching of UAVs and etcetera), which have developed into low intensity conflicts. In the wake of these events, dozens of settlements in the South and in the North of the Company have been evacuated and more than 100 thousand residents have become internal refugees. Places of work have been shuttered, many employees have been forced to be absent from their places of work, inter alia, in light of the shuttering of large parts of the education systems, and many other employees have been placed on unpaid leave.

In parallel, an additional front has opened in the South against another Iranian agent, the Houthis in the Yemen, who have been acting on two parallel channels, the first of which is missile and UAV attacks on Israeli territory, primarily Eilat, and secondly, activity in the maritime sphere – the disruption of global shipping in the Bab El Mandev Straights, where the organization is threatening to harm ships with a connection to the State of Israel, whether the connection is direct or indirect. This activity has a direct impact in economic aspects, such as the importing/ exporting of goods from South East Asian countries and on shipping costs, which is a threat to global trade and the global economy,

On October 28, 2023, IDF forces began the ground operation in the Gaza Strip, within the framework of which there has been ground maneuvers on a large scale, which are still continuing, as well as barrages of missiles and rockets targeting wide areas of the country, from both the Gaza Strip and from over the Northern border. In the first weeks after the outbreak of the war, there was a considerable decrease in activity in the Israeli economy, which included a decrease of between 15% and 20% in activity on credit cards compared to the activity levels prior to the outbreak of the war. As the war continued, there has been a gradual recovery in the volume of activity in Israel, although damage has been caused in certain sectors, primarily in the scope of foreign and in-country tourism.

The Company's Board of Directors and its management have been holding discussions regarding the state of war and the implications for the Company in various aspects, including the business continuity of the Company's operations, the Company's preparations for various scenarios and preparations for the "day after".

When the war broke out, the Company's management focused its entire managerial attention to the war and on its implications. Cross organizational work teams, headed by the Company's CEO, have managed the various segments of the Company's operations under the war, with close monitoring of developments and action being taken to mitigate the various risks and to maintain business continuity.

Significant developments in the Company's results and in its financial position

The Company's operations are affected directly by the level of activity in the Israeli economy, and accordingly the war has had a significant impact in the short-term on the level of the Company's business turnover, on the extent of the demand for credit and on the Company's credit losses, in respect of customers and merchants, who have been harmed as a result of the war.

In the fourth quarter of 2023 and at the beginning of 2024, there was an adverse impact as a result of a decrease in income from fees as a result of benefits for customers (see the table that appears below for details regarding the cost of the benefits that have been provided to customers), as a result of a decrease in activity by Israelis abroad, a decrease in interchange fees, which derived from the volumes of activity in sectors that have been harmed and from a decrease in income from acquiring. In light of the uncertainty that exists regarding the length of time for which the war will continue, its intensity, scale and implications, it is not possible to estimate the overall financial implications of the war in the future at this stage.

Increase in the level of risk - The challenges in the macro environment, including the impact of the war on the level of inflation and the interest outline, the exchange rates and the level of employment in the economy, are expected to have a significant impact on the revenues and profitability in the banking system and to lead to an increase in risk, with an emphasis on credit risk. At this stage, it is too early to update the assessment of the risk, however the Company is monitoring the development in the exposures closely, including the strict monitoring of the development of the exposures, inter alia by means of the use of scenarios at various levels of severity.

Increase in credit losses – There has been a marked increase in the credit risk during the year, which has found expression in an increase in the extent of the write-offs and a decrease in the extents of the collection of debts that have been written off in the past. The increase in credit loss expenses in 2023 derived primarily from the macro-economic environment (including a rise in the interest index), from the freezing in collection activity in the first weeks following the outbreak of the war, from an increase in the collective allowance for credit losses as compared with a decrease in the previous year and from an increase in the size of the credit portfolio.

In the Company's assessment, the "Swords of Iron" war may affect the state of the borrowers and their solvency capacity. However, uncertainty exists regarding the length of time for which the war will continue and its intensity and accordingly, regarding its impact on the borrowers. The Company is continuing to monitor the credit risk in the portfolio in every reporting period and it adjusts the allowance for credit losses as necessary.

Regarding the loans to merchants segment, in the Company's assessment there has been a decrease in the quality of the credit, primarily in credit branches that have been harmed especially severely by the outbreak of the war, such as restaurants, the fashion industry, furniture and tourism, and there has been a marked decrease in the credit quality of customers in the South and the North of the country. The Company has mapped these branches and the credit risk that is inherent in them in light of the war in order to adjust the allowances for credit losses.

Expenses of NIS 285 million were recorded in 2023 in respect of credit losses, as compared with an amount of NIS 97 million in the comparative period in the previous year, an increase of 193%. The increase derived primarily from an increase in the net write-offs together with an increase in the provision for credit risk in the portfolio, including for borrowers whose credit risk may have risen as a result of the war, but this has not been identified yet. See, inter alia, the details regarding "working assumptions used in the determination of the collective allowance" and the details regarding "sensitivity;' tests" (see below "the expenses in respect of credit losses" in the section entitled "developments in income and expenses" and the chapter on "critical accounting estimates" in the Board of Directors and Management Report, which follow) within the context of this issue. Furthermore, the increase derives from macro changes in the Israeli economy and from an increase in the interest rate and in the inflation rate in particular.

On February 9, 2024, Moody's, the international rating agency announced the lowering of the State of Israel's credit rating from A1 to A2, in light of the risks deriving from the implications of the ongoing military conflict in the South and its broader implications. On October 17, 2023, the Fitch rating agency announced that it was placing the State of Israel's rating on a "negative rating watch") as a result of a change in the perception of the risk in light of the war. On October 24, the S&P rating agency also announced the lowering of the State of Israel's rating outlook from "Stable" to "Negative", against the background of the significant worsening in the geopolitical and security risks, which Israel is coping with in the wake of the war. However, the rating agency reconfirmed Israel's credit rating at a level of AA-. See Page 48 of the Report of the Board of Directors and management for details regarding the possible impact of the lowering of the rating by S&P on the Company's capital adequacy.

The Company has a stable capital structure and in its assessment, the impacts of the war have not led the exceeding of the minimal capital ratio and leverage ratio targets that have been set by the Banking Supervision Department or the targets that have been set by the Company's Board of Directors.

<u>The Swords of Iron War – regulatory directives</u>

Upon the outbreak of the Swords of Iron War, a number of different regulatory directives were published, in order to assist those harmed by the fighting and to assist various providers of services to provide services to customers. Thus, Proper Conduct of Banking Business Directive 251 "Adjustments to Proper Conduct of Banking Business Directives in order to deal with the Swords of Iron War (Temporary Directive)", which includes various regulatory reliefs, was published; an outline of reliefs for charge card companies in respect of the provision of credit and the collection of commissions from customers, was published and adopted, with an emphasis being placed on reliefs for "first circle" customers, who have been harmed by the war; the publication of letters issued on behalf of the Supervisor of Banks, the substance of which is bringing matters into focus for the purpose of providing optimal service to customers, whilst taking their situation as a result of the war into account; the publication of the Deferral of Timings Law (Temporary Directive – the Swords of Iron War) (Contract, judgment or payments to authorities) – 2023 and etcetera.

Since the publication of the Law, various versions of an order for the deferral of timings have been published, within the framework of which, inter alia, the Law has also been applied for residents of the North who have been evacuation as a result of the security situation and the periods that were set in the law have been extended.

<u>Support for the Company's customers</u>

In the shadow of the war and the impacts thereof, the Company has granted benefits and reliefs, which will enable its customers (both businesses and private individuals) to cope with the situation.

Within this framework, the Company has taken steps to advertise and to improve the level of accessibility for all of the service channels on the digital channels; it has provided a special line for members of families whose relatives have been kidnapped or are missing and it has provided a designated call center, which works opposite the National Authority for the Kidnapped and the Missing; and it has ensured the physical presence of its representatives at the evacuation center for residents of the areas around the Gaza Strip in order to provide evacuees with face to face service.

The Company has granted and continues to grant an exemption from a credit card commission as well as the deferral of payments to customers who are residents of the South and the North and to additional populations of customers. Furthermore, the Company is implementing directives issued Banking Supervision Department in connection with the outline for reliefs, which it had published (see the chapter on Directives issued by the Supervisor of Banks in the Corporate Governance Report, Audit and Additional details, which follows).

The Company has discontinued the marketing of loans and it enables the deferral of payments of loans and the rescheduling of charges without cost for private customers, and the provision of advances without cost for business customers. The Company has approached its business customers pro-actively in order to identify needs and to offer solutions for difficulties deriving from the state of war.

	Consolidated	
	As at December 3, 2023	
Year ended December 31	Private customers	Business customers
	NIS millions	
Impact of benefits (1) that the Group has granted within the context of coping with the war		
Loans without interest or with a reduced interest rate	3	*–
Waiver of commissions	7	*–
Other benefits	4	*–
Total benefits that the Group has granted	14	*–
Benefits that have not been utilized yet	12	*–
Estimate of the total benefits that have been provided at full utilization	26	*–
Additional information on activity in support of borrowers within the context of coping with the war		
Balance of credit with a change in the terms of the debts	126	124
Amount of the payments that have been deferred**	12	16
Average deferrals of payments in months***	3	3
Of which:		
Troubled debts	6	–
Of which;		
Credit that has undergone a reorganization of troubled debt	–	–
Loans that have been provided within the context of state guaranteed funds:		
Balance of the credit	–	28
Average interest rate	–	7.7%
Of which		
Balance of credit that has been provided with financing from the Bank of Israel	–	–

* Represents an amount of less than NIS 1 million.

** Including the waiver of interest, the waiver of principal, the deferral of payments and/or the extension of the repayment period.

*** Deferral of payments, including the extension of the repayment period. The deferral of payments does not include deferrals in which entitlement, which the borrower has been entitled to under any law, has been utilized.

(1) Excluding the extension and expansion of the Bank of Israel, which was published on March 4, 2024.

The part of the benefits, which are expected to have an impact by way of a reduction in income from fees and income from interest, amounts to approximately NIS 14 million, which have been reflected in the fourth quarter of 2023 and which will be recorded in the first quarter of 2024. Against the background of the war, the Company has harnessed itself to providing assistance for various approaches, inter alia, the Company has dealt with the blocking of cards of the missing and people who have been murdered immediately, and it opened a dedicated telephone call center to handle this issue.

The Company, together with additional organizations, has assisted in the distribution of NIS 8 million to families who have been evacuated from their homes by means of loading reloadable prepaid credit cards, without cost. In addition, the Company has donated medicines, medical equipment, mobile chargers and crucial equipment to fighters and to volunteers in rescue organizations.

The Company has donated funds to residents of the area around the Gaza Strip, it has encouraged its employees to participate in voluntary activity on account of work hours and it has also contributed equipment and food to residents of the area around the Gaza Strip who have been evacuated from their homes.

Significant changes in credit

The reduction of the extent of activity since the outbreak of the war has led to a decrease in the volume of consumer credit. The decrease derives primarily from credit that is non-interest bearing, in light of the reduction in operating turnovers.

The reduction in private consumption and the discontinuation of the marketing of loans has also led to a reduction in demand for interest bearing credit, and as a result of this there was a decrease of NIS 29 million in the extent of consumer credit in the fourth quarter of 2023. The demand for business and commercial credit in the future is dependent on the intensity of the impact of the war and at this stage uncertainty exists regarding its extent.

Sources of finance and the liquidity situation

The Company's financial base and its capital infrastructure continue to be stable and these are being managed stringently. The capital adequacy indices, the liquidity ratio and the leverage ratio as at December 31, 2023 are fair and exceed the minimum that is required in the directives issued by the Banking Supervision Department and they exceed the internal targets that have been set by the Company's Board of Directors. In the Company's assessment, there has been no significant change in these indices as at a time shortly before the time of the publication of the report. The Company monitors the liquidity situation daily and is in routine contact with all of the business managers in the banks. As at the reporting date, the Company is in compliance with all of the indices and liquidity restrictions, which have been set by the Board of Directors.

None of the banks have given notification of the cancellation or the reduction of the credit facilities that have been allocated to the Company.

During the period, the Company has taken up a number of short-intermediate term loans, as a replacement for short-term "on-call" loans, with the objective of strengthening this aspect of its liquidity.

As at the present time, there has been no change in the price of the Company's sources of finance.

Operations and business continuity

The Company has been defined as a "provider of crucial services" to the economy by the government of Israel, and as such, it has continued its operations continuously, albeit in an emergency format, in accordance with the directives issued by the Home Front Command and the directives issued by the Banking Supervision Department. As a result of the aforesaid, there was a gradual reduction in the extent of activity as from shortly after the outbreak of the war, with a focus on activities that have been defined as crucial by the Company.

The Company has taken action to ensure its business continuity on a number of planes, including:

- In the first weeks after the outbreak of the war, the Company transitioned to hybrid working, with employees being given the possibility of working from home, in accordance with their personal needs.
- Communications equipment was procured in order to ensure the continuity of work, even in scenarios involving faults in the provision of energy and/or telecommunications.

The expenses that are required in order to change the nature of the activity and significant changes in the terms of employment and benefits to employees

For the purpose of adapting activity to the new situation, which the Company has needed to expend, have been primarily computer and telecommunications related expenses. The expenses amounted to an insignificant amount.

Changes in the macro-economic environment

In the wake of the security situation in Israel, the attacks on Israel and the start of the "Swords of Iron" war on October 7, 2023, the State of Israel entered a state of national emergency. The government declared a state of war and declared a widespread call up of military reservists, people have been evacuated from their homes, places of work have been shuttered and employees have been placed on unpaid leave by certain employers. When the war stated there was a sharp decrease in the prices of securities on the Tel-Aviv Stock Exchange, an increase in the price of petroleum and fuels and a devaluation in the exchange rate of the shekel against other currencies.

In light of the uncertainty that exists regarding the development in the security situation and the probability of its negative implications, the Israel economy may encounter a slow-down.

The serious disruption to routine living and the impacts of the security and economic situation in Israel have caused the Bank of Israel to publish directives to banking corporations and credit card companies in order to provide relief to their customers, including enabling reliefs for borrowers such as determining new short-term repayment arrangements (such as the waiving of arrears interest and the deferral of payments of interest and principal for a period of up to 3 months). In addition to the directives, which have been published by the Bank of Israel, the Company has harnessed itself to assisting its customers who have been harmed as a result of the war and it has been offering additional reliefs.

On February 9, 2024, Moody's, the international rating agency announced the lowering of the State of Israel's credit rating from A1 to A2, in light of the risks deriving from the implications of the ongoing military conflict in the South and its broader implications. The S&P international rating agency has also announced the lowering of the State of Israel's rating outlook from "Stable" to "Negative", even though the rating itself remained at a level of AA-. The Fitch rating agency announced that it was placing the State of Israel's rating on a "Negative rating watch") as a result of a change in the perception of the risk in light of the "Swords of Iron" war. See page 49 below for details regarding the potential impact of the lowering of the Company's credit rating.

The war is expected to lead to a worsening in the state of economic activity in Israel, to which the Company's operations are exposed, including an increase in the credit risk and liquidity difficulties for borrowers, in both the business segment and in the private segment.

At this stage, based on the information that is available as at the time of the approval of the financial statements, the Company assesses that in a scenario of an additional escalation in the security situation in Israel could lead to a significant impact on its business results as a result of a decrease in the volume of activity in the economy, which would lead to a reduction across the board in the Company's operations. This reduction may find expression in a reduction in income from interest, an increase in credit losses, a decrease in the collection of commissions and in other business activity. Since this is an event that is not under the Company's control and the actual developments may affect the Company's assessments, as at the reporting sate the Company is unable to estimate the extent of the expected impact of the war on its results in the intermediate and long-term. The Company is monitoring the situation routinely and is making adjustments to its operations and to the management of its risks in accordance with the developments.

The adoption of a strategic plan

In 2021, CAL formulated a multi-year strategic plan for the years 2022 – 2026, which was approved by the Company's Board of Directors in December 2021. The plan is based on the continuing of the positioning of the Company as the leader in payments and non-banking credit activities by means of flexibility, innovation and co-operations, together with striving to achieve an optimal customer experience and taking note of the perpetual changes in the competitive environment in which CAL operates. In 2024, the Company intends to continue to implement the multi-year strategic plan, which is comprised primarily of the creation of future engines for growth and solidifying the Company's leading position in the core activity.

Creation of future engines for growth

1. Consumer credit – CAL will continue to take act to realize the credit potential by strong and responsible growth in the credit balances and in the financing income, whilst preserving the quality of the portfolio. This will be achieved by expanding the use of data, improving the underwriting models, the expansion of the distribution channels and the improvement of the digital marketing capabilities. In addition, CAL will expand the offering of value to its customers via a range of new credit products.
2. Business credit – CAL will continue to offer a range of financing and payment solutions to merchants, whilst maintaining the appetite for risk, which will be done, inter alia, by means of the entry of new products that are backed by collateral and the factoring of payments by "Yatzil". In this way, the Company will strengthen the direct connection with its merchants and acquirers.
3. CAL's payment platforms - CAL has developed an innovative technological platform in recent year, which redefines the rules of the game by creating offerings of value based on innovation. The platform provides access to innovative payment as a service (Paas) and credit as a service (Caas) products for business partners with short embedding times, measurable entrance engines and new business models. The platform is modular, has open interfaces for embedding and complies with the most stringent information security standards and all of the Israeli regulatory requirements.

Solidifying the Company's leading position in the core activity

1. Non-banking issuance – In recent years, CAL has solidified its position as a leader in the B2B2C sector by means of a strategy of partnerships with the leading customer clubs in Israel and it has also strengthened its independent arm (D2C) by offering CashBack based value.
2. Processing – CAL is continuing to strengthen is processing activity by strengthening its contacts with the banks, and continuing to solidify its status in the field.

The business environment in which CAL operates is experiencing numerous changes, which are creating challenges. In the macro arena, the economy in general and the payments and credit market in particular are typified by uncertainty, high fluctuations and a slow-down in consumption; in the regulatory arena, the barriers to entry for new players are being reduced on the one hand, and the regulation on the existing players is increasing on the other hand; in the technological arena, the development of alternative means to credit cards and the entry of Fintech with different credit solutions; and in the competition over consumers arena, the customers' power has increased, and with it the expectation for a higher standard of service and the understanding that the ownership of the information is moving over to the customer.

All of these require CAL to be prepared for the new world. Within the context of the preparation, CAL is performing a transformation in the operating model, which will enable it to cope with the future challenges, including operational excellence, instituting an agile technological and business culture as its management methodology and creating innovative infrastructure, which is based on advanced data and digital capabilities.

Significant changes in the economic and regulatory environment or in the geo-political and security situation, technological developments, activity by competitors, which operate in the sector and other potential competitors, as well as changes in the patterns of consumption and customers' expectations, which are not under the Company's control, may lead to a change in the ability to execute the plans that the Company has as at the time of the publication of the reports. The aforesaid includes, the economic impacts of the "Swords of Iron" war, in particular when taking note that the length of time for which the war will continue and its intensity cannot be assessed at this stage, and they may have a significant impact on the Company's ability to execute its plants, at least in the short-term. See the table on risk factors, which follows, for additional details.

New operations, acquisitions and strategic collaborations

New activity, acquisitions and strategic cooperations, the implementation of which may have a significant impact on the Company's results**:**

Sale of Cal House, the sale of CAL's share in the "Discount Campus" and rental agreement for CAL House in Bnei Brak

On March 23, 2022, the Company and Gazit Globe Israel Ltd. signed on an agreement for the sale of CAL House in Givatayim for consideration of NIS 356 million, with the addition of VAT and betterment levies.

The transaction was completed on March 30, 2023. In light of the completion of the transaction, the Company recognized a non-recurring profit of NIS 231 million after tax. On the other hand, the Company has recognized non-recurring direct costs, which are involved in the sale of the building and preparations for the move to the new Cal House, in an amount of NIS 16 million after tax. In parallel, the Company and Gazit Globe signed on agreements that will enable the extension of the rental agreement for the building in Givatayim until the time of the transfer to CAL House in Bnei Brak.

In 2016, the Company made a commitment with Discount Leasing Ltd., a subsidiary company of Discount Bank, under an agreement for the construction of the CAL Building, within the framework of the "Discount Campus" in Rishon Le'Zion, which was intended to house Discount's head office and the head offices of its main subsidiary companies in Israel – the Company and Mercantile (the "Group"). In July 2023, in light of the expected separation from Discount Bank, in July 2023 the Company's Board of Directors approved the sale of CAL's share in the "Discount Campus" to Discount Leasing. This transaction has not been completed yet and its completion is expected to take place in the coming months. When it is completed, the Company is recognize net income (after deducting the deductions that are involved in the sale and the impact of taxation) in an amount of approximately NIS 20 million. In light of the Board of Directors' approval, as mentioned above, the Company share in the "Discount Club" has been classified as "held for sale" in these financial statements. However, the Company's secondary computer has been transferred to the Discount Campus in Rishon Le'Zion as planned.

On January 1, 2024, the Company signed on a rental agreement for a period of ten years with an option for an extension for an additional 14 years in an office building in Bnei Brak.

In January 2024, the Company signed on an agreement with a main contractor for the performance of adaptation works for the building in Bnei Brak, in addition to which additional agreements have been signed in the telecommunications and multimedia fields. The total construction costs, most of which are expected to be capitalized to leasehold improvements, are estimated at NIS 110 million.

Cooperation agreement with Electra Consumer Products and Bank Hapoalim

On August 9, 2020, the Company signed on a tri-partite agreement with Electra Consumer Products (1970) Ltd. (ECP) and with Bank Hapoalim, in connection with the operation of a customers' club based on a non-banking credit card to be issued by CAL, to customers of bit and customers of ECP's retails chains, in which the customers of the BIT-CAL club and the customers of the 365 Family club (the "Club"), for a period of 12 years from the time at which the crucial terms of the agreement are met.

On April 30, 2023, approval was received from the Competition Authority for the merger of the BIT-CAL consumers club with Electra's club, in addition to which an exemption was granted from the compulsory terms for the receipt of the court's approval for the agreement (including a conditions that instructs the parties to verify that the main points of the arrangement do not reduce competition and that there is nothing in the agreement that restricts or impairs competition significantly). The exemption is given throughout the period of the agreement but the Competition Commissioner is entitled to terminate its validity at the time that was set. Further to discussions that have been held opposite the Competition Authority and to the terms that were set in the exemption, including in relation to credit, the parties have updated some of the commercial agreements in the agreement. On August 6, 2023, the crucial terms for the completion of the transaction were fulfilled and the transaction was completed. The customers club was launched in a soft launch on August 15, 2023.

The winning of a tender held by the Accountant General

On September 19, 2022, the Tenders Committee for the issue of means of payment in the Accountant General's Office announced that the Company had won a tender for the management and issuance of advanced means of payment.

The objective of the tender was to increase the efficiency and to simplify the procurement and payment processes in government ministries, and it is expected to provide a response, both latitudinally for procurements in low volumes in the government ministries and also for the procurements of special purpose units and projects, such as: police officers, soldiers, school principals, persons supported by the Ministry of Welfare and etcetera.

The tender defined a new, innovative, swift, digital payment mechanism, which will shorten the time taken for the procurement and payment process significantly for the government and will increase the control and transparency mechanisms. The winning of the tender is expected to lead to an increase in the volume of activity on the Company's cards, to an extent that cannot be estimated at this stage.

<u>New activities, acquisitions and strategic cooperations, the implementation of which is not expected to have a significant impact on the Company's results:</u>

Launch of a new credit card – Cash Cal Pro

On May 29, 2023, the Company launched the Cash Cal Pro card, which is a cashback card for transactions in Israel and abroad and which provide their users with a cash refund (cashback) of up to 1.5% on every purchase in Israel and abroad, a reduced commission on transactions in foreign currency and discounted entry to more than 1,200 flight lounges across the globe.

Financing credit for cars

In May 2023, the Company launched activity involving the financing of credit for the purchase of cars. The entry into the field of financing for the purchase of cars will enable the Company to increase the volume of the balances of its consumer credit, whilst managing the risk and being based on a product that is supported by collateral.

Extension of the Powercard agreement

On July 17, 2023, the Company, Diners and Powercard (2000) Ltd. signed on an addition to the existing agreements, pursuant to which the agreements between the parties will be extended, with certain adjustments, until December 31, 2026.

Launching of a card for children

In September 2023, the Company launched a credit card for children MyCal, which is issued to children of any age and which enables parents to load the cards immediately on digital channels. The card is a loadable prepaid card, which offers a refund of 10% ("Cashback") in leading chains for children.

Replacement of core system infrastructure

On April 5, 2017, the Company and HPE Software Israel Ltd ("HPE") signed on an agreement for the supply of computer services to the Company within the framework of a multi-year program for the replacement of the Company's core infrastructure system. The objective of the project is to improve business continuity in core activity, taking note of the time of the ending of the existing technological infrastructure's lifecycle and its replacement with advanced infrastructure with a long-term horizon. The extent of the entire project, including internal inputs that have been invested in it, is estimated at approximately NIS 250 million. The project is expected to be completed by the end of 2024.

The project is in advanced stages of delivery checks and is transitioning to focusing on business checks, checks opposite various external parties and exercising the process involved in going live.

Commitments under bundling agreements in the Diners and American Express brands

On July 23, 2023, the Company's subsidiary company, Diners Club Ltd. (which acquired and issued the "Diners" charge card in Israel) and Isracard Ltd. ("Isracard") signed on a detailed agreement in connection with a commitment under a bundling agreement, within the framework of which Isracard will be enabled to serve as a bundler for merchants in Israel under the "Diners" brand.

In addition, the Company and Premium Express Ltd. have signed on a detailed agreement in connection with a commitment under a bundling agreement, within the framework of which Isracard will be enabled to serve as a bundler for merchants in Israel under the "American Express" brand.

The detailed agreements include generally accepted terms in bundling agreements and they are in effect for a period of 12 months and will be renewed automatically for additional periods of 12 months each time, for up to 5 years in total, unless either of the parties give notification of its desire to cancel any of the agreements beforehand, in accordance with the terms that are determined therein.

Changes that have occurred recently, or which may occur, and which affect the Company:

See page 19 above for details regarding the impact of the "Swords of Iron" war on the Company's operations.

Competition in the credit cards field

The following companies operate in the field of the issuance and acquiring of the credit cards in Israel (in addition to banks which serve as issuers for banking charge cards): (1) the Company, which issues and acquires "Visa" and "MasterCard" charge cards and acquired charge cards bearing the "Isracard" brand, and which also issues and acquires exclusively charge cards bearing the "Diners" brand, through a subsidiary company, Diners Club Israel Ltd.; (2) Isracard Ltd., which to the best of the Company's knowledge issues (exclusively) and acquired credit cards bearing the "Isracard" brand, issues and acquires credit cards bearing the "MasterCard" brand, and which also and acquired credit cards bearing the "Visa" brand ("Isracard'); (3) Premium Express Ltd. (in its formed name: "Poalim Express"), a subsidiary company of Isracard, which to the best of the Company's knowledge, issues and acquires exclusively credit cards bearing the "American Express" brand; (4) Max It Finance Ltd. (in its former name: Leumi Card. (hereinafter: "Max"), which to the best of the Company's knowledge issues and clears charge cards bearing the "Visa" and the "MasterCard" brands and acquired cards bearing the "Isracard" brand.

The competitive environment, which has been growing stiffer in recent years, is affected, inter alia, by the following factors:

The competition between the acquirers has increased, inter alia, against the background of the separation of Isracard and Max from the banks, together with the impact of the regulatory steps that have been initiated by the Supervisor of Banks, and also in light of the steps that have been taken by the credit card companies, have found expression in a decrease in the acquiring commissions.

Banking corporations have launched payments solutions, which may operate outside of the charge cards scheme. We should mention in this connection the Paybox (Discount Bank) and bit (Bank Hapoalim), as well as the progress of a system for immediate charges and credits from one account to another, which is being promoted by the Central Banking Clearing System, which may form an alternative to the charge cards scheme.

The technology giants offer financial services in Israel. In 2021, Apple launched its Apple Pay payments app in Israel and Google launched the "Google Pay" digital wallet. The entry of the technological giants into the local payments market is expected to increase the competition and to form a catalyst for innovation and technology in this field.

In addition, there is fierce competition in the field of customers clubs recently, which has found expression, inter alia, in the commercial terms in a number of agreements that have been signed in the credit cards sector.

The competition in the non-banking credit field in recent years has also grown in light of the significant increase in the number of financial bodies offering loans to households, such as provident funds, further training funds or person-to-person (P2P) loan platforms.

The various regulatory steps that have been taken by the Supervision Department, such as the setting up of a database of credit data, are expected to further increase the strength of the competition, and to enable providers of non-banking credit (including the Company) to receive more reliable information on its current and potential customers.

The Financial Information Service Law, 2021, which was published in November 2021 and Proper Conduct of Banking Business Directive 368 on the subject of Open Banking, which was published on February 24, 2020, force the banks, credit card companies and other financial bodies to share information on their customers (with the customer's agreement). The Proper Conduct of Banking Business Directive enables the initiation of payments, at a later stage. Open banking forms an opportunity for the Company, however it also enables additional bodies to receive the specific information that is held by the credit card companies and may even add competition in the payments field by means of initiated payments.

The Company has and is making preparations for these changes, and it has formulated a strategy, which are intended to enable it to cope optimally with these changes (see the chapter on "Adoption of a strategic plan", which appears above, for additional details regarding the strategy that has been formulated).

Separation of the Company from Discount Bank

The Strengthening Competition and Reducing Concentration in the Israeli Banking Market Law – 2017 (the "Law") was published in the Official Gazette on January 31 2017. In the first stage, within the framework of the implementation of the law, the Isracard and Max (formerly Leumicard) companies were separated from Bank Hapoalim and from Bank Leumi, respectively, since they held an assets value of more than 20% and accordingly they were defined as a "bank having a broad volume of activity). Accordingly, at that stage, no duty applied to Discount to sell CAL.

In relation to CAL, on January 31, 2021, a period of two years, ending on January 31, 2023 started, within the course of which the Minister of Finance, with the consent of the Governor of the Bank of Israel and the approval of the Knesset's Finance Committee, would be entitled to instruct the separation of CAL from Discount. If certain conditions, which are determined in Section 11B(d) of the Banking Law (Licensing) – 1981 (the "Banking Law") are fulfilled.

A committee has been established pursuant to the provisions of Section 12(B)(3) of the Law, whose role included making a recommendation to the Minister regarding the operation of his authority to force such a requirement to sell on Cal. On December 21, 2022, the Committee published its recommendation to the Minister of Finance, as had been passed by the majority of its members, in which its position was that he should exercise his authority as aforesaid. The recommendation documents also includes the Supervisor of Banks' minority opinion, in which he does not share the opinion held by the other members of the Committee. On January 18, 2023, after the Governor of the Bank of Israel's consent had been received, the Minister of Finance referred to the Chairman of the Knesset's Finance Committee and asked for the Committee's approval for draft Banking Regulations (Licensing) (A bank having a broad volume of activity) – 2023.

On January 30, 2023, the Knesset's Finance Committee approved the Banking Regulations (Licensing) (A bank having a broad volume of activity) – 2023 (the "Regulations").

Pursuant to the Regulations, Discount is required to sell the means of control that it holds in the company by the end of a period of three years from the start of the period (the day on which the Regulations were published in the Official Gazette) up to the end of a period of four years, in certain circumstances, if it is decided to follow an outline of a public floatation. Furthermore, the provisions that were set in the Law will apply regarding the sale.

In addition, inter alia, the following provisions apply:

- In the period from the starting date and up to the later of 5 years or 3 years from the time of the separation, Discount is to perform the issuance of the charge cards that it issues through an operating company and to enable it to be a party to the charge card contract;
- At the end of a period of one year from the starting time and up to the later of 5 years or 3 years from the time of the separation, it is prohibited for Discount to perform the issuance of more than 52% of the number of new credit cards that it issued to its customers through one operating company;

- The setting of a mechanism for the division of the income deriving from the operation of the issuance of charge cards and from the customers' activity on charge cards between Discount and the charge card company, such that the division of such income will be in accordance with the agreement that was in effect between the parties in 2022;
- Restrictions on approaches to customers regarding the renewal of credit cards.

Bank Discount has informed the Company that it is making preparations for the separation and that inter alia, it has hired the services of various consultants, including a foreign investment bank, which will assist it in the process. Furthermore, Bank Discount has informed the Company that within the framework of the public comments state of the draft, on December 18, 2023 the Bank submitted its comments, which relate primarily to the fact that in light of the time that has passed since the time of the decision, which obligated the bank to sell CAL, including the present state of the Israeli economy, it is necessary to progress the draft swiftly and to extend the deadlines for the sale. As at a time shortly before the publication of the report, such a draft law to amend the section has not been published yet.

Within the framework of the joint distribution agreement with El-Al, inter alia, El-Al was afforded a "phantom" type option providing it economic rights in CAL (equivalent to 8.75% of the increase in CAL's value in excess of an amount of NIS 1,800 million) or in Diners (equivalent to 35% of the increase in Diners' value in excess of an amount of NIS 335 million). The option will be exercisable solely and exclusively in the event of the sale or floatation of either of them, in accordance with the terms that were set in the agreement in connection with this, and it will be settled in cash.

Pursuant to an appraisal, which the Company holds, the fair value of the phantom option (within the meaning of that term in generally accepted accounting principles), based, inter alia, on data regarding the equity multiples of financial corporations, which are listed for trading in Israel and on data regarding transactions for the acquisition of the credit card companies Isracard and Max (information in the public sphere alone, regarding the agreement, within the framework of which Harel Investments was to acquire all of the shares in Isracard and the agreement within the framework of which Clal Holdings Insurance Enterprises acquired all of the shares in Max, in accordance with their reports to the public) and on the assumption that the Company will exhaust the possibilities for distributing a dividend in the future in accordance with the option agreement prior to its sale, in an amount of approximately NIS 52 million. The Company has recognized non-recurring expenses in respect of the said option in 2023. Taking the impact of tax into account, the recording of the option has reduced the Company's net income by approximately NIS 37 million in 2023.

It should be emphasized that to the best of the Company's knowledge, at this stage Bank Discount is making initial preparations for separation from the Company but decisions have not been made as yet regarding the outline for the separation. This will be a transaction on what is expected to be a significant scale, where the purchase price may be affected by dynamics in the market, as these may be shortly before the time at which the transaction is executed, by the way in which CAL develops relative to its competitors by the outline under which the separation will be made, from possible competition between potential purchasers and from various macro-economic variables. In light of the aforesaid, the value of the option may be very significantly different from the appraisal of the value of the option as mentioned above.

It should be emphasized further than it is not possible to estimate at this stage how long the Swords of Iron war will continue, its intensity or its economic implications on the economy and accordingly is it not possible to assess its impact, if any, on the sale process.

On May 11, 2023, the recommendations of the team that had been established to examine the holdings of institutional bodies in charge card companies (the "Team") were published.

The team, which has been established by the Ministry of Finance, examined the issue of the distinction that exists in the law between the acquisition of a charge card company from a bank having a broad volume of activity (an initial acquisition) and the acquisition of a charge card company from the body that acquired that company from a bank (a secondary acquisition).

Pursuant to the Team's recommendation, on November 27, 2023, the draft Banking Law (Licensing) (Amendments to Legislation) – 2023, was published. The draft law proposes deleting the relating to a public institution, which appears in Section 10 of the Law, which prevents the acquisition of a credit cards company by an institutional body in the first round.

It is further proposed that a new definition of a "Bank having an intermediary volume of activity" be added to the law, for a bank whose assets value is between 5% and 10% of the value of generality of the banks' assets. Pursuant to the draft, a bank with a broad volume of activity will be forbidden to control a charge card company (a corporation that is engaged in the operation of the issuance of charge cards and the acquiring of transactions on charge cards).

The impact of the Company's separation on the sources of financing

CAL finances its operations primarily by means of: shareholders' equity, short and long-term loans and on-call type loans from various banks in Israel, which are provided in secured and in unsecured facilities from banks.

As at the time of the signing of the report, the Company's external sources of finances are in significant volumes (where a significant part of the credit facilities are provided to it by Israel Discount Bank Ltd.) and they are required by the Group, inter alia, for the purpose of supporting an increase in its activities.

The separation of the Company from Discount Bank may have a significant impact on the Company's sources of financing, inter alia, as a result of the restriction on a "single borrower" (which does not apply up to the time of the separation of Discount Bank in connection with credit that has been provided to the Company, by virtue of its status as the Company's parent company), which will affect the mix of sources of financing and accordingly there may be an increase in the Company's financing expenses. In the Company's assessment, taking not of the uncertainty regarding the conditions in the market, the interest margins and the price quotes, which the Company may receive from various financing bodies in the future, the Company is unable to assess the impact on the financing expenses with certainty, however a reasonable scenario is that there may be an increase in the financing expenses, primarily as a result of:

(1) The integration of intermediate-term and long-term financing in a manner that will enable additional reconciliation between the tenor of the Company's applications and the tenor of its sources and the supply of sources for the purposes of future growth, which are expected to be more expensive than the short-term sources of credit in the currently existing environment;

(2) A possible increase in short-term credit costs.

(3) The holding of minimal liquid balances on a higher volume than the volume that is held at present.

The proportion of CAL's interest expenses in respect of credit from banks that is attributed to Discount stood at 40% and at 37% and 37% in each of the years 2023, 2022 and 2021.

See page 85 below for additional details regarding CAL's sources of finance and credit facilities.

The impact of agreements with shareholders in the Company on the operating results

As of the reporting date, the Company is signed on a number of agreements with its shareholders:

– See section F of Note 22 to the financial statements – Contingent liabilities and commitments, for details regarding a joint issuance agreement with Israel Discount Bank Ltd..

– See section F of Note 22 to the financial statements – Contingent liabilities and commitments, for details regarding a joint issuance agreement with the First International Bank of Israel Ltd.

– See Note 15 to the financial statements – Buildings and equipment, for details regarding the Company's commitment with Discount Leasing Ltd., which is part of the Discount Group, regarding the establishment of the Discount Campus.

– See Note 23 to the financial statements – Guarantees, for details regarding guarantees from Israel Discount Bank Ltd.

– See Note 29 to the financial statements – Interested parties and related parties of the Company and its consolidated companies for details regarding the impacts of transactions with the Company's shareholders on the results and the balance sheets.

A decrease in the volume of activity on Discount Bank cards, and similarly a change in the rate of the payments, which are derived from the turnover of transactions, may have a significant impact on the Company's results.

The net payments, which the Company paid to Israel Discount Bank by virtue of the arrangement agreement between the corporations, for all of the Group's brands, by virtue of the issue operating agreements, stood at approximately NIS 123 million, NIS 129 million and NIS 115 million in each of the years 2023, 2022 and 2021, respectively, constituting 35%, 37% and 38% of the total payments to banks in an arrangement in those periods, respectively. It should be mentioned that is arises from an analysis of the reports of the competing credit card companies, which have been separated from their shareholders, that in the periods following the time of their separation there was a moderate increase in the interest rates on the various loan channels, in tandem with an increase of 5% to 22% in the average interest rate for customers and of 25% to 45% in the rates that are paid to banks, out of the operating turnover on banking cards.

It should be clarified that in light of the companies' differing characteristics, and the changes in the macro-economic environment and the impacts of the market since the separation of the competing companies, there may be significant differences between the implications of the separation, which have been described for the Company's competitors and the implications that may actually be for the Company, after the Company is separated from Discount Bank.

The raising of the profits tax rate

On January 23, 2024, a draft amendment to the Value Added Tax Order (Tax rate for charities and financial institutions, which determined, inter alia, what the salaries tax and profits tax rate that is imposed on financial institutions will be, was published.

It is determined in the draft amendment that the salaries tax and profits tax rate that will be imposed on financial institutions will be 18% as from January 1, 2025, instead of 17% (as is imposed as present).

If the Order is approved, the Company’s deferred tax balances will increase by an amount of less than NIS 1 million and the effective tax rate for the subsidiary companies, which are "financial institutions", will increase from 34.19% to 34.75%.

Letter from the Supervisor of Banks on the subject of "The Supervision Department's emphases for the banking system in the wake of the "Swords of Iron" war and the comprehensive outline that has been adopted by the credit card companies for assisting customers to cope with the implications of the "Swords of Iron" war

On October 12, 2023, a letter from the Supervisor was published, which related to a range of issues, including: the provision of service to customers and a response to their approaches against the background of the war, the management of risks and frauds, cyber aspects and the defrauding of customers, discussions by the Board of Directors and etcetera. The Supervisor also related to relieving a burden and assisting customers to fulfill their commitments and it detailed the reliefs that the corporations are to implement at this time: to enable the deferral of payments of loans, whilst providing full disclosure of the various implications deriving from the deferral of the payments, including the costs that are ancillary to this; the freezing of collection processes at the present time; the avoidance of the collection of commissions in accordance with the circumstances; enabling the breaking of deposits before their due dates and the reduction of ancillary costs and etcetera.

On October 22, 2023, the Supervisor of Banks published an outline for reliefs for the war. The outline distinguishes between customers who are counted among the first circle of those harmed by the war (whoever lives within a range of 30 kilometers from the Gaza Strip; citizens who have been evacuated from their homes by a state official; people serving in reserve duty who have been called up under an emergency call; the population of first degree relatives (spouses, parents, children) of people who have been killed in the war, have been kidnapped or who are missing) and other customers.

It was proposed that the first group of customers be provided with reliefs relating to the deferral of loan payments for a period of three months (in the following fields: consumer credit – cumulative balances in an amount of up to NIS 100,000: business credit – balances up to an amount of NIS 300,000 and only in relation to businesses with an annual turnover if up to NIS 2 million) without interest, and an all-inclusive exemption from commissions (except for certain commission) – all of which under the qualifications and the clarifications that are set forth in the outline. It was proposed to provide the second group of customers with the possibility of deferring payments of loans (in the fields that are set forth above) for a period of three months, without commissions being charged for three months, where the payments that are deferred will bear interest not exceeding the interest rate in the agreement, with the payments being added at the end of the period. The outline entered effect by October 31, 2023.

On December 26, 2023, a press release was published regarding the extension of the outline for an additional three months, starting on January 1, 2024 (and no later than January 15, 2024), with certain changes, primarily the expansion of the population that is included in the outline. The Company has made preparations for the implementation of the provisions of the outline.

Additional changes that have occurred recently or that may occur and affect the Company:

- See the section on trends, phenomena, developments and significant changes, which follows, regarding the impact of macro-economic changes, including the impact of the "Swords of Iron" war on the Company and on the financial position of the borrowers.
- The lowering of the interchange commission – see Section G of Note 22 to the financial statements - Contingent liabilities and commitments regarding the reduction of the rate of the interchange commission has a negative impact on the Company's income from the issuance segment, furthermore, there is a negative impact on the average acquiring commission, and as a result of this, a reduction in the income from merchants.
- See Note 24 to the financial statements – Operating segments for additional details regarding income from interchange commissions and the acquiring margin.
- Additional regulatory changes that may apply to the credit card sector in Israel, (see the "Material legislative and regulatory restrictions and special constraints applicable to the Company" section in the "Corporate Governance, Audit and Additional Details Report”).
- See the chapter on information systems and computers on page 229 of the Corporate Governance Report regarding the upgrading of the core system.
- See Note 15 to the financial statements - Buildings and equipment regarding the expected move to CAL House in Bnei Brak.

Explanations and Analysis of the Results and the Business Position

Trends, phenomena, developments and material changes

Economic developments in Israel and in the credit card industry

In 2023, the Consumer Prices Index rose of approximately 3%, following an increase of 5.3% in 2022 and an annual pace of 3.8% in September 2023. Worldwide too, there has been a moderation in the inflationary environment, and in particular in the core inflation, however this continued to be high, In the Bank of Israel's assessment, the forecast inflation rate for the coming twelve months (January 2024 – December 2024) stands at 2.4%.

The Bank of Israel's interest rate has continued to rise at a swift pace, and reached 4.75% in May 2023, as compared to 3.25% in December 2022. This followed a long period in which the interest rate had remained unchanged. Globally, as well, the trend of rises in the interest rates continued in 2023, reaching a level of 5.25% - 5.5% in the USA and 4% in the Euro bloc. In January 2024, the Bank of Israel decided to lower its interest rate by 0.25% to a level of 4.5%. The main factors behind the lowering of the interest rate, after it had risen in 2023, were the economic implications of the Swords of Iron war on the real activity and the degree of uncertainty regarding the intensity and the length of the war, a decrease in the pace of inflation and the entry into the inflationary target in the first quarter of 2024 as well as the recovery in the financial markets following the falls at the start of the war and the strengthening of the shekel against the dollar and the euro.

In 2023, the shekel weakened by 3.1% against the US dollar and by 6.9% against the euro. In addition, the TA 125 Index has risen by approximately 4.1% as compared with an increase of approximately 24.2% in the S&P 500 index and approximately 43.4% in the NASDAQ.

It arises from reports by the **Central Bureau of Statistics** that the unemployment rate stood at 3.1% in December 2023, as compared with an unemployment rate of 5.5% in December 2022.

In January 2023, the government began to advance a program of significant changes in the court system in Israel, which aroused significant disputes among the public in Israel. Various people in the economic field in Israel and in the world at large are of the opinion that these changes may have an adverse impact on the financial markets and on the stability of the Israeli economy. This impact may harm the Company and its customers.

It is not possible to assess what the components of the legal reform will be at this stage, if and insofar as it may be completed, and accordingly, what its implications will be for the situation in the financial markets and for the state of the economy in Israel. However, it should be mentioned that against the background of the establishment of the emergency government, the assessment is that the continuation of the promotion of the reform will be suspended until the end of the war.

Global economic developments

Developments in the macro environment

The sharp fluctuations in the markets, the pace of changes and the impacts of the macro-economic environment, including the rise in the interest and the inflation rates, as a result of the impacts of the results of the Corona crisis and the impacts of the war between Russia and Ukraine, create an increase in the risk of a global recession and even fear of stagflation.

These developments may have an impact on borrowers' ability to make repayments in the intermediate term.

In January 2024, the International Monetary Fund published its global growth forecast, pursuant to which the forecast global growth rate for 2023 will be at a level of 3.1%. The growth forecast for the year 2024 has risen to 3.1% and to 3.2% in 2025. The US economy is expected to grow by 2.1% in 2024 and by 1.7% in 2025. The Chinese economy is expected to grow by 4.6% in 2024 and by 4.1% in 2025.

The Fund notes the war in Gaza and the conflicts across the Middle East as one of the main risks to global growth, inter alia, as the result of the Houthis' attacks in the Red Sea, which is a central global trading route. Furthermore, the war in the Ukraine may create new shocks in the supply chain and delay the global recovery. In 2023, the US Federal Bank raised the interest rate by 0.75% to a level of 5.5%, the highest level since 2007.

Significant updates to legislation in the credit cards field

See Note 22 to the financial statements on the subject of contingent liabilities and commitments for details regarding the outline for the reduction of acquiring commissions, which has been formulated by the Ministry of Finance, which includes restrictions on the level of acquiring commissions on brands that are cleared and issued exclusively. On November 25, 2018, an Order was published for the reduction of the interchange fee in deferred charge transactions from a rate of 0.7% to a rate of 0.5% and for the reduction of the interchange fee on immediate debit cards from a rate of 0.3% to a rate of 0.25%. The reduction of the commission was executed gradually, in a number of stages.

See Note 22G to the financial statements on the subject of contingent liabilities and especial commitments for additional details.

Developments that have occurred recently in the economic environment and the impact thereof on the Company's operations and on its customers

Some of the credit products in the Company are index-linked and some of them are linked to the Bank of Israel's interest rate. On the other hand, the credit that the Company takes up from banking corporations is, for the most part, based on variable interest rates. The Company has executed index hedging and interest hedging transactions for part of the Company's exposure to interest rates.

In 2023, the increase in the interest rate has led to an increase in financing income, which is estimated at approximately NIS 167 million (for the price change alone), an increase of approximately NIS 76 million (in respect of the price change alone), an increase of approximately NIS 107 million in financing expenses (in respect of the price change alone) and to a decrease of approximately NIS 15 million in liabilities to employees, which was offset by additional impacts and which was reflected in equity and therefore did not have a significant impact on the Company's operating results. The changes in the Consumer Prices Index and in the interest rate have not had a significant impact on the results of hedging transaction.

In 2022, the increase in the interest rate led to an increase in financing income, which is estimated at approximately NIS 51 million (for the price change alone), an increase of approximately NIS 26 million in financing expenses (in respect of the price change alone) in financing expenses and has led to income before taxes of approximately NIS 80 million and to a loss of approximately NIS 12 million on index hedging transactions.

Furthermore, the increase in the interest rate has led to a decrease of NIS 29 million in employee benefit liabilities in 2022, as a result of the increase in the discount rate. This change is reflected directly under equity, and it will not have a significant impact on the Company's operating results.

An increase in the index may lead to an erosion in the purchasing power of the Company's customers and as a result to an increase in the credit damages on the one hand. On the other hand, an increase in the index leads to an increase in the volume of the Company's activity. The increase in the interest rate may also lead to an increase in the burden of repayments that is placed on the Company's customers, and to an additional increase in the credit damages. Furthermore, in the Company's assessment, the "Swords of Iron" war will affect the borrowers' position and their solvency, however uncertainty exists regarding the length of time for which the war will continue and its intensity and accordingly regarding its impacts on the borrowers. At present, it is not possible to assess the impact of these factors accurately and their impact may be realized in future periods.

The Group monitors the macro-economic trends in every reporting period and it adjusts the estimated allowance for forecast credit losses accordingly. The Company will continue to monitor the credit risk in the portfolio and to adjust the allowance for credit losses if necessary.

The main measures that the Company implements in order to cope with the impacts of the main changes in the interest rate and in the Consumer Prices Index are:

A. Delineating the maximal impact that is permitted for the Company, and the approval thereof by the Company's Board of Directors.

B. The execution of interest and index hedging transactions.

C. The provision of credit at variable interest rates.

D. Advanced underwriting mechanisms for the provision of credit and the monitoring of the quality of the credit portfolio.

The matters to which the auditors have drawn attention in their opinion

The auditors draw attention in their opinion to Note 22B concerning petitions for the approval of certain claims as class actions against the Company.

Changes in critical accounting policies

There were no significant changes in the Company's accounting policies on critical matters in 2023, apart from the change in the estimate of the collective allowance following the initial implementation of the Supervisor of Banks' directives requiring the full implementation of accounting principles in banks in the USA regarding the allowance for expected credit losses (CECL)

See Section 2B(4) and Section C of Note 2 to the financial statements – Principal accounting policies, for additional details.

As from January 1, 2023, the Company has been implementing the directives issued by the Supervisor of Banks, which require the full adoption of generally accepted accounting principles in banks in the USA regarding allowances for current expected credit losses (CECL). See also Section C of Note 2 to the financial statements on the subject of reporting principles and principal accounting policies.

See Section E to Note 1 to the condensed financial statements for the first quarter of 2023 (on page 55 in Hebrew)) for details regarding the Company's preparations for the implementation of the new principles.

It should be mentioned that the new principles require the formulation of methodology and complex models and the implementation of new technology. By the nature of things, the improvement of the measurement process for the allowance for credit losses will continue even after the start of the initial implementation and accordingly, these activities may lead to certain changes in the measurement process.

It should be mentioned further that the new principles do not require the implementation of uniform methodology and accordingly the banking corporations and credit card companies (each body individually) have set methodologies and models for themselves, which are used in the implementation of the principles, whilst exercising judgment. Accordingly care is needed when making a comparison between the implications of the initial implementation, which are reported by the banks and the credit card companies. Data on troubled debts and allowances in this chapter and in the financial statements are presented in accordance with the new principles. The comparative figures are presented in accordance with the format that was in effect until December 31, 2022. Accordingly, extra care should be taken when examining the changes between the data as at December 31, 2022 and the data as at December 31, 2023.

Material developments in income, expenses and other comprehensive income

Profit and profitability

Net profit attributable to the equity holders of the Company amounted to NIS 450 million in 2023, compared with a net profit of NIS 309 million in 2022, an increase of 45.5%.

Net profit attributable to the equity holders of the Company after eliminating non-recurring impacts amounted to NIS 277 million in 2023, compared with a net profit of NIS 286 million in 2022, a decrease of 3.2%.

Return on equity reached 19.5% in 2023, compared with 14.3% in 2022.

Return on equity after eliminating non-recurring impacts reached 12.0% in 2023, compared with 13.2% in 2022.

Net earnings per share amounted to NIS 409.9 in 2023, compared with NIS 281.5 in 2022.

Net earnings per share after eliminating non-recurring impacts amounted to NIS 251.8 in 2023, compared with NIS 260.2 in 2022.

Income and expenses

The following is a breakdown of the main components in the income, expenses and provision for taxes items, after eliminating non-recurring impacts, as set forth above (in NIS millions):

		Year ended December 31		The Change	
	Comment	2023	2022	NIS millions	%
Total income		2,587	2,403	184	7.7%
Credit card transactions	1	1,751	1,651	100	6.1%
Net interest income	2	822	680	142	20.9%
Non-interest financing income	3	14	72	(58)	
Total expenses		2,206	1,992	214	10.7%
Expenses for credit losses	4	285	97	188	
Operating	5	801	815	(14)	1.7%
Selling and marketing	6	663	632	31	5.0%
Administrative and general	7	103	97	6	6.3%
Payments to banks	8	354	351	3	0.7%
Provision for taxes on profit	9	105	127	(22)	(17.3%)
Profit after taxes		276	284	(8)	
Company's equity in profits of associate, net of tax effect		1	2	(1)	
Net profit attributable to equity holders of the Company		277	286	(9)	(3.2%)

1. The increase in **income from credit card transactions** in 2023 derived primarily from an increase in the Company's turnover from issuance in general and from an increase in overseas transactions in particular, which grew by a marked rate, as a result of the recovery from the Corona crisis.
2. The increase in **net interest income** in 2023 derived primarily from growth of 10% in the Company's credit portfolio and from the rise in the Bank of Israel's interest rate.

Information on net interest income with a division by currency

	For the year ended December 31, 2023			For the year ended December 31, 2022		
	Scope of the activity as a %	Net interest income in NIS millions	Interest gap as a %	Scope of the activity as a %	Net interest income in NIS millions	Interest gap as a %
In Israeli currency, unlinked	98%	795	5.5%	97%	628	4.8%
In Israeli currency, linked	1%	27	9.1%	2%	52	13.2%
In foreign currency	1%	-	-	1%	–	–
Net interest income and interest gaps	**100%**	**822**	**5.4%**	**100%**	**680**	**5.0%**

See Appendix 1 in the Corporate Governance, Audit and Additional Details chapter on page 242 of the Annual Report for disclosure regarding the Company's interest income and expenses and those of its subsidiaries, as well as an analysis of the changes in interest income and expenses.

3. **The non-interest financing income** in 2022 derived primarily from income from hedging transactions, where the changes, in an amount of NIS 68 million are reflected in profit and loss.

4. **Expenses for credit losses**

   The initial implementation of the accounting policy regarding expected credit losses (CECL) was made in 2023, as set forth in Section C of Note 2 to the financial statements- Reporting principles and principle accounting policies. The provision was adjusted to the new accounting policy at the time of the initial implementation and the cumulative impact was reflected to the balance of retained earnings as at January 1, 2023.

   Expenses were recorded for credit losses in an amount of NIS 285 million as compared with an amount of NIS 97 million in 2022. The increase is explained primarily by an increase in the extent of accounting write offs and a reduction in the collective allowance, which were recorded in the previous year, with the economy recovering from the Corona crisis, by the worsening in the macro situation, by the impact of the reduction in collection activity in the fourth quarter of 2023 and by an increase in the allowance as a result of the possible impacts of the war on the state of the economy.

   See the chapter on credit risk in the Board of Directors and Management Report for details regarding the updating of generally accepted accounting principles in the USA. See below in the chapter on "Credit risks" and "Allowance for credit risks – collective allowances" in the section on "Accounting policies on critical accounting issues and critical accounting estimates" for details regarding the allowance for credit losses.

   See page 42 below on the subject of the development in the credit to the public.

   See Note 11 to the financial statements on the subject of receivables for credit card activities and the allowance for credit losses on a consolidated basis for additional quantitative disclosure and additional details regarding the allowance for credit losses.

5. **The decrease in operating expenses** in in 2023 derived, inter alia, from updates to the provision for VAT assessments, which was recorded in the previous year, from an increase in salary and depreciation expenses and on the other hands, from a decrease in expenses for payments to international organizations.

6. **The increase in selling and marketing expenses** in 2023 derived from an increase in payments to business partners, as a result of an increase in the volume of activity on non-banking cards under agreements with business partners.

7. **The increase in administrative and general expenses** in 2023 derived primarily from an increase in salary expenses as a result of the implementation of an addition to the collective agreement with the workers' committee.

8. **The increase in payments to banks** in 2023 derived primarily from an increase in the volume of operations on banking cards.

9. The effective tax rate for 2023 stood at 27.6% as compared with 30.9% in 2022.

For information on the Statement of Profit and Loss - Multi-Quarter Information, see the Appendices to the Corporate Governance Report, in the chapter on Audit and Additional Details.

Quantitative data relating to the company's main activity:

Number of valid cards as at December 31, 2023 in thousands):

	Active cards	Inactive cards	Total
Bank cards	2,123	348	2,471
Non-bank cards	1,344	588	1,932
Total	3,467	936	4,403

Number of valid cards as at December 31, 2022 (in thousands):

	Active cards	Inactive cards	Total
Bank cards	2,013	310	2,323
Non-bank cards	1,317	565	1,882
Total	3,330	875	4,205

Turnover of transactions using credit cards issued by the Company (in NIS millions):

	Year ended December 31	
	2023	2022
Bank cards	115,645	107,091
Non-bank cards	47,357	42,760
Total	163,002	149,851

"Turnover of transactions" - includes transactions made using the card and charges in respect of deferred payment transactions, net of amounts credited to the bank or its customers in respect of use of the credit card during the period and fees collected for the bank or for the Company. The turnover of transactions does not include cash withdrawals from ATMs in Israel.

"Credit card" –a means of payment that is a reusable card or other object that is intended for the purchase of assets from a supplier without the immediate payment of the consideration.

"Non-bank cards" - credit cards issued by the Company, not jointly with the banks.

"Bank card" - a credit card issued jointly with co-brand banks, and for which they are responsible.

"Valid card" - a valid credit card that has not been blocked.

"Active credit card" - a credit card that was used in at least one transaction in the last quarter.

Expenses and investments in respect of the information technology array

The expenses in respect of the IT array (within the definition of that term in the Proper Conduct of Banking Business Directives) include payroll and related expenses, outsourcing, acquisitions or usage licenses, depreciation of equipment and buildings, and other expenses - communication expenses, buildings and equipment maintenance expenses, etc. The amount of the expenses is split between software, hardware and other - which include administrative expenses, maintenance, etc.

The allocation of payroll costs and related expenses is done according to their attribution to the secondary units.

It should be noted that the allocation of the various indirect costs and expenses related to the principal components (hardware and software) is done according to an estimate.

Year ended December 31, 2023:			
Expenses in respect of the IT array as included in the statement of profit and loss (in NIS millions) (1):			
	Software	Hardware	Total
Payroll and related expenses	38	28	66
Expenses in respect of acquisitions or usage licenses not capitalized to assets	46	–	46
Outsourcing expenses	19	–	19
Depreciation expenses	83	21	104
Other expenses	–	7	7
Total	186	56	242

Additions to assets in respect of IT array expenditure not treated as an expense (in NIS millions) (2):			
	Software	Hardware	Total
Payroll and related costs	59	–	59
Outsourcing costs	61	–	61
Acquisition or usage license costs (3)	26	31	57
Total	146	31	177

As at December 31, 2023			
Asset balances in respect of the IT array (in NIS millions) (2):			
	Software	Hardware	Total
Total depreciated cost	409	48	457
Of which: in respect of payroll and related expenses	338	–	338

(1) The expense amounts are included in the Company's statement of profit and loss in the "Operating expenses" item.

(2) Including prepaid expenses in respect of the IT array.

(3) The costs include acquisition or usage license costs in respect of the IT array that have not been classified in the financial statements as equipment, but rather as a prepaid expense, as well as acquisitions and usage licenses of software and hardware for all the Company's divisions.

Year ended December 31, 2022:			
Expenses in respect of the IT array as included in the statement of profit and loss (in NIS millions) (1):			
	Software	Hardware	Total
Payroll and related expenses	37	30	67
Expenses in respect of acquisitions or usage licenses not capitalized to assets	37	–	37
Outsourcing expenses	22	–	22
Depreciation expenses	82	14	96
Other expenses	–	6	6
Total	178	50	228

Additions to assets in respect of IT array expenditure not treated as an expense (in NIS millions) (2):			
	Software	Hardware	Total
Payroll and related costs	46	–	46
Outsourcing costs	52	–	52
Acquisition or usage license costs (3)	44	23	67
Total	142	23	165

As at December 31, 2022			
Asset balances in respect of the IT array (in NIS millions) (2):			
	Software	Hardware	Total
Total depreciated cost	363	37	400
Of which: in respect of payroll and related expenses	284	–	284

(1) The expenses are recorded under operating expenses in the Company's statement of income.
(2) Including prepaid expenses in respect of the information technology systems.
(3) The costs include purchase costs or usage licenses for the information technology systems, which have not been classified as equipment in the financial statements, but rather as prepaid expenses and the purchase and usage licenses for software and hardware for all of the Company's departments.

Developments in other comprehensive income

The following are the main components of other comprehensive income:

	Year ended		
	2023	2022	2021
	in NIS millions		
Net profit attributable to equity holders of the Company	450	309	271
Changes in components of other comprehensive income (loss), attributable to equity holders of the Company:			
Adjustments in respect of employee rights, before taxes:	(19)	20	19
Of which:			
Actuarial gains (losses)	(19)	20	19
Related tax effect	4	(5)	(4)
Other comprehensive income (loss) attributable to equity holders of the Company, after taxes	(15)	15	15
Comprehensive income attributable to equity holders of the Company	435	324	286

The change in other comprehensive income is due to changes in actuarial assumptions. See Note 20 to the financial statements on the subject of employee benefits for further details.

The structure and development of assets, liabilities, capital and capital adequacy

The structure of assets and liabilities and material developments therein in the reporting period

The following is a breakdown of the main balance sheet items as at December 31 (in NIS millions):

	Comment	As at December 31		The change	
		2023	2022	NIS millions	As a %
Total assets		19,378	18,547	831	4.5%
Receivables from banks for activity on credit cards, net		4,254	4,348	(94)	(2.2%)
Receivables on credit card transactions, net	3	13,589	12,824	765	6.0%
Of which: credit to private individuals	1	12,770	11,760	510	4.3%
Of which: receivables for credit cards	1	4,529	4,726	(197)	(4.2%)
Of which: receivables for interest bearing credit	1	7,741	7,034	707	10.1%
Of which: commercial credit	2	1,481	1,180	301	25.5%
Of which: receivables for credit cards	2	217	31	186	600.0%
Of which: receivables for interest bearing credit	2	1,264	1,149	115	10.0%
Allowance for credit losses	4	(480)	(347)	(133)	(38.3%)
Total liabilities		16,931	16,427	504	3.1%
Credit from banks	5	3,770	3,222	548	17.0%
Payables on credit card transactions	6	12,361	12,346	15	0.1%
Of which: payables to merchants	6	12,000	12,107	(107)	(0.9%)
Equity attributable to equity holders of the Company		2,447	2,120	327	(15.4%)

When a transaction is carried out using a credit card, the following are created:

For the acquiring company: an asset in respect of the debt from the card issuer or the cardholder, and a liability to the merchant. For the issuing company, an asset is created in respect of the debt from the cardholder or the issuing bank and a liability is created to the acquiring company.

Year-on-year developments

The volume of transactions made using credit cards has been steadily growing every year. The increased use of credit cards is due both to an increase in transactions volume (due to population growth and to a greater tendency by the younger generation to use credit cards, as part of the consumer culture) and also to growth achieved at the expense of transactions carried out using other payment means.

1. **Credit to private individuals**

   A. The balance of receivables for credit cards – the balance is comprised of the balance of transactions on non-banking credit, which are non-interest bearing. The decrease in the balance derives from a decrease in the turnover on cards that had been issued by the Company under the impact of the Swords of Iron war.

   B. The balance of receivables for interest bearing credit – the balance is comprised of the balance of interest bearing transactions on non-banking credit cards. The increase in the balance derives primarily from an increase in the balances of consumer credit on cards.

2. **Commercial credit**

   A. The balance of receivables for credit cards – the balance is comprised of the balance of transactions on non-banking credit, which are non-interest bearing. The increase in the balance derives from an increase in the volume of activity on non-banking cards that are of a commercial nature.

B. The balance of receivables for interest bearing credit – the balance is comprised of the balance of interest bearing transactions on non-banking credit cards. The increase in the balance derives from credit to merchants.

3. **Receivables for credit cards that are guaranteed by banks and others** – the balance is comprised primarily from the balance of non-interest bearing transactions on credit cards that have been issued jointly with the banks. The decrease derived primarily from a decrease in the operating turnover on banking cards in an arrangement in the fourth quarter of 2023, in the wake of the "Swords of Iron" war.

4. **Allowance for credit losses** – the increase in the allowance by comparison with the balance of the allowance as at January 1, 2023 derived from an increase in the Company's consumer credit portfolio, from allowance that were recorded at the time of the "Swords of Iron" was as described on page 19 and from an increase in the extent of the Company's troubled credit in the fourth quarter of 2023. The rate of the allowance for credit losses in the balance sheet in relation to receivables for activity on credit cards is approximately 2.6% as at December 31, 2023 as compared with a rate of approximately 2.0% as at December 31, 2022. The rate of the allowance for credit losses in the balance sheet in relation to receivables for activity on credit cards at the Company's responsibility is approximately 3.5% as at December 31, 2023 as compared with a rate of approximately 2.7% as at December 31, 2022. The rate of the allowance for credit losses in the balance sheet in relation to credit to private individuals is approximately 3.6% as at December 31, 2023 as compared with a rate of approximately 2.7% as at December 31, 2022.

   See the chapter on "Critical accounting estimates" in the Board of Directors and Management Report for details regarding the adoption of updates to generally accepted accounting principles in the USA.

   See the risk review section in this report for details on the Company’s credit risk.

5. **Credit from banking corporations** - the increase in the balance of credit from banking corporations derives primarily from an increase in the value of the Company's activity in general and in the provision of credit in particular.

6. **Credit for activity on credit cards** – the balance is comprised primarily from liabilities to merchants for activity in Israeli currency, which are unlinked. No significant change has occurred in this balance in 2023, as a result of the reduction in activity in the economy in the fourth quarter of 2023, in light of the "Swords of Iron" war.

   Liabilities to merchants are stated net of the **balance of factored merchants’ vouchers** acquired by the Group, in the amount of NIS 1,896 million as at December 31, 2023, compared with NIS 1,893 million as at December 31, 2022.

   The liabilities to merchants are presented net of the **advancing of payment dates to merchants** in the amount of NIS 86 million as at December 31, 2023, compared with NIS 163 million as at December 31, 2022.

See the Corporate Governance Report, Additional Details and Appendices in the Annual Report for information on the condensed consolidated balance sheet – multi-quarter information.

Capital and capital adequacy

Capital Structure

	December 31	
	2023	2022
	in NIS millions	
Tier 1 Capital		
Equity attributable to equity holders	2,447	2,120
Other capital reserves that have received the Supervisor's approval	26	–
less - Goodwill	(1)	(1)
Total Tier 1 capital	2,472	2,119
Lower Tier 2 capital		
Group allowances	192	181
Total Tier 2 capital	192	181
Total qualifying capital	2,664	2,300

The state of the Company's Capital Resources and Changes Therein

Equity, common equity Tier 1 and total equity

General: The components of regulatory equity as at December 31, 2023, which are presented below, have been measured in accordance with the Basel III principles, which have become effective, gradually, since January 1, 2015.

Total equity amounted to NIS 2,447 million as at December 31, 2023, compared with NIS 2,120 million as at December 31, 2022, an increase of 15.4%.

Common tier 1 equity amounted to NIS 2,472 million as at December 31, 2023, compared with NIS 2,119 million as at December 31, 2022. The ratio of common tier 1 equity to risk components pursuant to the Basel III directives is 13.3% as at December 31, 2023, compared with 12.4% as at December 31, 2022.

Total equity amounted to NIS 2,664 million as at December 31, 2023, compared with NIS 2,300 million as at December 31, 2022. The ratio of total equity to risk components pursuant to the Basel III directives is 14.3% as at December 31, 2023, compared with 13.5% as at December 31, 2022.

Equity for the purpose of calculating capital adequacy

		December 31, 2023	December 31, 2022
		In NIS millions	
A.	Capital adequacy according to the Banking Supervision Department (1)		
1.	Equity for the purpose of the calculation of capital adequacy:		
	Tier 1 shareholders' equity, after deductions	2,472	2,119
	Tier 2 equity, before and after deductions	192	181
	Total overall capital	2,664	2,300
2.	Weighted balances of risk assets:		
	Credit risk	15,044	14,107
	Market risk	51	47
	CVA risk	9	31
	Operational risk (2)	3,490	2,863
	Total weighted balances of risk assets	18,594	17,048
3.	Equity to risk components ratio (as percentages)		
	Ratio of tier 1 equity to risk components	13.3%	12.4%
	Ratio of overall equity to risk components	14.3%	13.5%
	Minimal tier 1 shareholders' equity ratio that is required by the Banking Supervision Department	8.0%	8.0%

Minimal overall equity ratio required by the Banking Supervision Department	11.5%	11.5%

Investments in the Company's capital and transactions in its shares

During the two years preceding the date of the financial statements, no investments were made in the Company's share capital. In addition, no other material transaction was carried out in the Company's shares.

See the chapter on "Changes that have occurred recently or which may occur and affect the Company in the future", which appears above, and Note 30 to the financial statements on the separation of the Company from Discount Bank for details regarding the separation of CAL from Discount Bank.

Distributions of dividends

On March 30, 2023, the general meeting approved the distribution of a dividend of NIS 74 million to the shareholders in the Company. The dividend was paid on March 31, 2023.

On September 22, 2022, the general meeting approved the distribution of an additional dividend of NIS 80 million. The dividend was paid on September 29, 2022.

On May 15, 2022, the general meeting approved the distribution of a dividend of NIS 340 million to the shareholders in the Company. The dividend was paid on May 17, 2022.

Leverage ratio

The leverage ratio as at December 31, 2023, calculated according to the rules that are detailed in the Banking Supervision Department's directive on this topic, was 9.8%, which is significantly higher by comparison to the minimum leverage ratio required according to the new directives. See Note 21D to the financial statements on the subject of capital adequacy and leveraging pursuant to the directives issued by the Supervisor of Banks for further details. See also the tables "Summary comparison of accounting assets and the leverage ratio exposure measure" and "Leverage ratio common disclosure template", on page 28 of the Internet document regarding Basel (the Hebrew version).

Material changes in equity

Tier 2 equity issuances. No Tier 2 equity has been raised in the past three years.

Other material changes in equity

See the section on significant developments in revenues, expenses and other comprehensive income in this report regarding the change in equity as a result of operating activities.

Capital Adequacy Assessment

Capital planning process

Within the context of the process of the capital planning, the Group's capital targets for the Tier 1 shareholders' capital ratio and the Overall capital ratio whilst preserving capital cushions for the Tier 1 shareholders' equity and the overall equity, the objective of which is to enable compliance with the capital targets even in cases in which there is a divergence from the work plan, which affects the capital ratios.

Various parameters are taken into account in the outline for capital, which affect the capital ratios, such as: assumptions regarding profitability and changes in the risk assets, based on the Company's budget, the distribution of a dividend and etcetera. The Company routinely tests the ability to meet the capital targets that have been set by the Board of Directors for the Tier 1 capital and for the overall capital ratio in the work plan.

The setting of capital targets

Within the framework of the capital planning process, the Group approved capital targets each year for the Tier 1 shareholders' equity and the overall capital ratio. The capital targets are approved by the Board of Directors and the management and reflect the appropriate level of capital that is required, taking the Group's risk profile and the appetite for risk into account and based, inter alia, on the results of the internal capital adequacy assessment process (ICAAP) (See the chapter on additional information on capital and capital adequacy in the third facet of Basel disclosure report and additional information on risks for additional details) as well at the CRO's recommendation for the capital cushion, which is intended to ensure the Company's compliance with the capital requirements under unexpected shocks and the testing of extreme scenarios, which may occur in the short term and which affect the Company's capital or the risk assets

The capital targets best facilitate the Company's continued business development.

The Bank of Israel's directive for the adoption of the Basel III provisions requires the banking corporations in Israel to comply with a minimal overall capital ratio at a rate of 12.5% and a minimal tier 1 capital ratio of 9% as from January 1, 2015.

On May 2, 2016, the Banking Supervision Department published Proper Conduct of Banking Business Directive Number 472 regarding *Acquirers and the acquiring of transactions on charge cards*. The directive includes reliefs on the matter of the shareholders equity requirements for an acquirer with receivable balances exceeding NIS 2 billion in its last annual financial statements, which is to be calculated in accordance with the provisions of Proper Conduct of Banking Business Directives 201 – 211, (*Measurement and capital adequacy*), however despite what is stated in Section 40 of Proper Conduct of Banking Business 201, the tier 1 capital ratio may not be less than 8% and the overall capital ratio may not be less than 11.5%. This directive is effective as from June 1, 2016. See Note 22C to the financial statements on the subject of capital adequacy and leveraging in accordance with directives issued by the Supervisor of Banks for additional details.

Sensitivity analysis of the capital adequacy to changes in the tier 1 shareholders' equity

	As at December 31, 2023				
	Tier 1 shareholders' equity				
Risk assets (in millions)	2,432	2,452	2,472	2,492	2,512
18,494	13.2%	13.3%	13.4%	13.5%	13.6%
18,544	13.1%	13.2%	13.9%	13.4%	13.5%
18,594	13.1%	13.2%	**13.9%**	13.4%	13.5%
18,644	13.0%	13.2%	13.3%	13.4%	13.5%
18,694	13.0%	13.1%	13.2%	13.3%	13.4%

The tier 1 shareholders' equity target

The Board of Directors approves the Company's equity target, which includes a tier 1 shareholders' equity target and an overall equity target, at least once a year. These targets are based on the policy that has been approved by the Board of Directors, which expresses the Company's appetite for risk, pursuant to which the Company is required to hold capital adequacy at a rate that is higher than the rate that is required pursuant to the ICAAP results and in accordance with the extreme scenario in the system. It should be mentioned that these targets take, inter alia, the results of the processes involved in the determination of the Company's internal equity targets (the ICAAP results) and the dialog between the Company and the Banking Supervision Division in relation to the Company's specific risks, into account.

On February 25, 2024, against the background of the performance of the said processes, the Company's Board of Directors decided that the tier 1 equity target will stand at 9.9% and the overall equity target will stand at 11.9%. This target is intended to support the realization of significant internal and external events, which might have a significant impact of the Company's capital ratios, both on the capital side and also on the risks assets side.

The setting of a managerial capital buffer

The total capital buffer, which the Company holds, beyond the capital targets set by the Board of Directors, is intended to ensure compliance with the capital targets under different market and profitability conditions.

The Company has set a buffer based on an analysis of a range of sensitivity scenarios for a deviation from the work plan regarding the Company's risk assets and capital.

For situations in which the capital buffer has eroded, there is a contingency plan for the improvement of the capital adequacy in the short term (one month to three months) based on a reduction in risk assets.

Israel's credit rating has an impact on the capital requirements, in light of the fact that the capital requirements for exposures to banking corporations are derived from the State's credit risk. In the Company's assessment, in the event that Israel's credit rating were to be lowered, this would cause a decrease of 1.1% in the overall credit ratio in December 31, 2022 terms.

Risk assets budget

For the purpose of meeting the capital targets, a limit has been calculated for the overall increase in risk assets. The risk assets budget ensures that the Company meets the predetermined capital targets.

The capital adequacy ratio and the ratio of the overall equity to risk components

The following are details of the risk assets and the equity requirements in respect of them:

	December 31, 2023		December 31, 2022	
	Risk balances	Capital requirements	Risk balances	Capital requirements
Risk assets and capital requirements for credit risk deriving from exposures of:				
Debts of government bodies	*-	*-	-	-
Debts of public sector entities	-	-	-	-
Debts of banking corporations	1,586	198	1,416	177
Debts of corporations	611	76	592	74
Retail exposures to individuals	9,990	1,249	9,413	1,177
Loans to small businesses	1,146	143	1,007	126
Other assets	1,711	214	1,679	210
Total risk assets and capital requirements for credit risk	**15,044**	**1,880**	**14,107**	**1,764**
Risk assets and capital requirements for market risk according to the standard approach	**51**	**6**	**47**	**6**
Risk asset requirements for CVA risk under the standard approach	**9**	**1**	**31**	**4**
Risk assets and capital requirements for operational risk	**3,490**	**436**	**2,863**	**358**
Total risk assets and capital requirements	**18,594**	**2,323**	**17,048**	**2,132**

* Represents an amount of less than NIS 1 million.

Monitoring the capital ratio

Capital management includes current monitoring processes that permit the tracking of developments in the Company's use of risk assets and an assessment of compliance with its capital targets. The capital ratio is monitored on a monthly basis.

The impact of Israel's credit rating

Israel's credit rating has an impact on the capital requirements, in light of the fact that the capital requirements for exposures to banking corporations are derived from the State's credit risk. In the Company's assessment, in the event that Israel's credit rating were to be lowered by the S&P rating agency, this would cause a decrease of 1.1% in the overall credit ratio in December 31, 2023 terms.

Operating segments

The Group has two main operating segments: the credit card issuing segment and the credit card acquiring segment.

The issuing segment - this segment includes the Company's operations in its capacity as an issuer. In this capacity, the Company approves for acquirers the transactions made by means of customers' credit cards, which are submitted by merchants to the various acquirers. Once the acquiring has been executed, the Company - in its capacity as and issuer - transfers the transaction consideration to the acquirer (net of the interchange fee) and collects the consideration for the transaction from the customer's account. Furthermore, this segment includes the provision of credit on and off credit cards.

The acquiring segment - this segment includes the Company's operations in its capacity as an acquirer. In this capacity, the Company is obligated to credit the merchant for transactions that have been approved by it and checked with the issuer. This obligation is contingent on the merchant complying with the operating procedures prescribed in the agreement between the merchant and the Company. These operations include the provision of credit to merchants and the factoring of credit transaction vouchers under the various credit card brands, including brands that are not acquired by the Company.

Seasonality

The seasonality in the issuing segment and in the acquiring segment results from the seasonality of private consumption in Israel, on which credit card transactions are based. As a result of this, an increase in consumption and in the use of debit cards can be seen, primarily in the periods of the Jewish New Year, the Passover festival and other holidays.

The manner of the measurement of the results of the operating segments

See Note 24 to the financial statements – Operating segments, for details regarding the manner of the allocation of revenues and expenses to operating segments.

The non-recurring impact in respect of the sale of the CAL building in 2023 is included under the other segment. The non-recurring impact in respect of the provision for the phantom option in 2023, is included under the issuance segment.

The non-recurring impacts in respect of the sale of shares in Visa Inc. in 2022, is recorded under the other segment. The non-recurring impact in 2021 in respect of the decrease in the provision for certain customer benefits plans, which expired in the third quarter of 2021, is recorded in the results of the issuing segment.

The results of the operating segments were affected by the decrease in the interchange fee rate in the years 2021 - 2023 pursuant to the outline for the reduction in the interchange fees, as described in Section G of Note 22 to the financial statements.

The issuing segment

General

The Company issues credit cards to its customers (credit cardholders) who use them to pay for products and services that are purchased from various merchants.

A customer wishing to obtain a credit card must sign a contract with the issuer.

The issuing company collects various fees from the parties involved in a transaction: the company charges the cardholder a fee for issuing the card and for its ongoing operation, while the company charges the acquirer, once the transactions conducted using the company's card have been approved, with an interchange fee that is deducted from the total transaction consideration that is transferred from the company to the acquirer.

At the present time, CAL issues the following brands of credit cards: "Visa", "Diners" (exclusively), and "MasterCard".

The credit cards issued by the Company are divided into two main categories:

1. Bank cards - issued to customers of banks with which the Company has entered into a joint issuing arrangement. These cards are issued and operated by the Company, which bears the cost of damages resulting from forgery and theft in respect thereto. On the other hand, the banks extend credit to the customer and bear the full credit risk.

   As at September 30, 2023, based on the Company's competitors' published financial statements, the Company's market share out of the overall issuance turnover for banking credit cards is approximately 32%.

2. Non-bank cards: issued directly to customers by the Company. Accordingly, it is the Company, through its subsidiaries, is the party that extends credit to the customer and that bears all the risks arising from activity on such cards. The credit granted by the Company includes loans, the spreading of payments for past transactions (for example: through a deferred charge or a credit transaction) and so forth.

   As at the reporting date, most of the issuance of the non-banking credit cards is done primarily through cooperations with customer clubs.

   As at September 30, 2023, based on the Company's competitors' published financial statements, the Company's market share out of the overall issuance turnover for non-banking credit cards is approximately 33%.

Following the implementation of the outline for the reduction of the interchange fee, which was published by the Bank of Israel on February 25, 2018, there has been a decrease in income from this commission. See Section G of Note 22 to the financial statements – Contingent liabilities and commitments, for additional details regarding the outline for the reduction in the interchange fees.

In 2022, the Company won a tender held by the Accountant General for the management and issuance of advanced means of payment. The winning of the tender is expected to result in an increase in the volume of activity on the Company's cards, in an extent that cannot be estimated at this stage.

On August 9, 2022, the Company signed on a tripartite agreement with Electra Consumer Products (1970) Ltd. ("ECP") and with Bank Hapoalim, for cooperation in connection with the operation of a customers' club based on a non-banking credit card to be issued by CAL to bit CAL customers and to customers of ECP's retail chains, in which the BIT-Card customers club and the 365 Family club members will be included (the "Club"), for a period of approximately 12 years from the time at which the crucial conditions of the agreement are fulfilled. The implementation of the agreement is conditional upon regulatory approvals, which have not been received yet.

On April 30, 2023, approval for the merger of bit CAL's and Electra's consumer clubs was received from the Competition Authority and a conditional exemption was granted from the duty to receive the court's approval for the agreement (including preservation conditions for parties in order to verify that the main points of the arrangement do not reduce competition and that there is nothing in it that restricts or impairs competition significantly). The exemption has been given for the entire period of the agreement, however the Competition Commissioner is entitled to terminate its validity at a time that he may determine. Further to the discussions opposite the Competition Authority and to the conditions that were set in the exemption, including in relation to credit, the parties have updated some of the commercial agreements in the agreement. The crucial conditions for the completion of the transaction were completed on August 6, 2023 and the transaction was completed. The customers' club was launched in a soft launch on August 15, 2023.

In 2023, the Group launched a new credit card – Cash Cal Pro – which provides its holders with a cash refund (cashback) of up to 1.5% on every purchase in Israel and abroad, a reduced commission on transactions in foreign currency and discounted entry to more than 1,200 flight lounges across the globe.

See the chapter on new activities, acquisitions and strategic cooperations in the Board of Directors and Management Report for additional details regarding the Company's winning of a tender held by the Accountant General and regarding the Company's commitment under an agreement with ECP and Bank Hapoalim and regarding of the Cash Cal Pro credit card.

Products and services

As mentioned above, the Company issues and operates the following brands of credit cards: “Visa”, “MasterCard” and “Diners”. Some of the cards issued are bank cards, while others are non-bank cards. The cards are used to purchase products and services and also to withdraw cash. In addition to the use of the card as a means of payment, the Company offers various offerings of value to its consumer customers as part of their membership of the various customer clubs and as part of their being customers of the Company.

In addition, the Company offers its customers various all-purpose loans, including “cardless loans” and vehicle purchase loans through Shlomo CAL Ltd. and debt spreading plans (for example: deferred charges, credit transactions, revolving credit, fixed monthly charges, a monthly charge according to the customer’s instructions - Cal Choice, and so on).

The Company invests considerable resources in providing access to its services by building an app and having an internet website, which enables activities such as the reconstruction of a secret code, the selection of a secret code, biometric identification and the provision of the possibility of executing payments using the app, as well as various information and confirmation services.

Furthermore, the company has signed on agreements in recent years for the provision of payment services through the Apple Pay and Google Pay payments platforms, following which the use of a mobile phone as a means of payment has increased.

Primary markets and means of distribution

The Company’s customers in this segment are credit cardholders, including private customers, employees of large corporations and businesses.

In addition, the Company also provides various types of credit to customers who do not hold a card.

The Group's main objective in the marketing activity in the issuance of cards field are the recruitment of new customers and the expansion of the Group's activity within the framework of new and designated population groups, increasing loyalty, retaining customers and providing various benefits, deepening the use of cards in Israel, abroad and in online purchases as well as strengthening the Group's and the brands that it issues' image.

The Company has worked hard to increase the proportion of non-bank cardholders, primarily within the framework of customer clubs, subject to checking the solvency of each potential customer. As at the time of the publication of this report, no customer in this segment had segment income constituting 10% or more of the total segment income.

Marketing and distribution in the issuing sector are primarily performed through strengthening cooperation with the co-brand banks and also with customer clubs. The first of these constitutes a “recruitment platform” for the Company through which it adds bank customers to those receiving its services, while the second adds non-bank customers.

The distribution of non-bank cards is based, inter alia, on agreements with sales promotion companies, which operate signing-up stands on sale floors.

Adding customer club customers confers, in most cases, discounts and benefits from a variety of merchants on those becoming cardholders. Currently the main clubs are: Shufersal, FlyCard, Cal 365, Carrefour, Cal - H&O, Powercard and HighTechZone.

For the purpose of issuing bank cards, the Company enters into agreements with various banks in order for them to offer their customers the Company’s credit cards. Apart from the above, the Company forms marketing alliances with leading businesses in Israel and makes use of various media advertising and marketing channels.

The Company has an active Internet site whose address is www.cal-online.co.il, which provides information regarding the Company’s products and services, offers, discounts and benefits and enables access to the accounts of the cardholders so that they can track and control their purchases. In addition, the Company has launched a smart phone application that lets a customer keep track of his transactions and provides him with information regarding the Company’s various services, benefits and discounts, tariffs and similar matters, easily and with good accessibility.

Income and expenses

The Company allocates to the issuing segment the whole of the income and expenses arising from the issue of cards (bank and non-bank), from the addition of new customers and their ongoing handling and from transactions performed with credit cards, at all stages of the transaction - from the time of purchasing the product or service through to the transfer of the consideration to all the parties connected with the transaction.

The main sources of income are:

1. An interchange fee that is paid to the Company, in its role as an issuer, by an acquirer that acquires a transaction performed with a card issued by the Company.
2. Fees that are collected from cardholders, such as: card fees and currency conversion fees for purchases made in foreign currency.
3. Financing income that the Company derives from granting credit, in various forms, to customers.

The main expenses attributable to this sector are operating expenses relating to the issued cards, selling, marketing and advertising expenses, gift offer expenses, expenses of mailing information to customers, expenses for credit losses, payments to banks, depreciation expenses and salary expenses.

Competition

The Company's competitors in the issuance segments are the Isracard Group, Max It Finances, the banks and non-banking financing companies.

The competition in relation to holders of the cards is marked on a number of planes:

– The banks becoming direct competitors of the credit card companies.
– The attachment of new customers to charge card arrangements with the Group and the retention of existing customers.
– Competition over a share of the card holders wallet so that they will execute the main part of their transactions using cards that are issued by the Group.
– New payment solution, inter alia, which are app based.
– Digital wallets

In addition, the Company is active and invests considerable resources in marketing and providing discounts and benefits to its cardholders so that they will use the Company’s cards to make most of their purchases. The Company also offers its cardholders diverse credit services as an alternative to or in addition to normal bank credit.

The extent of the use of credit cards in Israel is increasing perpetually (except for a certain slow-down that began in 2020 with the outbreak of the Coronavirus). In particular, there has been an increase in E-commerce activity in previous years on the internet, where the turnover of purchases that are made on-line, including on smart-phones, has undergone significant growth in recent years.

The principal actions that the Company takes vis-à-vis its competitors are spread over several fields, including:

1. Improving the service to existing customers so as to keep them with the Company.
2. Marketing and sales promotion measures, including advertising, granting various benefits, discounts and offers to holders.
3. Developing new products and services in answer to various requests from customers (individuals and merchants) and to changing market needs.
4. Strengthening the Group's status and image by means of advertising, benefits and various campaigns for the cardholders.

The positive factors that affect the Group's competitive status include, inter alia: (1) the Company's status as a leading and innovative company in the credit cards field in Israel; (2) offerings of value to the Group's (banking and non-banking) customers, which include, inter alia, a non-banking credit card that entitled the customer to a monetary refund at a fixed percentage of the amount of their transactions, attachment to leading customers clubs, which provide benefits to their members, at the customer's election; (3) innovative technology development capabilities, which enable the Group to be among the first in the market to launch new products and services; (4) the prohibition of issuance operating services and joint issuances with a large number of banks; (5) the Company's status in international credit card organizations; (6) the ability to raise capital and debt for the conducting of its activities and for the growth of its business; (7) the Company's investment in resources to enhance its human capital; (8) proprietary, advanced underwriting mechanisms and credit models; (9) the Group's winning of a tender held by the Accountant General affords the Company the right to manage and to issue advanced mean of payment in government ministries, which is expected to lead to an increase in the volume of activity on the Group's credit cards.

The negative factors that affect the Group's competitive status include, inter alia: (1) the multitude of significant regulatory changes, including the entry of additional players into the payments field and in particular, competition opposite the banks, the outline for the reduction of interchange fees, the transition to a daily accounting mechanism between issuers and acquirers and the issuance of cards the combine a deferred charge and an immediate charge; (2) technological developments, which create the possibility of the development of alternative means of payment, inter alia, in fields such as payment by cellular telephone, which may cause a fall in demand for the issuance of charge cards and the circumventing of the charge card format; (3) expansion of the operations of existing competitors, inter alia, by means of strategic initiatives and cooperations for the issuance of cards; (4) the multitude of competitors in the domestic credit market; (5) dependency on commitments with the main clubs (primarily Shufersal and Flycard).

Critical success factors

There are a number of factors that positively affect the Company’s competitive position in the issuing segment, the principal of which are: products and services that are targeted at a diverse customer base, the Company’s image and its brands, high-quality and experienced human capital, an efficient and developed risk management and credit control set-up, advanced IT systems and infrastructure, a technological level that enables the provision of a response to changes and the development of new products, commitments under long-term card issuing agreements entered into with co-brand banks, the ability to issue leading brand credit cards by virtue of international licenses (“Visa”, “MasterCard” and ”Diners”), a wide-ranging system of agreements with customer clubs covering a broad range of customer segments, a strong capital structure, the ability to borrow money from financial institutions under convenient terms and the ability to recruit and to retain customers by means of a proprietary marketing set-up.

On the other hand, there also a number of factors that negatively affect the Company’s competitive position, the principal of which are: the development of alternative payment means that could reduce the demand for the issue of credit cards, the entry of retail parties into the card issuing segment and frequent and significant regulatory changes, primarily by the Supervisor of Banks and the Competition Commissioner (formerly: the Anti-Trust Commissioner), such as the reduction of the interchange fee rate, arrangements for issuing immediate charge cards and so on.

Barriers to entry

A body that is interested in commencing operations in the issuing sector is confronted with a number of barriers, the principal of which are: fulfilling certain eligibility conditions in order to receive a license from an international organization to issue branded cards; the existence of an extensive, costly set-up, including advanced IT and customer service systems; major, ongoing investment in marketing, distribution and selling channels with a nationwide coverage, and in particular distribution channels with banks and customer clubs; the financial strength to be able to raise credit at preferential market terms; having an efficient and developed system for rating credit risks; the necessity to have a minimum capital amount in order to comply with the directives of the Supervisor of Banks regarding the ratio of capital to risk assets.

Alternative products

There are many alternative products to credit cards ranging from the traditional alternative product, such as: cash, checks, bank transfers, standing orders, purchase vouchers, prepaid cards and credit cards from banks and non-bank credit companies, to available and convenient high-tech alternative products, such as: payments by smartphone and “digital wallet” services.

Legislative restrictions, regulations and special constraints

The Company operates within the framework of laws, regulations and regulatory guidelines applicable to the banking sector in Israel, alongside various supervisory agencies, including: The Banking Supervision Department, the Competition

Commissioner, etc. The principal restriction to which the segment is subject is Limitations for an individual borrower, a group of borrowers and the indebtedness of all of the six largest groups of borrowers. Under the Proper Conduct of Banking Business Directives, a limit is imposed on the amount of debt permitted to a borrower, a group of borrowers and the total amount of indebtedness of the Company's six largest groups of borrowers. These limits could have implications on the level of activity in the segment and the way that such activity is conducted with those customers. As at December 31, 2023, none of the aforesaid limits had been exceeded.

Goals and business strategy

Being the leading player in the issuing market both by means of fully utilizing the banking channel, by offering solutions tailored to the customer's needs, and also by means of recruiting cards in the non-banking channel, with the existing customer clubs and by creating alliances with various bodies to establish additional customer clubs.

Moreover, the Company is taking measures to transform itself into a major player in the consumer credit sector, with the recruitment of non-banking cards constituting the infrastructure for recruiting consumer credit and for positioning the Company as a body that provides a range of credit services (including by means of credit cards), whilst preserving the quality of the portfolio. This is being done by expanding the use of data and improving the underwriting model, the expansion of the distribution channels and improving the digital marketing capabilities. In addition, the Group is taking action to expand the offering of value to its customers by means of a range of new credit products.

Technological changes having the potential to have a significant impact on the issuing segment

The technological changes, which have been increasing in recent years, are creating changes on two main aspects, The first is the impact on the consumer's preferences and the second it technological change, which enables the establishment of technological projects, which are typified by simplicity, availability and significantly lower costs than in the past. As such, technological changes are occurring that have a direct impact on the payments industry, such as tokenization (technology that enables the secure retention of information) card on file (the storage on information on the means of charging by the service provider and contactless payments (without physical contact) as well as other new payment methods.

In recent years, the players in the payments market have been investing considerable efforts in the penetration of payments app based payments methods, for executing payments between private individuals (P2P), and payments to merchants. These payment apps, together with the payment apps owned by the trading and retail players, are based on a wide range of technologies. Even though the means of financing for the payment apps are charge cards, the development of cellular devices based means of payments affects the necessity of physical cards. In addition, technological and regulatory changes that will support the transition to the use of apps by means of the direct charging of the bank account, may impair the income in the issuing segment.

Quantitative information regarding the issuing segment:

	Consolidated			
	2023	2022	Change	
	In NIS millions		In NIS millions	As a %
Profit and loss information:				
Income:				
Fee income from external parties	1,052	979	73	7%
Inter-segment fee income	415	404	11	3%
Total	1,467	1,383	84	6%
Net interest income	510	570	(60)	(11%)
Non-interest financing income	5	68	(63)	
Total income	1,982	2,021	(39)	(2%)
Expenses:				
Expenses for credit losses	283	93	190	
Operating expenses	536	553	(17)	(3%)
Selling and marketing expenses	685	599	86	14%
Administrative and general expenses	75	68	7	10%
Payments to banks	354	351	3	1%
Total expenses	1,933	1,664	269	16%
Profit before taxes	49	357	(308)	(86%)
Provision for taxes on profit	9	103	(94)	
Profit after taxes	40	254	(214)	(84%)
Company's share of the profits of an associated company, net of effect of taxation	1	2	(1)	
Net profit attributable to equity holders of the Company	41	256	(215)	(84%)
Return on capital	1.3%	13.1%		
Average balance of assets	17,388	15,732		
Average balance of liabilities	3,401	2,437		
Average balance of risk assets (1)	15,971	15,072		

(1) Risk assets - as calculated for capital adequacy purposes, pursuant to Proper Conduct of Banking Business Directives 201-210.

The income from credit card operations increased by 7% in 2023 compared to 2022. The increase derived from an increase in the Company's turnover from issuing activity in general, and from an increase in transactions overseas in particular, which grew markedly as a result of the recovery from the Corona crisis.

The interest income decreased by 11% in 2023 compared to 2022. The decrease derived primarily from growth in the inter-segmental financing expenses, which was in light of the increase in the interest rate in the economy relative to the comparative period in the previous year.

The transition to daily acquiring and the increase in the interest rate in the economy have led to an increase in the issuing segment's financing needs and as a result of this in its financing expenses.

The increase in the credit loss expenses in 2023 compared to 2022 derived from an increase in the allowance for forecast credit losses, including in respect of the possible implications of the Swords of Iron war, and increase in the scope of the accounting write-offs and from a reduction in the collective allowance, which was recorded in the previous year, with the recovery of the economy from the Corona crisis.

The operating expenses increased by 3.1% in 2023 compared to 2022. The increase derived primarily from an increase in payments to the international organizations, as a result of the changes in the provision for VAT assessments relative to 2022. On the other hand, there has been an increase in salary, car issuing and postal expenses.

Selling and marketing expenses decreased by 14% in 2023 compared to 2022. There was a decrease in payments to international organizations expenses. The increase derived from payments to business partners, as a result of an increase in the volume of activity, and from gifts to card holders campaigns.

The administrative and general expenses increased by 10% in 2023 compared to 2022. The increase derived from an increase in salary expenses, professional services and expenses deriving from the collective agreement with the workers' committee.

The payments to banks expenses increased by 1% in 2023 compared to 2022. The increase derived from an increase in the volume of activity on banking cards.

The acquiring segment

General

In its acquiring activities, an acquirer guarantees to the merchant with whom it is the acquirer, subject to an agreement between them, that it will settle the charges in respect of transactions for the purchase of a product or service conducted by cardholders with the merchant, where such transactions are approved by the acquirer and checked with the issuer. The acquiring company collects a “merchant discount fee” for acquiring the aforementioned transaction charges.

An acquiring company is an organization that is a member of an international organization that grants the franchise use of a certain credit card brand and is usually also a financial institution.

As at the time of the signing of the report, the Group operates in the acquiring segment under the "Visa", "Mastercard" and "Diners" and "Isracard" brands.

See Section J of Note 22 to the financial statements – Contingent liabilities and commitments, for additional details regarding interchange fees for the Diners brand.

The competition in the Israeli acquiring segment is strong and encompasses the three Israeli credit card groups: CAL (including Diners), Isracard (including American Express) and Max.

The Company has entered into acquiring agreements with businesses in various economic sectors and offers, in addition to acquiring services, inter alia through a subsidiary, financial services such as: granting loans, providing advances on account of the balance of future credits that they are expecting to receive in respect of regular transaction vouchers; factoring services to merchants (i.e., crediting the business with an immediate single payment net of commission, against vouchers for regular transaction and for installment transactions); and also various plans for advancing the regular credit date of the business in return for a fee.

As from July 1, 2021, Proper Conduct of Banking Business Directive 470 regarding daily acquiring, pursuant to which the transfer of funds between an issuer and an acquirer for transactions that are executed in a single payment is to be executed no later than one day after the time of the transmission of the transaction from the merchant. With the entry of the directive into effect, there has been an increase in financing income in the acquiring segment, in parallel to a decrease in financing income in the issuing segment.

Products and services

In addition to the acquiring services, which are described above, the Group also offers added value services to merchants, such as:

- A platform that is designated for merchants and which provides insights and focused exposure on a number of channels in a data based digital marketing program.
- Reconciliation services – a service that is provided by a third party, which enables a merchant to monitor the debiting and crediting activity in respect of the merchant by the credit card and factoring companies and the receipt of journal entries.
- Cash flow services, which enable full control over the merchant's income and expenses.
- SMS services for the receipt of information on the expected credit.
- A business credit card
- Receipt of a loan.

Customers, markets and means of distribution

The customers of the Company in this segment are merchants in the various fields, including national chains, who enter into acquiring agreements with the Company. These merchants accept credit cards from one or more of the following brands: “Visa”, “MasterCard”, “Diners” and "Isracard".

Other customers in this segment are businesses seeking voucher factoring services, the receipt of loans, the advancing of payment dates and the receipt of advances.

As at the time of the publication of this report, no single customer in the acquiring segment had segment income constituting 10% or more of the total segment income.

Marketing efforts in the acquiring segment are directed primarily at merchants (in most cases, a chain engages a single acquirer for all its branches), with particular focus on their needs.

Acquiring services are marketed primarily to businesses by the Company’s salespersons, who serve as the liaison with those businesses even after they have been recruited. Moreover, the Company operates a unique Internet site for merchants that, inter alia provides detailed information regarding past and future credits and debits, a facility to order reports and invoices at the individual merchant level and at the chain level and to receive them in a secure drop box, etc. The marketing of the acquiring services is also done though Gama (see the chapter on “Significant agreements” in the corporate governance report for details regarding the agreement with Mega) and it is also expected that they will be performed through a company that provides credit terminals and agreements with bundlers.

The main objectives of the Company’s marketing activities are: the retention of existing merchants as customers; enhancing and maintaining the Company’s image; recruiting new businesses to the ranks of the Company’s customers and expanding the basket of services that it offers. The Company's central objectives in the marketing activity are: the retention of existing merchant as its customers; the provision of marketing, financial and operational services, which include a combination of coupons and personal notifications in the charge statements for the card holders, information regarding the business' previous and future credits; improving and strengthening the image; recruiting new business for its services and expanding the basket of services that it offers.

Income and expenses

All the income received from merchants is allocated to this segment, as are all the expenses associated with recruiting businesses and dealing with them on an ongoing basis.

The segment’s main sources of income are:

1. Income from the acquiring margin, namely the merchant discount fee, net of the interchange fee (which is credited to the issuing segment).
2. Income from service fees that are collected from merchants, such as: joining fees, fees for the authentication of particulars, management fees, loan set-up fees, etc.

3. Income in respect of factoring services and the advancing of payment dates for merchants.

The principal expenses that are allocated to the segment are the interchange fee paid to the card issuer, expenses for the recruitment and retention of businesses, ongoing advertising expenses with merchants, expenses for the production and delivery of credit advices, operating fees to banks and Automatic Bank Services Ltd., employee salaries, etc.

Critical success factors

In the Company's assessment, the main success factors in the acquiring segment are: (1) the ability to acquire charge cards by virtue of an international license; (2) specification and development of appropriate acquiring systems and the preservation of a stable level of technology; (3) the existence of available sources of financing and a solid capital structure for investment in technological infrastructures and the management of the flows from the acquiring activity; (4) the quality of the service provided for customers in the acquiring segment and the ability to recruit and retain merchants (5) the provision of ancillary services to merchants, which include, inter alia, various financial and operating services, which are supported by control and reporting processes; and (6) accumulated experience in the acquiring of charge cards field.

Competition

The acquiring segment is characterized by a very high level of competition, both on the prices side and also on the part of the competing parties in the Group's acquiring segment. In light of the strong competition, there has been an ongoing erosion of the acquiring margin in recent years.

The high level of competition and the absence to barriers in the movement of merchants between the various acquirers require the Company to invest resources in the recruitment and retention of merchants.

The credit card companies and the bundling and acquiring hosting companies, within the meaning of that term in the Strum Law, can be counted among the parties that are either competitors or that can complete in the acquiring segment. The Company's main competitors in the discounting field are the other credit card companies and the other acquiring companies. The Company's main competitors in the business credit field are the banks, the other credit card companies and various non-banking financing companies.

Various regulatory changes, as set forth in the “Material Legislative and Regulatory Restrictions and Special Constraints Applicable to the Company” section (page 233), may introduce into the market additional acquirers, leading to increased competition in this sector.

The Company competes in order to expand its portfolio of businesses to which it provides acquiring services and complementary services and focuses on signing acquiring agreements with new businesses and on retaining existing merchants as customers through investing in significant marketing and sales efforts.

Another aspect of the competition in the segment relates to the development of financial and operational products and services for the merchants, which can result in raising the scope of those merchants’ turnover with the Company (see the “Products and services” section).

In order to contend with the competition in the segment and to strengthen the merchants’ loyalty to the Company, the Company implements the following measures: a competitive pricing policy; investment in resources to improve service to merchants and to retain them, while tailoring the products and services to the needs of the business; strengthening alliances with merchants; operating an efficient service set-up and a marketing and selling set-up that can provide solutions for merchants and respond to their various needs; developing added value products over the payments value chain; and marketing a comprehensive basket of products to merchants, while growing the Company’s market share in the segment.

There are a number of factors that have a positive impact on the Company’s competitive position in the acquiring segment:

Experience gained in the credit card acquiring sector; an effective service set-up to provide suitable solutions for merchants; advanced IT systems and infrastructure; a professional and effective risk management set-up; high-quality and experienced human capital; an extensive and effective marketing and selling set-up at enabling the recruitment of new customers and the retention of existing customers; a strong, well-respected brand; continual development and expansion of the basket of products and services; the existence of interchange acquiring agreements between all the acquirers in the country; obtaining a license from the international organizations to acquire their brands; establishing and deploying a communications set-up that enables acquiring or communication with the Automatic Bank Services Ltd.; a stable capital structure and positive cash flows.

The factors that negatively affect the Company's competitive position are: technological improvements that create alternative payment means that could reduce the use of credit cards; regulatory guidelines relating to the acquiring interface and the opportunity available to merchants, should they so desire, for them to switch to another acquirer of the leading brands: “Visa”, “MasterCard” and “Isracard”; technological developments that create the possibility of developing alternative means of payment; a change in the makeup of the competition as a result of the entry of competitors into the acquiring field.

Barriers to entry

The principal barriers confronting a company wishing to enter the acquiring segment are: receiving a license from the international organization that owns the credit card brand that it is desired to acquire. Receipt of such a license necessitates meeting business and financial standards that will assure the company's operations; deploying an extensive communications set-up enabling online acquiring, or alternatively entering into an agreement with Automatic Bank Services Ltd., which has a set-up of this kind; establishing a reliable and stable IT system for billing management; financial resources, experience and expertise for the purpose of investing in technology, operational, advertising and marketing set-ups; conducting large-scale acquiring operations in order to pay back the investment in the acquiring infrastructure; minimal capital requirements; extensive and effective customer service, sales and customer recruitment set-ups, as well as the ability to manage risks and monitor for fraud.

However, the Strum Law determines conditions for the operations and the entry into activity in the field of hosting acquirers and for bundlers, which make it easier for new players to enter the acquiring segment (where the players are supported by the acquirers' acquiring infrastructures). These bodies have a lower threshold for entering the sector, and accordingly the barriers for entry that are mentioned above may not be relevant, or they may be less strong, in connection with their activity.

Alternative products

There are numerous payment means that provide an alternative to credit cards ranging from cash, standing orders, bank transfers, purchase vouchers and checks, to payments by smartphone and “digital wallet” services with a special purpose App. Bank and non-bank credit, as well as check discounting services, constitute alternative products to credit and other financial services provided by the Company.

Goals and business strategy

The Company's main goal is to market a comprehensive basket of products for merchants, while increasing its share of the market in the acquiring segment. The Company is also acting to develop and market additional products that it will offer to merchants, in addition to the products it currently offers.

The Company is taking action to offer various financing and payment solutions to merchants, whilst preserving the appetite for risk, which is also being done by means of the entry of new products, which are supported by collateral and the discounting of payments by "Yatzil". In this way, the Company strengthens the direct connection with the merchant and its acquirers.

Quantitative information regarding the acquiring segment:

	Consolidated			
	2023	2022	Change	
	In NIS millions		In NIS millions	As a %
Profit and loss information:				
Income:				
Fee income from external parties	699	672	27	4%
Inter-segmental fee income	(415)	(404)	11	3%
Total	284	268	16	6%
Net interest income	312	110	202	184%
Non-interest financing income (expenses)	9	4	5	125%
Total income	605	382	223	58%
Expenses:				
Expenses (income) for credit losses	2	4	(2)	
Operating expenses	283	262	21	8%
Selling and marketing expenses	36	33	3	9%
Administrative and general expenses	32	29	3	10%
Payments to banks	–	–	–	
Total expenses	353	328	25	8%
Profit before taxes	252	54	198	367%
Provision for taxes on profit	74	24	50	
Profit after taxes	178	30	148	493%
Company's share of the profits of an associated company, net of effect of taxation	–	–	–	
Net profit attributable to equity holders of the Company	178	30	148	493%
Return on capital	60.3%	14.5%		
Average balance of assets	1,959	1,608		
Average balance of liabilities	13,647	12,768		
Average balance of risk assets (1)	2,460	1,975		

(1) Risk assets - as calculated for capital adequacy purposes, pursuant to Proper Conduct of Banking Business Directives 201-210.

The fee income from external parties increased by 4% in 2023 compared to 2022. The increase derived from an increase in the Company's turnover from acquiring activity.

The interest income increased by 184% in 2023 compared to 2022. The increase derived primarily from the transition to daily acquiring and an increase in the interest rate in the economy, which led to an increase in financing income that is received from the issuing segment.

The decrease in the credit loss expenses in 2023 compared to 2022 derived primarily from changes in the estimates used in the calculation of the collective allowance for business credit and from changes in the specific allowances for merchants with a high level of credit risk. On the other hand, there was an increase as a result of allowances that have been recorded in the wake of the "Swords of Iron" war.

The operating expenses increased by 8% in 2023 compared to 2022. The increase derived primarily from an increase in charges from the automated banking services company and international organizations, as a result of an increase in the transactions turnover, and from an increase in salary and depreciation expenses.

Selling and marketing expenses increased by 9% in 2023 compared to 2022. The increase derived from an increase in salary expenses.

The administrative and general expenses increased by 10% in 2023 compared to 2022. The increase derived from an increase in salary expenses.

Principal investee companies

Diners Club Israel Ltd. ("Diners Club")

Diners is the local franchise holder of the global Diners Club network and is engaged in issuing, marketing and operating “Diners” type credit cards, which are valid in Israel and abroad.

Total assets amounted to NIS 2,907 million as at December 31, 2023, compared with NIS 2,816 million at the end of 2022, an increase of 3.2%.

Total equity amounted to NIS 498 million as at December 31, 2023, compared with NIS 461 million at the end of 2022, an increase of 8.0%.

Total revenues amounted to NIS 415 million in 2023, compared with NIS 357 million in the comparative period in the previous year, an increase of 16.3%, which derived from an increase in the company's turnover from issuing and from an increase in net financing income.

Net income amounted to NIS 34 million in 2023, compared with NIS 31 million in the corresponding period in the previous year, an increase of 10.2%. The increase in the revenues, which is described above was accompanied by an increase in credit loss expenses (NIS 22 million) operating expenses (NIS 10 million) and selling and marketing expenses (NIS 9 million), which led to an increase in the net income.

The yield on equity amounted to 7.1% in 2023, as compared with 6.9% in the corresponding period in the previous year.

The balance of the investment in the accounting records in respect of Diners Club Ltd. (less Diners Financing Ltd.'s share) is NIS 411 million as at December 31, 2023, as compared with NIS 394 million as at December 31, 2022.

CAL (Financing) Ltd. ("CAL Financing")

A private subsidiary company that is wholly owned by the Company.

CAL Financing was incorporated as a private company on April 4, 2000. It commenced operations in July 2001 as the Company's financing arm, for the purpose of extending credit to the cardholders of the Company and obtaining sources for its financing. Due to this characteristic, it has been approved by the VAT authorities as a “financial institution” for the purpose of the Value Added Tax Law, 1975. The Company extends most of the credit to its customers, whether or not they are holders of a credit card issued by the Company, through CAL Financing.

Total assets amounted to NIS 6,896 million as at December 31, 2023, compared with NIS 6,486 million at the end of 2022, an increase of 6%.

Total equity amounted to NIS 100 million as at December 31, 2023, compared with NIS 223 million at the end of 2022, a decrease of 57%, which derived, inter alia, from the distribution of a dividend in an amount of NIS 100 million in 2023 and from the impact of the initial implementation of CECL. See Section C of Note 2 to the financial statements – reporting principles and principal accounting policies for additional details regarding the initial implementation of CECL.

Total revenues amounted to NIS 535 million in 2023, compared with NIS 523 million in the comparative period in the previous year, an increase of 2%.

The net loss amounted to NIS 3 million in 2023, compared with net income of NIS 124 million in 2022. The loss derived primarily from allowances for credit losses, which were recorded in the wake of a deterioration in the macro situation, which led to an increase in write-offs, and the "Swords of Iron" war, and in the wake of an increase in the volume of troubled customers.

The balance of the investment in the accounting records in respect of CAL (Financing) Ltd. is NIS 100 million as at December 31, 2023, as compared with NIS 2022 million as at December 31, 2022.

Diners (Financing) Ltd. ("Diners Financing")

A private subsidiary company that is wholly owned by the Diners Club Ltd.

Diners Financing is a wholly owned subsidiary of Diners Club. Diners Financing was established in 2005 and has been financing the credit for some of the Diners Club cards since June 2006. It has been approved by the VAT authorities as a “financial institution” for the purpose of the Value Added Tax Law, 1975 because of this characteristic.

Total assets amounted to NIS 1,479 million as at December 31, 2023, compared with NIS 662 million at the end of 2022, an increase of 124%.

Total equity amounted to NIS 87 million as at December 31, 2023, compared with NIS 68 million at the end of 2022, an increase of 28%.

Total revenues amounted to NIS 67 million in 2023, compared with NIS 65 million in 2022, an increase of 4%.

Net income amounted to NIS 16 million in 2023, compared with NIS 30 million in the corresponding period in the previous year, a decrease of 38.8%. The decrease in the net income derived from an increase in credit losses, which derive primarily from the increase in write-offs, from the impact of the macro factors and from the implications of the "Swords of Iron" war.

The balance of the investment in the accounting records in respect of Diners (Financing) Ltd. is NIS 87 million as at December 31, 2023, as compared with NIS 68 million as at December 31, 2022.

Yatzil Finances Ltd. ("Yatzil Finances")

A private subsidiary company that is wholly owned by the Company.

Yatzil Finances was established as a private company on June 20, 1979 and is engaged in the provision of financing services to merchants by factoring “Visa”, MasterCard”, “Diners”, “American Express”, and “Isracard” credit card vouchers.

Total assets amounted to NIS 2,192 million as at December 31, 2023, compared with NIS 2,230 million at the end of 2022, a decrease of 2%.

Total equity amounted to NIS 131 million as at December 31, 2023, compared with NIS 112 million at the end of 2022, an increase of 17.0%

Total revenues amounted to NIS 39 million in 2023, compared with NIS 29 million in the correspondence period in the previous year, an increase of 34%, which derived from an increase in the average annual prime interest rate and from an increase in the company's turnover.

Net income amounted to NIS 18.8 million in 2023, compared with NIS 13.5 million in the correspondence period in the previous year, an increase of 39%.

The balance of the investment in the accounting records in respect of Yatzil Finances Ltd. is NIS 145 million as at December 31, 2023, as compared with NIS 126 million as at December 31, 2022.

Other investments

The Company has no material investment in investee and/or associate companies, partnerships or joint ventures that are not subsidiaries, with the exception of the following:

- **Shlomo CAL Ltd.** - A company that extends credit to private customers that wish to buy a car. Shlomo CAL markets leasing transactions in which the customer leases a car for an average period of 30 months. The credit for the transaction is extended through CAL Financing.

  The Company holds 20% of Shlomo CAL Ltd.'s share capital. Since the second half of 2021, the Company has reduced its activity in the leasing services field, and since the second quarter of 2022 it is no longer recruiting new customers.

- **Casponet Ltd.** - On March 15, 2004, the Company, Discount Bank and Lipman Electronic Engineering ("Lipman") established Casponet Ltd., in accordance with the provisions of an agreement dated December 17, 2003 ("the Agreement" and "Casponet", respectively). Casponet engages in the installation and operation of ATM machines on merchants' premises. Discount Bank and the Company each hold 10% of the issued share capital of Casponet. Pursuant to the Agreement, Casponet's shareholders are given priority in providing services and products to Casponet, provided that the purchase terms thereof are at competitive market prices.

- **Custodia –** In December 2021, the Company made a commitment under an agreement with Custodia Inc., within the framework of which the Company made a loan of NIS 3 million available to Custodia, which is convertible into equity. Custodia is a fintech company, which has developed a platform for managing employee-related expenses and procurements in large organizations. The Company connects to issuers of credit cards and it offers a platform that makes use of dynamic through them, for the purpose of examining and approving specific transactions on physical or virtual payment cards, without the need for submitting expenses reports.

  Pursuant to the agreement, after the conversion of the investment into shares (insofar as it may be converted), the Company will hold approximately 3% (and in certain circumstances - up to approximately 4%) in Custodia's share capital.

Risk Review

General description of the risks and their management

The CAL Group ("The Group") is engaged in a large number of activities, which expose it to a range of financial and additional risks:

The Company is engaged in a broad number of activities, which expose it to a range of financial and additional risks:

Credit risk: risk that a borrower or counter party of the corporation will not meet its commitments to the corporation, as has been agreed.

Market risk: risk of the impairment of the Group's equity, deriving from changes in interest rates, exchange rates, inflation, the prices of securities and similar risks. The Group's exposure to market risks derives primarily from interest and base exposures in the Group's banking portfolio.

Liquidity and financing risk: risk to the Group's profits and to its deriving from its inability to provide its liquidity needs. This risk includes: the risk that the Group will not meet its payment commitments on time (Funding Risk) and the risk that any credit whatsoever may cause banks to refuse to make credit available to the Company exceptionally.

Operational risk (including fraud)**:** risk of loss as a result of the inappropriateness or failure of internal processes, personnel and systems or as a result of external events. The operational risk is inherent in all of the products, the operations, the processes and the systems in the Group.

Business technology risk (including fraud)**:** deriving from the use or the non-use of information technology by a corporation, from a corporation's dependency thereon, including the making of adjustments to changes in the business environment.

This risk is divided into two attribution groups: Cross-organizational and infrastructure risks (ITGC and information security risks), which have implications for all of the organizational structure, and risks that apply to specific systems and infrastructure, opposite the business process that they support.

Cyber and information security risk: the risk deriving from an event in which an attack is made on computer systems and/or computer based infrastructure systems by external or internal parties.

The realization of cyber risk could disrupt the proper functioning of the Group's operations and cause damage such as the prevention of the provision of service exposure of private information, the deletion and disruption of data, a decrease in the level of the public's trust and damage to the Group's image and reputation.

Compliance risk – risk of non-compliance with directives and regulatory rules (including fairness and integrity aspects), the realization of which could lead to the imposition of sanctions and/or the incurrence of a monetary loss (as a result of class actions, the imposition of fines/ penalties and similar issues) and/or reputational damage.

Money laundering and/or financing of terrorism risk: the risk of losses and damage sourced in transgressions that are connected to the Prohibition of Money Laundering and the Fighting Terrorism Law and non-compliance of the provisions of the Prohibition of Money Laundering Order, which applies to the operations of banking corporations and the Proper Conduct of Banking Business Directive 411, as well as the exploitation of the Group by a third party to finance and/or execute unlawful activity. The realization of the risk creates an exposure to financial penalties, the placement of criminal liability on the Company and on senior officers and risks to reputation with significant implications.

Legal risk: pursuant to the Basel Directive and Proper Conduct of Banking Business Directive 350, legal risk is part of operational risk, which is defined as the risk of a loss, loss of income or business damage, inter alia, as a result of the absence of the possibility of legally enforcing compliance with an agreement or from a lack of knowledge of the provisions of the law or the erroneous interpretation hereof, including primary or secondary legislation, directives issued by supervisory authorities and etcetera, the Group's commitment to act in accordance therewith, or from exposure to legal proceedings against the Group and against any of its employees or officers (within the framework of their work in the Company and a transgression on the criminal, administrative or civil plains). Legal risk includes inter alia an exposure to penalties and fines or punitive measures, as a result of supervisory activity (punitive damages), enforcement activity or private settlements and etcetera.

Reputational risk: the risk of significant and ongoing damage to the Group's business and its financial resilience as a result of damage to its reputation following various publications, whether intentional or erroneous, which have arisen for it among the Group's customers, employees suppliers, related parties, shareholders and investors (whether existing or potential) and supervisory bodies.

Modelling risk: the growing emphasis on digital banking, together with an increase in customers' expectations for maximizing value, for insights and appropriate products, which are available and immediate, lead to organizations in general and the banking system in particular have become more and more based on data and models, which has included the embedding of advanced artificial intelligence and machine learning based models. These aspects create developing challenges, both in the field of the development of models and also in the fields of validation and management of modelling risk. The Group takes action, pursuant to a multi-year work plan, to develop models and to improve the tools and the methodologies, which support the management of modelling risks, continuously.

Strategic risk: business risk, which is created both in respect of an act (such as erroneous business decisions or improper implementations) or of an omission (such as the absence of a response to changes in competition), which if realized could lead to the non-meeting of the targets in the Group's strategic plan over time to a significant degree and which could also prevent the Group from retaining its status as a significant relevant player in the credit card and non-banking credit market.

<u>The manner of the management of risks</u>

The management of risk in the Group is managed in accordance with the directives issued by the Banking Supervision Department, with the risks management policy being based upon the Basel principles and with generally accepted global practice. From time to time, the methods and the methodologies in the risks management field are tested and updated, in accordance with changes in the business, internal, macro and regulatory environments. A member of the management has been appointed for each of the significant risks to which the Group is exposed, who bears ultimate responsibility for the management of the risk in the first line of defense.

The management of the risks is performed using qualitative and quantitative methodologies and tools (including a range of statistical models), which enable an orderly and systematic process for identifying risks, assessing and measuring the exposure to risks, monitoring exposures, controlling and reducing risk and reporting to the management and the Board of Directors.

The Group views orderly risks management as being a crucial component in its operations and accordingly it examines the various risks to which it is exposed in its operating activities and business decision-making, whilst applying a collective and forward-looking visions throughout the management chain.

The risks management framework is anchored in a series of policy documents, which constitute a framework that supports the corporate governance responsibility for risks management, which is comprised of three lines of defense, which create balance and proportionality.

This framework enables the Group to identify and to manage risks optimally, whilst maintaining appropriate supervisory and control mechanisms, in a manner that assures that the Group has appropriate and stable equity over time. The risks management culture encourages control, transparency and effective communication within the organization, with an appropriate flow of information.

The Group's strategy and processes for managing, hedging and reducing risks is as follows:

Declaration on the appetite for risk in accordance with the guidelines issued by the Banking Supervision Department, the appetite for risk should reflect the risk preferences of the Board of Directors and should be consistent with the business strategy, liquidity planning, sources of finance and the corporation’s capital planning, and it should constitute one of the central tools at the disposal of the Board of Directors in supervising its risk profile. The formulation of the risk appetite is a core process in managing the Group's risks that is executed in correlation with the strategic outline and the capital configuration, from a combined overall corporate forward-looking perspective.

The risk appetite declaration document, which is approved once a year by the management and the Board of Directors, complies with the Proper Conduct of Banking Business requirements on the subject of risks management and constitutes one of the infrastructure documents for enterprise risk management as defined in the Enterprise Risk Management Policy document. Restrictions have been determined in the document for the risk targets and/or the warning thresholds. When the limits are exceeded, an outline will be set for a reduction in the level of risk and a return to compliance with the limits.

The policy documents: form a framework for the central risks that are managed in the Group and define the limits on the appetite for risk, for the purpose of management that is effective and accords with the directives issued by the Bank of Israel. The policy documents are reviewed and approved periodically by the Board of Directors and senior management.

The internal control framework: is managed by the control functions in the various divisions and its role is the identification and assessment of the risk and the monitoring, reduction and correction of deficiencies. The objective of the internal control framework is to avoid, to minimize or to reveal failings that could cause financial damage, image to image or a breach of regulations or procedures. The control framework includes: supervision by management and the control culture, the identification and assessment of risks, monitoring, reduction and the correction of deficiencies.

The quarterly risks document: is presented quarterly to the plenum of the Board of Directors, to the Board of Directors' Risks Management Committee and to the management, and it includes the exposures and the significant changes that have occurred in the Group's risk profile, inter alia, based on changes in the business and in regulations, whilst examining the compliance with the restrictions and key risk indicators (KRIs), central weaknesses and deficiencies that have been identified in the infrastructures, systems and procedures, including the manner in which they have been handled.

Reporting of information on risks: processes for reporting on risks, form a central tool in the management of the risks at all levels in the Group, from the ground level and up to the level of the management and the Board of Directors. The reporting process include routine reports that are presented at a set and agreed frequency (such as the quarterly risks document) and immediate reports in accordance with what is defined in the various policy documents and procedures.

The new product process: pursuant to Proper Conduct of Banking Business Directive 310 (Risks management), prior to the operation of a new product or activity, an orderly and systematic process is maintained in the Group, which is intended to ensure the correct identification and assessment of the risks that are inherent in the new product or activity, whilst examining their impact on the Group's risk profile, inter alia, by verifying the appropriateness of the infrastructures and the controls supporting their operation.

The establishment of the process in the Group contributes to the ability to identify and to assess new risks as they arise, to verify the preparations and the appropriate hedging of the risks, by means of supportive work processes, infrastructures and controls. This process includes the approval of the products or activities by the management and the Board of Directors.

The development and independent validation of models: a model relates to a method, system or quantitative approach, which implements theories, techniques and statistical, economic, financial or mathematical assumptions in order to process data and to produce estimates that express a theoretical connection between the data and the assessment of risks.

The model translates the mathematical estimates into useful business estimates and it has the potential to influence the pricing and management of risks and the financial statements in general and on the credit losses in particular.

The process of the development of a new model is performed by a team that is qualified for the subject, which stringently observes the objectivity and the transparency of the process, whilst documenting the model, including the assumptions and the main decisions that have been made, in a manner that enables independent checking and the training of a new team. The development team is responsible for providing a clear description, which is not in technical language, of the theory that stands at the foundation of the overall model that relates to the business use of the model and its objectives.

The Group uses a number of models, such as statistical, actuarial and economic models. Prior to the operation of a new model, over the lifetime of the model and when making significant changes/ updates in models, a validation is performed, which is intended to ensure that proper functioning of the model and the use thereof. The validation is performed by a team that has expertise in validation and which is independent of the development of the model. The process includes activity, the purpose of which is to verify that the model is operating as expected, in accordance with the objective and the uses for which it is intended. The Group is operating in accordance with policies that have been approved by the Board of Directors and it is strengthening the catalogue of models, including the formulation of a multi-annual work plan, which contains control processes that are determined in accordance with the risk profile in the model and the changes in the risk environment. These procedures are performed in accordance with the Bank of Israel's directives.

Strategy and the work plan: The Group operates in accordance with a strategic plan, which is determined in each period and which is approved by the management and the Board of Directors, from which the work plans are derived. As part of the strategic plan and the work plans, the changes that have occurred and which are expected to occur in the risk environment are taken into account. The Overall Risks Management Department is integrated structurally in these processes and it assesses their impact on the risk profile and that they correlate with the appetite for risk by means of challenging the strategic plan and the work plan.

In addition, a managerial focus is placed on the implementation of the strategic plan and the work plans, with risk based measurement targets, together with the business objectives.

Planning and performance of a risks survey and the mapping of risks: pursuant to the Proper Conduct of Banking Business Directive on the subject of the management of operational risks, the Company conducts surveys of operational risk in order to map the operational arrangements and the risks that are inherent therein, and tests for the existence of appropriate control mechanisms in relation to various business processes.

Gaps that arise from the reviews are passed for handling within the framework of the risks reduction plan, in accordance with an orderly methodology, which is implemented routinely in accordance with the prioritization of the risks. The status of the risks reduction plan for the significant risks is presented to the Board of Directors and the management within the framework of the quarterly risks report.

Embedding a risks management culture: The Company works ceaselessly to improve and to strengthen the risks management processes in the operating activities. The management, which outlines the tone at the top, integrates risks management processes as an integral part of the risks management processes.

The risks management division accompanies and is involved in the central processes, from the outset, in order to verify that risks management considerations are embedded as an integral part of the business activity.

The organizational culture encourages control, transparency and effective communications inside the organization, with an appropriate information flow and reporting on default events.

Internal capital adequacy assessment process (ICAAP):

The internal capital adequacy assessment process, which is required in the second level of the Basel II framework and which is intended to ensure the that adequate capital will be held by the Group, which will support all of the risks that are inherent in the business activity, maintain financial stability and for the examination of the state of the capital in a range of extreme scenarios.

The ICAAP process includes the examination of the array of management processes in the Group; corporate governance for the management of risks; the identification of significant risks to which the Group is exposed and the quality of their management; the quantification of the overall exposure to risk in terms of capital, both at present and forward looking.

The additional risks that are included in the second level are comprised of risks that are not addressed within the framework of the first level, where the extent of the exposure to them and the allocation of capital that is required for them can be calculated, and of qualitative risks that are tested within the framework of the overall testing of the capital adequacy.

During the course of the year, changes in the risks profile are monitored and supervised.

Stress tests

The Group uses forward-looking stress tests as a supplementary tool to the risk management processes (mostly credit, market, liquidity and operational risk). Stress testing is used for identifying and assessing focusses of risk and vulnerable areas, as part of the capital adequacy assessment (ICAAP) and challenging the planning of the equity, including compliance with the restrictions on the appetite for risk that have been set by the Board of Directors.

The stress tests are performed in accordance with the methodology that has been set by the parent company, with such adjustments are necessary for the Group's operations. The Board of Directors and management approve the scenarios, including involvement in their definition, the determination of their objectives and the examination or the reasonability of their results. In 2023, the Group performed extreme scenario testing within the framework of the ICAAP process and pursuant to directives issued by the Bank of Israel. Furthermore, the Company has related to scenarios based on Discount Bank's economic forecast.

Significant risks

By the very nature of its operations, the Group is exposed to a range of risks, including financial risks, and first and foremost, credit risk, market risk and liquidity risk. In addition to the financial risks, the Group is exposed to additional risks, primarily operational (including frauds), cyber and information, technology, legal, compliance, money laundering and financing of terror, reputational, strategic and modelling risks.

The following are details regarding the main risks and the most significant developments therein:

Macro risk: The risk of impairment of the Group's profit and capital as a result of the impact of global and local macro-economic events, which have led to a significant increase in the interest and inflationary environment and to the weakening of the shekel against the basket of the main currencies in the world relative to previous years. These factors may cause a decrease in the consumers' purchasing power, a decrease in demand for loans, impairment of the borrowers' ability to make repayments and in the quality of their credit.

Cyber and information security risk: The risk of the realization of cyber and information security threats has been growing in recent years, both in Israel and globally, in light of the increase in the level of the sophistication, the growing use of artificial intelligence (AI) the regulation in open banking field and the complexity of the attacks and the range of methods used as well as from the business competition and the ambition of being at the forefront of the technological front, together with the growth in the extent of the spread of the computer based and cloud services.

Accordingly, supervisory attention has been turned to the subject in order to examine and improve the way in which the banking system is coping with this risk, inter alia, as a result of transfer to hybrid working by means of dedicated regulations. An emphasis has been placed in the Group on the management of the risk as a cross-organizational threat in light of its complexity, the extent of the potential damage and the difficulty of coping with the threats in the field.

Technology risks: Technological developments and the growth of digital banking, together with an increase in customers' expectations of maximizing value, comprehension and adapted products, which are available and immediate, create risks deriving from reliance on new technology and infrastructures, using outsourced services, which may increase the exposure to fraud and to the leaking of information.

Regulatory risks: In recent years there has been an increase in the volume of legislation and regulation in the banking and financial fields. The legislation and the regulations are changing the business environment and mandating complex changes in the work processes and in the computer system with relatively short periods of time being allowed for their implementation.

Among the main regulatory steps that have been implemented in 2023, it is important to mention the opening banking and the continuation of the implementation of the Payment Services Law, which is intended to encourage the use and development of advanced means of payment, in parallel to increasing certainty and fairness opposite the consumers and creating a legal infrastructure for the technological developments and creating innovative platforms, which will lead to the existence of "new players" in the payment services field, and for which a regulatory response was required. In addition, in June 2023, the Engagement on Payment Services and the Initiation of Payment Law – 2023, which arranges the chapter on licensing of the payments companies, which also relates to credit card companies, including CAL, which will be defined as a payments company having importance to stability and which will continue to be supervised by the Supervisor of Banks, as from the Law's entry into effect in June 2024, was legislated within the framework of the Arrangements Law.

Furthermore, in light of the legislative changes, which will lead to the separation of the Group from its shareholders, the Group has mapped the risks that are inherent in the change, and these include: the need to diversify the sources of financing, the retention of the issuance agreement with Discount Bank and Bank, the discontinuation of the receipt of professional support from the Bank in various fields and expenses for managerial inputs and the diversion of the Company's work plan in order to implement the separation.

Business modelling risks: There have been changes in the operating environment in recent years, which derive, inter alia, from the acceleration in technological developments, the erosion of sources of income and increasing competition in the banking system and from outside of the banking system.

The dynamism and the pace of the changes are leading to an increase in business model risk (which forms part of the strategic risk) and which requires the Group to examine advanced, flexible solutions, from a forward looking perspective, which will ensure the continuation of the Group's positioning as a leading group in the future too.

Accordingly, the Group is concentrating significant efforts in the digital field, in the customer experience, in innovation and in the development of models and also in new projects. These changes, with an emphasis on projects involving innovation and technology, also lead by the very nature of things to an increase in third party risks, primarily from the aspect of the supply chain, quality assurance and controls, exposures to cyber risks and to the leaking of information.

The Group is taking action to ensure a continuing improvement in the tools that support the management of the risk, including updating the policy documents, creating standardization, processes and contractual arrangements as well as by performing new product processes for identifying risks and the reduction thereof in new products or activities.

Protection of privacy risks: The protection of privacy aspects have accelerated and increased importance both in Israel and globally, against a background of an increase in the use of digital and data solutions. The regulation of the field of the protection of privacy is undergoing changes and there has been much legislation, both locally (including the information transfer regulations, which have been issued by the European Union and Amendment 14 to the Protection of Privacy Law – 1981) and globally (GDPR).

Protection of privacy aspects form an important component in the examination of new products and/or technologies and/or services and/or models, as a result of the need to verify that there is adequate protection of sensitive information.

Modelling risks: The processes involved in the development of models, as well as the use of models, are complex processes that are subject to errors. However, the model risk can be reduced by means of a solid process for building and documenting a model, the cautious use of the model, accompanied by controls that are integrated into the process and routine/ periodic monitoring with awareness of the limitations of the model, and the implementation of procedures for the validation of the model. Skilled management of the modelling risks leads to an appropriate balance being struck between costs and benefits.

For additional information on the risks and for information required according to the third pillar disclosure requirements, see the extended chapter on risks in the "Basel third pillar disclosure requirements report and additional information on risk" on the Group's Hebrew website:

Credit risk

Risk that a borrower or a counter party of the corporation will not meet its commitments vis-à-vis the corporation, as agreed.

The credit risk in the Group is derives from two main types of **activities**:

Consumer credit: Non-banking credit, which is extended to private customers through a credit card (such as: current receivables in accordance with the credit facility, rolling credit products, loans) or for customers who do not hold one of the Group's credit cards.

Business credit: credit for companies and authorized businesses, such as short-term loans, long-term loans, autonomous guarantees, credit cards for business and etcetera.

The Credit Division is responsible for identifying credit risks among the private and commercial customers, measuring and assessing the risks, executing control, monitoring and reporting in accordance with the policies and the procedures.

Credit risk is managed in accordance with the following aspects: (1) Proper Conduct of Banking Business Directives on the subject (2) the credit policy that is approved by the Board of Directors and management each year (3) the appetite for risk that has been defined (4) the Group's strategy (5) the Group's overall risk profile.

The appetite for risk is translated into terms of qualitative and quantitative restrictions, which relate to the characteristics of the risk in the credit portfolio, and the composition and quality thereof, exposures to sectors of the economy, operating segments and etcetera.

The restrictions serve as an effective tool for supervision, control and other reporting, compliance with the Group's credit policy as well as estimating the credit risk in relation to the Group's overall risk policy.

The credit approval process: The Group maintains documented processes for the approval of new credit, and for the reorganization and refinancing of existing credit.

During the course of the process, every credit application is analyzed by an authorized member of the business team who has expertise in relation to the size and complexity of the transaction, and all of the relevant documents are submitted for the evaluation of the risks that are inherent in the transaction within the framework of the process.

When the person who gives the approval determines the yield from a transaction, he takes the array of risks in the transaction and the allocation of the capital that is required against the expected and unexpected losses, both at the level of the transaction and at the level of the credit portfolio into account.

This quantification is also performed by means of models that have been adapted for these needs.

Underwriting credit for private individuals

In recent years, the Group has been presenting consistent growth in the credit to private individuals field. The Group views this field as one of its central engines for growth, and this is being done using sophisticated risks management. The expansion of the activity of providing credit to individuals is performed in responsive and in proactive activity that is based on the customer's needs, which offers customers the range of credit that exists in the Group, such as: loans based on the credit card facility, loans separate from the credit facility, credit loans, any purpose loans and loans that are based on cooperations in the automotive field and in the any purpose loan field.

The Group has a ratings based policy and procedures that define the work processes and rules for a proactive approach for the selling of credit to private individuals. As mentioned above, the work procedure on the subject of the provision of credit to private customers is based on policy, which determines, inter alia, the definition of a conversation script for the sale of credit, which includes the provision of information to the customer regarding the credit terms, such as: the amount of the credit, the credit period, the nominal and adjusted interest rate, the estimated amount of the monthly repayment and the ways of making contact in order to clarify matters.

Furthermore, the procedure determines how the customers' needs and characteristics are to be related to and the documentation of the data on the approach to customers. In addition, the procedure contains a definition of the population to which no proactive approach for the provision of credit is to be made, which is in order to comply with regulatory rules. The provision of credit to private individuals is based on the rating of the customer's risk.

The Group has formulated policy and a working framework for the provision of credit to private individuals. Within this framework, the Group receives assistance from a decision supporting system that examines various operating indices and risk indices for the private customers and they determine a maximal threshold for the provision of credit for a risk rating, which takes the risk rating and additional factors into account. See the chapter on "Explanation and analysis of the results and the state of the business", which appears above, for details regarding the possible impact of changes in the macro-economic environment.

The process of underwriting the credit and rating the risk for individuals is based largely on advanced statistical models, which undergoes routine monitoring, periodic and fixed calibration checks in accordance with the Company's policy and the regulatory requirements as well validation once a period, in accordance with the level of the modelling risk, or as necessary. The risk rating serves as the basis for decision support in respect of the extension of the majority of the credit, its size and the interest rate that is set for the customer.

The underwriting is performed in two ways: automatic underwriting, which is based on rating and business charter models, from the perspective of the customer’s overall activity; and manual underwriting, which is performed in instances where further checking, beyond that performed by the automatic underwriting process, is required.

In 2023, the Group made the following changes in its underwriting policy: (1) the amounts of the exposure to the various rating groups for both non-card loans and for loans on cards were updated; (2) the loans underwriting mechanism for existing customers has been calibrated (3) the underwriting thresholds have been updated in order to provide a response to changes in the risk environment, populations changes and changes in the macro-economic environment; (3) the minimal model score as an entry threshold for CAL was updated; (4) the formula for the calculation of the customer's repayment capacity was updated; and (5) business rules, which are taken from a credit data based for use in underwriting decision making were added.

Automatic underwriting

Most of the credit decisions are taken by means of the automatic underwriting process. This process is based on rating new and existing customers on validated statistical models. The models are based on data collected from the Group’s own information sources and from external information sources. The automatic underwriting process rates the customer’s risk level. Based on this rating, the customer is offered credit in a scope and amount and for a period that match his risk rating, as reflected in the Group’s systems and also based on its appetite for risk.

The customer’s risk rating is regularly updated and monitored throughout the term of the credit granted to the customer. The Group takes constant action to broaden and improve the credit risk models in accordance with the most advanced, globally accepted practices.

Granting credit is based, inter alia, one:

- The customer's solvency;
- The customer's financial conduct history with the Group, if any;
- The receipt of financial data from other sources, if available, regarding the customer, and in particular, the use of credit databases.

Manual underwriting

The credit underwriting process in such exceptional situations is accompanied by justifying documentation, including the considerations upon which the decision to establish a credit facility were based. As part of the policy, a threshold has been set for the grant of credit to such customers and limits regarding the percentage of credit at a low rating in relation to the total portfolio of credit granted to individuals.

Furthermore, in order to limit the risk in credit granted to individuals, restriction on the powers of the credit parties to grant credit that deviates from the system recommendation (in accordance with the rating level set for the customer) have been set in the policy , and there is a prohibition on any deviation from these recommendations for customers with a low rating. In addition, the policy for granting credit to individuals establishes principles that set standards of fair conduct in dealings with customers, including prescribing restrictions concerning the customer population for which unsolicited calls for the grant of credit may be made and the giving of proper disclosure regarding the credit terms and the degree to which receiving the credit is worthwhile to the customer.

Individual restrictions: The management of the credit portfolio establishes restrictions and principles, which define the levels of the risk that the Group is prepared to accept. The restrictions are defined from the level of the customer, through various divisions in the portfolio (risk levels, sectors and products) and up to the cumulative level of the portfolio.

Monitoring of the exposure: the Group operates measures the objective of which is to identify and to assess the level of the borrower's risk and the exposure by means of information systems, which indicate negative developments that have occurred in the customers' accounts, including: arrears in loans, the exceeding of credit facilities and alerts from external sources.

The monitoring is performed by means of the monitoring of the specific exposures and for the credit portfolio as a whole, by collecting information from internal and external sources on the customer, and by means of alerts and data from external sources of information. The monitoring enables the identification of trends in and the creation of an exposure to risk factors.

The credit databases: The Group makes use of the data in the database, both for underwriting needs and for monitoring needs. The credit database expands the information that is available for underwriting and monitoring credit for private customers. The Group has imbedded and is continuing to expand the use of databases in the provision and management of credit processes.

Systems for measuring credit risks: There are dedicated information systems in the Group for managing credit, which meet the regulatory demands and which enable the operation, management, monitoring, measurement and supervision of credit risk.

In addition to the core operating activity, there are systems that support the management of the credit risk, such as systems for rating borrowers, systems for managing and reporting on troubled debts, allowances for credit losses and etcetera.

The management and the Board of Directors test the level of the exposure to credit risks, including compliance with the restrictions that have been set on a quarterly basis, by means of a collective risks document; the exceeding of restrictions and action plans for correcting cases where restrictions have been exceeded; trends in the credit portfolio; data on credit losses and allowances for credit losses.

Quantitative data regarding credit to private individuals

In 2023, an increase of 10.1% was recorded in the balance of credit to private individuals, compared with an increase of 21.9% in 2022. This credit amounted to NIS 7,741 million as at December 31, 2023 as compared with NIS 7,034 million as at December 31, 2022. The interest bearing credit to private individuals constitutes 63.1% of the overall credit to private individuals that is at the Company's responsibility as at December 31, 2023, and it consists primarily of credit bearing variable interest on credit transactions, transactions on rollover credit cards, loans, designated credit for the purchase of vehicles and other transactions. The rest of the credit to private individuals amounts to NIS 4,529 million, compared with NIS 4,726 million as at December 31, 2022. This credit is non-interest bearing and reflects balances with respect to regular transactions, transactions in payment at the expense of the place of business and other transactions. The overwhelming majority of the credit losses derive from interest-bearing credit.

In 2023, there was in increase in the credit risk indices for private individuals, which included:

- The rate of the expenses for credit losses on the average balance of receivables for activity on credit cards;
- The rate of the net write-offs on receivables for activity on credit cards to the average balance of receivables for activity on credit cards.
- The rate of the net write-offs on receivables for activity on credit cards to the balance of the allowance for credit losses on receivables for activity on credit cards.

(See also the credit risk indices on page 78 below).

The increase in the credit risk indices derives, inter alia, from the implications of the "Swords of Iron". In the wake of the war, which broke out in October 2023, many residents were evacuated from their homes, large numbers of people were called up for reserve duty in the armed forced and numbers of employees were placed on unpaid leave. The Company has provided reliefs for its customers, including the deferral of payments, the non-institution of collection processes and debt enforcement processes and etcetera, inter alia, in light of the Bank of Israel's requirements. In January 2024, there was a decrease in the number of people on unpaid leave in the economy and a decrease in the number of people in reserve military duty and the Company restarted the execution of collection processes, to the extent possible and taking the situation into account.

An expansion of the fighting in the future could lead to an additional increase in the credit risk indices. Furthermore, the increase in the credit risk indices derives from an increase in the interest rate in the economy over the course of the past year.

The rate of the balance of the allowance for credit losses on receivables for activity on credit cards to the balance of receivables on credit cards increased from 1.98% as at December 31, 2022 to 2.62% as at December 31, 2023. The increase derived primarily from the rate for the balance of the allowance for private individuals, which increased from 2.72% to 3.64%, which was in the light of:

- An increase in the extent of troubled credit as a result of the reduction in collections as a result of the "Swords of Iron" war.
- The initial implementation of the Banking Supervision's directives on the subject of expected credit losses (CECL) as set forth below.
- Allowances that have been recorded at the time of the "Swords of Iron" war.
- The increase in credit risk deriving from macro factors.

See the chapter of "Revenues and expenses", which appears above for additional details regarding the credit loss expenses in 2023.

<u>Adoption of updates to generally accepted accounting principles for banks in the USA – Allowance for credit losses</u>

Since January 1, 2023, the Company has been implementing the Supervisor of Bank's directives, which require the full adoption of generally accepted accounting principles for banks in the USA regarding the allowance for expected credit losses (CECL). See also Section C of Note 2 to the financial statements – Reporting principles and principal accounting policies.

See also the report for the first quarter of 2023 (in Hebrew) for details regarding the Company's preparations for the implementation of the new accounting principles (on page 54).

– the adoption of the amendment of the ASU 216-13 Standard. The Standard is to be implemented by acquirers as from January 1, 2023 and thereafter.

The Company has appointed a project manager and a steering committee has been established, under the leadership of the Head of the Risks Management Division and the Chief Accountant, with representatives of the divisions in the Company. In addition, an internal working team has been appointed, whose role is to examine the various aspects of the implementation of the Standard.

It should be mentioned that the implementation of the new principles requires the formulation of methodology and complex models and the implementation of new technology. By the very nature of things, the improvement and development of the credit losses allowance measurement process and the adjustment thereof will continue, even after the initial implementation, and it is possible that this activity will require certain changes to be made in the measurement process.

It should further be mentioned that the new principles do not require the implementation of a uniform methodology and accordingly the banking corporations and the credit card companies (each body independently) have determined the methodology and the models that are used in the implementation of the principles for themselves, whilst exercising their discretion. Accordingly, caution is necessary when comparing the implementation of the initial implementation, as reported by the banks and the credit card companies. The data on troubled debts and allowances in this chapter and in the financial statements are presented in accordance with the new principles. The comparative figures are presented in accordance with the format that was in effect until December 31, 2022. Accordingly, extra care should be taken when examining the changes between the data as at December 31, 2023 and the data as at December 31, 2022.

Credit quality and troubled credit risk

Analysis of the quality of the credit, troubled credit risk and non-performing assets

	December 31, 2023			
	Balance Private individuals	Commercial	Other	Total
	In NIS millions			
Credit risk with a rating of performing credit				
On-balance sheet credit risk (1)	11,388	1,392	4,634	17,414
Off-balance sheet credit risk	21,168	473	21,494	43,135
Total credit risk with a rating of performing credit	32,556	1,865	26,128	60,549
Credit risk without a rating of performing credit				
Not troubled	415	71	–	486
Total accrual troubled	290	13	–	303
1. Special supervision	203	13	–	216
2. Subordinated	87	–	–	87
Total non-accrual troubled	177	5	–	182
1. Special supervision	–	–	–	–
2. Subordinated	–	–	–	–
3. Non-accrual	177	5	–	182
Total on-balance sheet credit	882	89	–	971
Total off-balance sheet credit	578	88	–	666
Total credit risk without a rating of performing credit	1,460	177	–	1,637
Of which: accrual debts, in arrears of 90 days or more	–	–	–	–
Total credit risk including the public's	34,016	2,042	–	62,186
Additional information on non-performing assets:				
Non-accrual debts	177	5	–	182
Total non-performing assets including the public's	177	5	–	182

(1) Risk relating to credit whose credit rating at the reporting date accords with the credit rating for new performing credit, in accordance with the Company's policy.

	December 31, 2022			
	Balance Private individuals	Commercial	Other	Total
	In NIS millions			
Credit risk with a rating of performing credit				
On-balance sheet credit risk (1)	11,119	1,153	4,633	16,905
Off-balance sheet credit risk	19,931	8	18,584	38,523
Total credit risk with a rating of performing credit	31,050	1,161	23,217	55,428
Credit risk without a rating of performing credit				
Not troubled	339	15	–	354
Total accrual troubled	229	–	–	229
1. Special supervision	140	–	–	140
2. Subordinated	89	–	–	89
Total non-accrual troubled	73	12	–	85
1. Special supervision	–	–	–	–
2. Subordinated	–	–	–	–
3. Non-accrual	73	12	–	85
Total on-balance sheet credit	641	27	–	668
Total off-balance sheet credit	57	*–	–	57
Total credit risk without a rating of performing credit	698	27	–	725
Of which: accrual debts, in arrears of 90 days or more	–	–	–	–
Total credit risk including the public's	31,748	1,188	23,217	56,153
Additional information on non-performing assets:				
Non-accrual debts	73	12	–	85
Total non-performing assets including the public's	73	12	–	85

(1) Risk relating to credit whose credit rating at the reporting date accords with the credit rating for new performing credit, in accordance with the Company's policy.

Changes in the balances of impaired debts

	Consolidated					
	Year ended December 31, 2023					
	Balance of impaired debts					
	Credit risk not guaranteed by banks					
	Individuals		Commercial			
	Receivables on credit cards	Credit	Receivables on credit cards	Credit	Credit risk guaranteed by banks and other	Total
	In NIS millions					
Balance at the beginning of the year	*–	73	–	12	–	85
Impact of the initial implementation of accounting principles in the USA on the subject of expected credit loss	3	36	1	*–	–	40
Balance of non-accrual credit to the public as at January 1, 2023	3	109	1	12	–	125
Debts classified as non-accrual debts during the year	8	309	2	–	–	319
Debts that are once again accruing interest	(3)	(32)	(2)	–	–	(37)
Accounting write-offs	(3)	(182)	*–	(7)	–	(192)
Collections	(1)	(31)	*–	(1)	–	(33)
Balance of impaired debts under reorganization at the end of the period	4	173	1	4	–	182
Of which: movement in troubled debts under restructuring	–	33	–	2	–	35
Balance of troubled debts under restructuring at the beginning of the year	–	(9)	*–	(2)	–	(11)
Balance of non-accrual debts in reorganization as at January 1, 2023	–	24	*–	–	–	24
Restructurings performed during the period	–	25	–	–	–	25
Debts that are once again accruing interest	–	–	–	–	–	–
Accounting write-offs	–	(1)	–	–	–	(1)
Collections	–	(22)	–	–	–	(22)
Other changes	–	–	–	–	–	–
Balance of impaired debts under reorganization at the end of the period	–	26	*–	–	–	26

* Represents an amount of less than NIS 1 million.

	Consolidated					
	Year ended December 31, 2022					
	Balance of impaired debts					
	Credit risk not guaranteed by banks				Credit risk guaranteed by banks and other	Total
	Individuals		Commercial			
	Receivables on credit cards	Credit	Receivables on credit cards	Credit		
	In NIS millions					
Balance at the beginning of the year	*–	106	–	5	–	111
Debts classified as non-accrual debts during the year	*–	218	–	11	–	229
Debts that are once again accruing interest	–	(168)	–	(2)	–	(170)
Accounting write-offs	–	(43)	–	(2)	–	(45)
Collections	–	–	–	–	–	–
Other changes	–	(40)	–	–	–	(40)
Balance of impaired debts under reorganization at the end of the period	*–	73	–	12	–	85
Of which: movement in troubled debts under restructuring						
Balance of troubled debts under restructuring at the beginning of the year	–	80	–	*–	–	80
Restructurings performed during the period	–	31	–	4	–	35
Debts that are once again accruing interest	–	–	–	–	–	–
Accounting write-offs	–	(14)	–	(2)	–	(16)
Collections	–	(24)	–	(*–)	–	(24)
Other changes		(40)		–		(40)
Balance of impaired debts under reorganization at the end of the period	–	33	–	2	–	35

* Represents an amount of less than NIS 1 million.

The following are certain financial ratios that are used to assess the quality of the credit portfolio:

	December 31, 2023			December 31, 2022		
	Total	Credit risk in respect of individuals	Commercial credit risk	Total	Credit risk in respect of individuals	Commercial credit risk
	%					
Percentage of non-accrual receivables on credit card transactions out of the total receivables on credit card transactions (1)	**1.00%**	**1.44%**	**0.35%**	0.48%	0.62%	1.00%
Percentage of receivables on credit card transactions that are no non-accrual in arrears for 90 days or more out of the total receivables on credit card transactions	**–**	**–**	**–**	–	–	–
Percentage of the allowance for credit losses in respect of receivables on credit card transactions out of the total receivables on credit card transactions	**2.62%**	**3.64%**	**2.03%**	1.98%	2.72%	2.06%
Percentage of the allowance for credit losses in respect of receivables on credit card transactions out of non-accrual receivables on credit card transactions	*****	*****	*****	*	*	*
Percentage of the allowance for credit losses in respect of receivables on credit card transactions out of non-accrual receivables on credit card transactions plus receivables on credit card transactions in arrears for 90 days or more	*****	*****	*****	*	*	*
Percentage of troubled credit risk out of total credit risk	**0.78%**	**1.35%**	**1.16%**	0.56%	0.95%	1.01%
Percentage of expenses for credit losses out of the average balance of receivables on credit card transactions (2)	**1.59%**	**2.37%**	**0.04%**	0.59%	0.86%	0.33%
Percentage of net write-offs in respect of receivables on credit card transactions out of the average balance of receivables on credit card transactions (3)	**1.161%**	**1.69%**	**0.43%**	0.64%	0.94%	0.29%
Percentage of net write-offs in respect of receivables on credit card transactions out of the balance of the allowance for credit losses in respect of the average balance of receivables on credit card transactions (4)	**43.42%**	**45.29%**	**20.57%**	30.16%	31.73%	12.75%

* Represents a percentage higher than 100%.

For details on credit with an "investment" rating as at December 31, 2023 and as at December 31, 2022, see Note 11C1 to the financial statements on the subject of receivables for activity on credit cards and the allowance for credit losses. For details on credit in arrears and credit in a restructuring, see Note 11C2(c) to the financial statements on the subject of receivables for activity on credit cards and the allowance for credit losses.

(1) The increase in the percentage of non-accrual receivables on credit card transactions out of the total receivables on credit card transactions derived primarily from the implications of the "Swords of Iron" war and the reduction of the collection activity.

(2) The increase in the percentage of expenses for credit losses out of the average balance of receivables on credit card transactions derived from an increase in write-offs and from an increase in the extent of troubles credit.

(3) The increase in write-offs derives from an increase in the interest rate and in the inflation rate, and from a decrease in the collection of debts that have been written off in the past in the wake of the "Swords of Iron" war. Furthermore, the increase derives from a decrease in collection as a result of the "Swords of Iron" war, which has led to many more troubled debts being written off.

See "The Basel third pillar disclosures and additional information on risks" report on the parent company's Hebrew website for additional information on credit risk:

Market and liquidity risks

Market and liquidity risks and the manner in which they are managed

The Financial Management and Analysis Department is responsible for the management of market and liquidity risks in the Group.

Market risk is defined as the risk of a loss deriving from changes in exchange rates, inflation, interest and etcetera.

The Group manages the following exposures relating to market risks:

Interest risk – the risk deriving from the gap between assets bearing interest at fixed rates and liabilities bearing interest at fixed rates. The exposure is divided into 3 linkage segments: The unlinked Shekel segment, the index-linked Shekel segment and the foreign currency segment. The Group does not have any other significant interest risk factors.

Index risk – the risk deriving from the gap between the extent of the index-linked assets and the index-linked liabilities.

Currency risk - currency risk in the Group derives from the following exposures:

Turnovers exposures (the amounts of money in "the pipeline") – which derives from the activity by tourists in Israel and by Israelis abroad, as detailed below:

- Transactions in which there is a conversion of currency in a process, such as transactions by tourists in Israel and by Israelis abroad create an exposure regarding the currency in which the accounting will be conducted opposite the international organization is different from the currency in which the merchant is credited/ the customer is charged. The exposure derives from the gap between the exchange rate in which the international organization executes the conversion of the currency for the purpose of charging / crediting the Company and the rate at which the Company executes the conversion of the currency for the purpose of crediting the merchant/ charging the customer.

- The routine management of dollar balances - the Company manages the cash flows in foreign currency deriving from accounting with international organizations less payments to merchants and with the addition of receipts from cardholders daily. The net accounting in dollars with the international organization reflects the difference between all of the activity by tourists in Israel and all of the transactions by Israelis abroad. Accordingly, the net receipt does not necessarily cover the balance of the payables in foreign currency in respect of activity by tourists.

  The excess of the balance of payables creates an exposure to a devaluation in the value of the shekel as compared with foreign currencies for a period of approximately two days. It should be clarified that the Group is exposed to the balance of payables in additional currencies in which accounting is performed, however the extent of the activity is significantly lower than the activity in dollars.

Cash flows exposure (profit or loss) – the exposure derives from the gap between the total of the expenses and the investments and the total of the revenues in each type of currency each month.

Accounting exposure (balance sheet) – the exposure derives from the gap between the assets of a fixed nature, which are linked to or denoted in a currency that is different from the measurement currency and the liabilities of a fixed nature, which are linked to or denoted in a currency that is different from the measurement currency, which is in accordance with the Group's balance sheets.

Sensitivity analysis for financial instruments for changes in the Consumer Prices Index

	Change in income	
	December 31, 2023	December 31, 2022
	In NIS millions	
Parallel changes		
An immediate parallel increase of 3%	7	1
An immediate parallel decrease of 3%	(7)	(1)

Fair value of the financial instruments of the Company and its subsidiaries (before the effect of hypothetical changes in interest rates)

	Israeli currency - shekel	Foreign currency - dollar	Total
		In NIS millions	
Net fair value of financial instruments as at December 31, 2023	967	203	1,170
Net fair value of financial instruments as at December 31, 2022	1,042	57	1,099

* Does not include balance-sheet amounts of derivative financial instruments and the fair value of off-balance-sheet financial instruments.

The impact of hypothetical changes in interest rates on the net fair value of the financial instruments of the Company and its subsidiaries

December 31, 2023

	Israeli currency - shekel	Foreign currency	Total
		In NIS millions	
Change in interest rates			
Immediate parallel increase of 1%	(25)	(1)	(26)
Immediate parallel decrease of 1%	26	1	27
Increased curvature	3	*–	3
Flattening	(8)	(*–)	(8)
Short shock	(17)	(1)	(18)
Long-shock	(9)	(*–)	(9)

December 31, 2022

	Israeli currency - shekel	Foreign currency	Total
		In NIS millions	
Change in interest rates			
Immediate parallel increase of 1%	(34)	(*–)	(34)
Immediate parallel decrease of 1%	35	*–	35
Increased curvature	8	*–	8
Flattening	(15)	(*–)	(15)
Short shock	(24)	(*–)	(24)
Long-shock	(11)	(*–)	(11)

* Represents an amount of less than NIS 1 million.

(1) Increased curvature – a decrease in interest in the short-term and an increase in interest in the long-term.

(2) Flattening – an increase in interest in the short-term and a decrease in interest in the long-term.

<u>The impact of scenarios for changes in the interest rates on interest income, net and on financing income other than from interest:</u>

	Interest income	Income other than from interest	Total	Interest income	Income other than from interest	Total
	December 31, 2023			December 31, 2022		
	NIS millions					
Parallel changes						
Parallel increase of one percent	35	7	42	21	18	40
Parallel decrease of one percent	(35)	(7)	(42)	(21)	(18)	(40)

Liquidity and funding risk: The risk to the profits of the Group and its capital deriving from its inability to provide its liquidity requirements.

This risk includes: the risk that the Group will not meet its payment obligations on their due date (funding risk) and a risk that a crisis of some kind could cause the banks to refuse to provide the Group with exceptional credit. The Group is exposed to liquidity risk (in Israeli currency only) deriving from the following exposures:

- A lack of correlation in respect of the average lifetime to maturity relating to the consumer and business credit creating fixed long-term liquidity needs.
- Cash management – acquiring and issuing activity create liquidity needs because of the timing differences between the time at which the customers are charged and the timing of the crediting of the merchants. The liquidity needs are primarily short-term and at fixed times in each month.

The manager of the management and the measurement

Market risk - The Group's policy on the subject of the management of business risks is based on the management of exposures to market risks, within a framework of quantitative limits that have been determined for these exposures as well as quantitative limits in hedging instruments. The means that are used for the purpose of complying with the limits that have been set include the purchase of derivative financial instruments in all of the linkage segment; investment in and the recruiting of non-marketable financial instruments (deposits in/ loans from banks in the linkage segments). The management of the market risk is performed whilst taking on controlling risks subject to the approved exposure limits, which form the Group's appetite for risk, in accordance with policy that is determined by the Board of Directors from time to time, using approved financial instruments.

Interest risks: The Group performs monthly measurement, which depicts the impact of a parallel change in the interest rates (repricing risk) on the economic value of the gap between the assets bearing interest at a fixed rate and the liabilities bearing interest at a fixed rate. This measurement is performed with a division being made according to the linkage segments.

In addition, the Group performs monthly measurement, which depicts the impact of a parallel change in the interest rate on the Group's profits (accounting risk). In light of the insignificance of the yield curve risk, base risk and options risk in the Group, these risks are not measured and no limits have been set in respect of them. The Group considers the need for measurement and the placement of limits in the event that the level of the risk changes and at least once a year. The head of the Finance Department in the parent company has the authority to execute full or partial hedging of the risk. The Company has a restriction on the extent of the exposure as a percentage of the capital.

Index risks: The Group performs monthly measurement of the extent of the exposure to a change in the Consumer Prices Index. It is at the authority of the Head of the Finance Division to execute full or partial hedging of the risk. Since the Group's financial statements are reported in unlinked shekels, the Group does not have an exposure to the unlinked shekel segment. Accordingly, no measurement of the exposure on the unlinked shekel segment is performed. The Group has a restriction on the extent of the exposure as a percentage of the capital.

Cash flow exposure – The Group does not perform hedging for the cash flow exposure from currency risk in respect of operating activities because:

- The high level of uncertainty in the cash flows in foreign currency (most of which derive from payments/ receipts from international organizations, which are settled on the basis of turnover in a large number of different currencies);
- A lack of significance from the perspective of the Group's profitability;
- The large complexity involved in the execution of hedge accounting (without which the hedging will be presented as speculative from an accounting perspective;
- Not inconsiderable hedging costs and the numerous inputs that are required for the purpose of executing hedging.

Despite the aforesaid, taking cost-benefit considerations into account, the head of the Finance Division has the authority to execute specific hedging for foreign currency cash flows that are known in advance and are in a significant amount (such as: the purchase of a computer system). Partial or full hedging will be executed using approved financial instruments and subject to the restrictions in the policy document. The Group tests for preliminary signs, which might indicate an increase in the market risk by means of various indicators.

Accounting exposure in respect of the Group's balance sheets

The Company conducts quarterly measurement of the exposure in accordance with the data in the financial statements. In accordance with the state of the exposure, full or partial hedging is executed of the risk, using approved financial instruments and subject to the restrictions in the policy. The Group has a restriction on the extent of the exposure as a percentage of the capital.

Management and measurement of liquidity risk

In April 2018, the Banking Supervision Department published amendments to Proper Conduct of Banking Business Directive 470 ("Debit cards") and 221 ("Liquidity coverage ratio"). These amendments include the following changes:

A banking corporation will be required to transfer the monies in respect of the monthly charges on charge cards, which have been issued by it or which have been jointly issued by it and by the operating group for its customers no later than the time at which the operating group is required to transfer them to an acquirer for that month, without dependency on the identity of the acquirer;

Credit card companies will be exempt from complying with the liquidity requirements that are stated in Proper Conduct of Banking Business Directive 221, however they will be required to maintain an internal liquidity management model and to maintain liquid assets to cover their liquidity needs at all times;

The Group maintains an internal liquidity model for measuring the liquidity risk by means of a number of liquidity indices and restrictions, which have been determined by the Board of Directors. The model measures the liquidity ratio and the liquidity gap for the liquidity buffer opposite the net outgoing cash flows. The liquidity buffer includes various assumptions in accordance with its components and in accordance with the type of scenario in the model, the net outgoing cash flows include various assumptions regarding consumer behavior, which affect the total forecast cash flows during the period of the scenario. The liquidity model provides a response to the Group's liquidity needs in times of routine and in various extreme scenarios that are appropriate for the nature and the type of the Group's operations, whilst being based on a sufficient liquidity buffer.

In addition, the Group conducts measurements and has restrictions for additional quantitative indices for testing the liquidity risk and it is taking action to diversify the sources of financing. The restrictions that apply to the Group are in the aspect of the short-term and intermediate-term liquidity risk (a liquidity gap a positive liquidity ratio) and in the aspect of the long-term liquidity risk (the structure of the balance sheet). The management of the liquidity risk includes a financing plan for the Group, which defines the financing objective and the mix of sources of financing that are forecasted.

In July 2021, Directive 470 on the subject of *Daily acquisition*, within the framework of which the issues is obligated to transfer the monetary consideration for single payment transactions no later than one business day, entered force. Accordingly, the banking corporations are transferring the monthly charges at the same time.

As at the time of this report, the implementation of the directive has led to an improvement in the Group's liquidity state relative to the situation prior to the Directive's entry into effect.

The Group performs measurement for a set of indicators for identifying liquidity pressures.

The Group reduces the liquidity risk, inter alia by:

- Ensuring the existence of approved banking credit facilities, which are significantly larger than the Group's actual maximal utilization of credit in banks;
- Ensuring the existence of secured credit facilities/ a liquidity buffer;

- Examining the possibility for receiving non-banking financing from time to time in order to diversify the sources of financing;
- Diversifying the banking sources of financing by maintaining bank accounts in all of the large banks in Israel;
- The routine management of a cash flows management system;
- The maintenance of stables sources of financing such that the structure of the Group's balance sheet will support the management of the liquidity risk with a long-term vision.

  Every measurement in reliance on the results of which risk management decisions are made is also checked by the Risks Management Department.

  The Management Forum, in which, inter alia, the Chief Risks Officer, the Head of the Finance Division and the Chief Accountant participate, meets to manage the market and liquidity risks and to discuss, inter alia, the appropriateness and the reliability of the measurement tools, the models and the limits, for the measurement of the market and liquidity risks.

Sources of financing and the liquidity situation

The Group finances its operations primarily by means of: independent resources, shareholders' equity, secured credit facilities from banks, unsecured credit facilities from banks, short-term and long-term loans, and on-call type loans from various banks in Israel.

See the chapter on "Changes that have occurred recently or which may occur and affect the Company" which appears above, for details regarding the impact of the separation of the Group from Discount bank on the Group's sources of financing.

In each of the years 2023 and 2022, the percentage of the interest expenses on credit from banks, which is attributed to Discount Bank stood at 40% and at 37%, respectively.

In each of the years 2022 and 2021, the percentage of the interest expenses on credit from banks, which is attributed to the First International Bank stood at 15% and at 17%, respectively.

The Group monitors the liquidity situation daily and is in ongoing contact with the business managers in banks. As at the reporting date, the Group is in conformity with all of the liquidity indices and restrictions that have been defined by the Board of Directors.

The following are details regarding all of the Group's external sources of financing:

Identity of the lender	Type of credit	Extent of the liabilities in the balance sheet	General characteristics
Banking	Short-term	2,666	Utilization of short-erm credit from secured and unsecured facilities
	Long-term	1,104	Loans from banks

The following are details regarding the Company's secured and unsecured credit facilities:

	December 31, 2023	December 31, 2022
	In NIS millions	
Total secured credit facilities	6,160	5,560
Total unsecured credit facilities	3,610	3,760
Total secured credit facilities	9,770	9,520
Total utilization of monetary credit out of the secured facilities	2,030	1,776
Total utilization of monetary credit out of the unsecured facilities	1,740	1,446
Total utilization of monetary credit out of the facilities (secured and unsecured)	3,770	3,222

See Note 25 to the financial statements – Assets and liabilities in accordance with linkage bases.

See the Report on risks and the Basel third pillar for the year 2023 for detailed information regarding the liquidity risk in accordance with the third pillar disclosure requirements and additional information on risks.

The following are principal data regarding the balances of the Group's credit (in NIS millions)

	December 31, 2023			
	Linkage basis	Term of the facilities/loans	Balance in the balance sheet	Current maturities of loans
Total assured and un-assured credit facilities from banks (1)	Variable interest	Short	2,166	-
Loans	Fixed interest	Long	828	272
Loans	Variable interest	Long	280	-
Loans	Variable interest	Short	500	500

	December 31, 2022			
	Linkage basis	Term of the facilities/loans	Balance in the balance sheet	Current maturities of loans
Total assured and un-assured credit facilities from banks (1)	Variable interest	Short	2,066	-
Loans	Variable interest	Long	130	-
Loans	Fixed interest	Long	1,026	280

(1) Including current account facilities in an insignificant extent.

Operational risk

Operational risk is risk of a loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events.

There are situations in which as a result of the realization of an operational risk, other risks, which are part of the types of risk, are realized. Operational risk is inherent in all the Company’s business lines, products, systems and work processes.

The Group operates in accordance with Proper Conduct of Banking Business Directives on the subject of operational risk, whilst maintaining appropriate corporate governance supporting risk. The operational risks management policy defines principles for the management of operational risks in all units in the Company, with the objective of ensuring the effectiveness of the management, the auditing and the control of the significant risks that are inherent in all of the types of activities, processes, products, systems and business lines.

The various divisions take operational risks upon themselves as an integral part of their operating activities. Accordingly, the divisional heads are responsible for the management of the operational risks in their divisions.

The Risks Management Department constitutes a second line of defense and is responsible for the independent management of the operational risks, including the formulation of the risks management policies, the methodology that has been formulated by the parent company has been adopted by the Group, tolls and systems for managing the identification, assessments and risks analysis processes, and the assessment of the effectiveness of the controls.

Divisional risks controllers have been appointed in every division, in coordination with the Risks Management Divisions, who assist the Divisional Manager to manage the risks and perform corporate governance tasks.

A survey of operational risks is performed by the Risks Management Division one every three years or over a period of three years, with the assistance of the divisional risks controllers and under professional guidance from the Overall Risks Management Department.

Within the context of the survey, the work processes in the relevant unit are identified and a reexamination is made of the mapping of the risks, for the purpose of updating them as a result of exposure to new operational risks, changes in the characteristics of the risks that have been defined and/or the realization of operational risks and other risks. Further to the identification of the risks, an assessment is made of the root level of the risk and the residual level for each risk.

The assessment of the risks is performed in accordance with an orderly methodology, which relates to the assessment of the exposure to the risk, in accordance with the expert's assessment, with experience that has accumulated in respect of itn including the impact of the findings of audit reports, failure events and the results of the measurement of indicators for risk, and including relating to structured risk and residual risk, taking the effectiveness of the control that is implemented in relation to the operational risk into account. The responsibility for identifying and assessing the operational risk applies to the Manager of the focus of the risk and the Risks Management Division has the authority to decide within the framework of the challenging and validation of the mapping of the Group risks.

A process of identifying operations risks is also performed in the Group as a matter of routine and in particular, where there is a change in the existing work processes, a change in the organizational structure, when new products and activities are launched as well as within the context of investigating default events.

<u>The formulation of programs for reducing significant risks</u>

A risks reduction program is formulated pursuant to the methodology for identifying and assessing risks, with an order of priorities being set for handling in accordance with cost-benefit considerations that relate to two situations:

- Risks that can be reduced: the addition of new controls (recommended controls), the improvement of existing controls, an improvement in the work processes, the addition and refreshment of procedures and training.
- Significant risks that cannot be reduced: routine, focused monitoring is to be conducted in respect of significant risks that cannot be reduced, and there is to be periodic examination at least once a quarter.

  Furthermore, the Manager of the focus of the risk can recommend the cessation of activity in which there is significant risk, which cannot be reduced.

Reporting and investigation of lesson-learning events

Within the framework of the Group's business activity, a failure event may occur, which would require reporting and investigation so that lessons can be learned which forms part of the optimal management of the operational risks that is inherent in all of the products, the operations, the processes and the systems, and in accordance with the directives issued by the Bank of Israel.

Lesson-learning events and operational risk studies are fed into the designated data system for operational risk management to create an overall picture of the level of operational risk within the Group.

Risks of fraud

The Company's operations expose it to damages caused by various types of fraud.

The inherent risk of fraud has been in an upwards trend in recent years in general and in the banking system and in the Group in particular, as a result of the growing use of digital wallets, on-line transactions (without a card being present), phishing, impersonation and etcetera.

The Fraud Risks Management Department in the Risks Management Division is responsible for the management and hedging of the exposure to fraud both on the aspect of the credit card and also on the aspect of acquiring in merchants and the minimization of the damages that are inherent in fraud in this activity.

In the credit cards aspect, there are risks fraud, which include, inter alia: theft, forgery, the use of card numbers by someone who does not hold the card in online transactions, identity theft, phishing for the registration of a wallet and for the execution of a secured transaction and etcetera. A monitoring center operates in the Group, which is manned 24 hours a day, seven days a week, which makes use of a fraud prevention system for monitoring transactions that are executed on the Group's credit cards in Israel and abroad. The system blocks transactions and cards where there is a suspicion of fraud in real time, by means of business rules and a statistical model, which are embedded in the frauds prevention system.

In the acquiring aspect, there are risks, which include, inter alia: cooperation by merchants with criminals, the use by a merchant of a credit card belonging to a customer for their personal benefit, defrauding of customers such as the transfer of a card without the customer's authorization from one merchant to another, illegal activity in electronic trading and etcetera. The Group monitors the acquiring activity for merchants and where merchants are found to be involved in fraud vis-à-vis the Group and/or vis-à-vis the cardholders, are disconnected from the acquiring system. In the event of the seepage of information from a business that is acquired by the Group, the Fraud Risks Management Department takes immediate action to hedge the population.

For additional information on operational risk, see the report on the Basel third pillar disclosure and additional information on risk on the Group's Hebrew website:

Information technology, data protection and cyber risks

Information technology risks

Information technology risks are defined as operational risks that apply to information systems and which derive from an entity's use or the absence of its use of information technology or from the entity's dependence in the information technology system. These risks are divided into two reference groups: cross-organizational and infrastructure risks, including information security and cyber risks, which have consequences for all the organization’s systems (operational risk in IT systems) and risks that apply to specific information technology systems (business systems and infrastructure systems), in respect of the business process supported by them.

Information security and cyber protection risks – risks relating to an event in the course of which an attack is made on computer systems and/or computer based infrastructure systems, by external or internal persons. The occurrence of a cyber-event could disrupt the proper functioning of the Group and cause various types of damages, such as preventing the provision of service, the exposure of information, the deletion and disruption of data, a loss in the public's trust and impairment of the Group's image and reputation.

Out of an understanding that the cyber risks derive primarily from the vulnerability of the information systems and the computer infrastructures to internal or external attacks and from careless activity by users of the information system and the computer infrastructures. The management of the risks focusses on improving awareness and educating the used to behave sensibly in the cyberspace, control and monitoring of users' activity, the management of cyber risks in the supply chain and it also focuses on the information systems that support the Group's work processes, operations and products.

Cyberspace relates to all the systems, communications networks and databases that contain, inter alia, data that is crucial to the Group, the possibilities for direct action through the Group's information technology systems and the operational systems that support the activities of the Group, all of which are independent of the geographical location of those who have access thereto.

The Group realized the information security objectives through the implementation of a series of protection and control measures, extending from the policy and procedures, through determination of spheres of responsibility and authority, installation of protective technology, culminating with the monitoring, and handling of security events. Moreover, the Group conducts cyber-attack exercises in order to test the robustness of the controls.

The data protection reviews and penetration testing of the Group's systems are undertaken by independent external companies that specialize in the fields of data protection and information technology risks. The frequency for conducting a study is determined in accordance with how critical the system is and the risk inherent therein and ion accordance with the regulations and binding agreements. In addition, the Group holds exercises that contend with cyber-attacks as an integral part of its operational routine.

The cyber risk is growing in light of advanced, sophisticated threats and there is a perpetual increase in attempts at cyber fraud (phishing and impersonation). The Group is continuing to implement tools in order to improve the processes in the cyber field, whilst pro-actively identifying and neutralizing cyber threats. See the "Basel third pillar disclosure and additional information on risks" report on the Group's Hebrew website for additional information on the operational risk.

Other risks

Compliance risks including the prohibition of money laundering and/or the financing of terrorism

Compliance risks – Compliance risk is the risk of the imposition of legal or regulatory sanctions, of a significant financial loss or damage to the image, which an entity may incur as a result of non-fulfillment of the compliance directive and/or finance and conduct values, which apply to the entity's operations. By virtue of Proper Conduct of Banking Business Directive 308, a banking corporation or to manage the compliance risk that applies to it by virtue of laws, regulations, orders, directives and circulars, which arrange its operations.

The Group has instituted an organizational structure that supports the management of this risk, the objective of which is to manage the risk on three lines of defense – from the business lines to the internal audit function. The management of the risk is done within a close interface with the Legal Counsel Division and pursuant to the compliance risk management policy, which is approved by the Board of Directors once a year.

The Group has a tapestry of supporting infrastructures, including policy documents, procedures, supporting systems, training sessions, study materials and professional conferences. Each of these help in the management of the compliance risk, in embedding an advanced compliance culture, values of fairness and decency, and in reducing the exposure to a breach of the provisions of the law. This tapestry covers all of the Group's employees.

The Chief Compliance Officer, together with others involved in the compliance function and the compliance trustees assist the management to fulfill its obligation to manage the compliance risk and to reduce the possibility of this risk being realized.

Money laundering and/or the financing of terrorism risk – Prohibition of money laundering and financing of terrorism risk is the risk of the imposition of a financial penalty and/or criminal liability on the corporation and on the officers therein and/or damage to the Company's reputation and/or the damaging of its connections with other financial institutions, in light of non-compliance with the provisions of the law and the regulations that apply to the Company, which deal with the prohibition of the financing of terrorism and the prohibition of money laundering.

As part of the management of this risk, the Compliance Officer, who is responsible for the fulfillment of the Company's duties under the force of the prohibition of money laundering laws, leads processes to strengthen the control environment, whose role is to reduce the risk of the Company being exploited for money laundering and the financing of terrorism. This control environment is comprise of an array of defense lines in the organization, including:

- The business lines, which form the first line of defense, which undergo professional training in the field. In addition, compliance trustees operate, who serve as a focus of knowledge operate in the business lines and they exercise controls and maintain a tight interface with the staff in the Prohibition of Money Laundering Department.
- The Prohibition of Money Laundering Department forms the second line of defense and its role is to assess, measure and monitor the risk. The department takes action to perpetually improve the control environment and the computerized infrastructures in it, including updating policy documents and procedures, support systems, conducting training, reports to the authorized authorities, monitoring developments in the risk, including monitoring updates to regulations and the exposure deriving from new products and activities.
- An orderly work interface with the Internal Audit Function and the Legal Counsel, all of which is performed in accordance with the prohibition of money laundering and financing of terrorism policy, which has been approved by the Board of Directors.

Legal and regulatory risks

L**egal risk** forms part of the operational risk, which is defined as a risk of loss a of income or business damage, inter alia, as a result of the absence of the possibility of legally enforcing compliance with an agreement or from a lack of knowledge of the provisions of the law or the erroneous interpretation thereof, including primary or secondary legislation, directives issued by regulatory authorities and etcetera, which require the Group to operate in accordance with it, or from an exposure to legal proceedings against the Group, against any of its employees or its officers. Legal risk includes, inter alia, exposure to fines or penalties as a result of supervisory enforcement activities, as well as from individual arrangements. The legal risk includes regulatory risk deriving from changes in legislation and various regulatory developments in the field of case law, standards and legislation, under which duties are imposed upon the Group.

Regulatory risk is risk deriving, inter alia, from the non-implementation or the faulty implementation of various regulatory provisions, under which duties are imposed upon the Group. The Group has a Group-wide legal risks management policy, which has been adapted to the parent company's policy, which is updated once a year and which is approved by the Board of Directors. The persons that are involved in the management of the risk, who are, inter alia, the Chief Legal Counsel, who serves as the Chief Legal Risks Officer and who is responsible for the management of these risks in the Group, are defined within the context of the legal risks management policy. The responsibility for the implementation of the directives and the instructions issued by the Chief Legal Counsel and the Legal Counsel Division, on everything that is stated in the risks management policy, applies to all of the members of the management in their fields of responsibility.

Within the context of the management of the legal risks, the Group acts to collect and to concentrate information in connection with legal risks, including information in respect of a change in legislation and/or updates to case law, having a significant impact on the Group's operations, and it also monitors significant lawsuits and legal proceedings in which the Group is involved.

Within this context, routine monitoring is conducted of changes in the law and regulations, having a significant impact on the Group's operations, in order to prepare for the implementation thereof and to reduce the impact that might derive from non-compliance therewith.

Risk factors table

This table refers to the assessment of risks at the Group level, as approved by the Group's Board of Directors and management in the ICAAP process for the year 2023. The assessment of the risks and their impact, as presented in the table below, is therefore a subjective assessment by the Group's Management. For the purpose of this assessment, the impact of the risks was defined, including by weighting the likelihood of their realization, as follows:

- The impact has been defined as high if its realization could materially harm the Group's operations;
- The impact has been defined as medium if its realization could harm the Group's business goals;
- The impact has been defined as low if its realization could only harm the Group's business results to an immaterial extent.

Risk factors	Impact of the risk	Description of the risk
1. Overall impact of credit risks	Intermediate - high	Risk of the incurring of losses as a result of the inability of a borrower or a counter party to meet their obligations, whether partially or wholly, vis-à-vis the Group and subject to the terms that have been agreed. The Group mitigates this risk by means of the implementation of the requirements of the Proper Conduct of Banking Business Directive on the subject of the management of credit risks, by setting a credit and credit risk management policy, including exposure limits that relate, inter alia, to borrower types, operating segments, collateral, credit controls and a process involving the receipt of a second opinion.
2. Overall impact of market risks	Low - intermediate	Risk of damage to the Group's equity deriving from changes in the interest rates, exchange rates, inflation prices of securities and similar factors. The Group's exposure derives primarily from the exposure to interest and that basis in the Group's banking portfolio.
3. Liquidity risk	Low-intermediate	Risk to the Group's profits and capital deriving from the inability to provide its liquidity needs. This risk includes the risk that the Group will not be able to meet its payment commitment as they fall due and the risk that any crisis whatsoever would cause banks to refuse exceptionally to provide credit to the Group.
4. Operational risk	Intermediate - high	The risk of a loss as a result of the inappropriateness or the failure of internal processes, persons and systems or as a result of external events. There are situations in which as a results of the realization of an operational risks, other risks are realized out of the array of the types of risk. The operational risk is inherent in all of the Group's products, operations, processes and system. The Group routinely examines both the exposure to operational risk and the events that have occurred, it implements controls over the various processes and it takes action to ensure operational continuity. The Group takes action to map and fully quantify all of the operational risks.

Risk factors	Impact of the risk	Description of the risk
5. Legal, legislative and regulatory risk	Intermediate	Risk of a loss from loss of earnings or business-related damage, inter alia, as a result of the absence of the possibility of legally enforcing compliance with an agreement or from a lack of knowledge of the provisions of the law or erroneous interpretation thereof, including primary and secondary legislation, directives from supervisory authorities and etcetera, the Group's obligation to operate in accordance with them or from the exposure to legal proceedings against the Group and against any of its employees or its officers. The legal risk includes, inter alia, exposure to fines or to punitive measures, as a result of supervisory enforcement action, as well as specific arrangements and so on. The legal risk includes regulatory risk deriving from changes in legislation and various regulatory developments in the field of case law regulations and legislation, under which duties are imposed upon the Group. In the Group's assessment, its monitoring of anticipated legislation changes and its preparedness for their implementation mitigate this risk.
6. Reputational risk	Intermediate	Risk of significant and ongoing harm to the Group's business and its financial resilience, resulting from damage to its image following the publication of various matters, whether intentional or erroneous, that have arisen for it among the Group's customers, employees, suppliers, related parties shareholders and investors (existing or potential) and supervisory bodies. The Group strives to mitigate this risk by means of implementing a reputational risk management policy at the Group, monitoring risk indicators and, in addition, through regular supervision and control over the implementation of directives and procedures vis-à-vis customers, suppliers and employees.
7. Information technology risk, including information	Intermediate - high	Risks deriving from the use or the non-use of information technology in a corporation, from the corporation's dependency thereon, including the non-performance of adjustments for changes in the business environment. These risks are divided into two attribution groups: cross-organizational and infrastructure risks (ITGC and information security risks), that have implications on all of the organization's systems, and risks that apply to specific systems and infrastructures, opposite the business process that is supported by them. The Group regularly examines both its exposure to risk and it applies controls over the various processes and strives to ensure its survivability and recovery capabilities. The Group takes action to fully map and quantify all of the information technology risks and to perform penetration testing and cybernetic risk studies.
8. Cyber risk	Intermediate-high	Risk that derives from an event, in the course of which an attack is made on computer systems and/or computer based infrastructure systems by external or internal parties. The realization of a cyber risk could disrupt the Group's orderly functioning and cause various damages such as the prevention of service, exposure of information, the deletion and disruption of data, a decrease in the public's trust and damage to the Group's image

			and reputation. The Group acts to conduct penetration checks and surveys of information security risks.
Risk factors		Impact of the risk	Description of the risk
9.	Strategic risk	Intermediate-high	Business risk arising both in respect of an act (such as erroneous business decisions or improper implementation) or in respect of an omission (such as the absence of a response to changes in competition), the occurrence of which might lead to significant non-meeting of the targets in the Company's strategic plan over time and even prevent the Company from retaining its status as a relevant and significant player in the credit cards and non-banking credit market.
10.	Compliance risk	Intermediate-high	Risk of non-compliance with regulatory directives and rules (including fairness aspects), the realization of which might lead to the imposition of sanctions or the incurring of a financial loss (as a result of a class action, the imposition of fines or penalties and similar issues) and/or damage to reputation. The compliance risk is typified by meeting points with operational risk, legal risk and risk to reputation.
11.	Money laundering risk	Intermediate	The risk of losses and damage, which are sourced in transgressions that are connected to the Law for the Prohibition of Money Laundering and the Fighting Terrorism Law and non-compliance with the provisions the Prohibition of Money Laundering Order, which applies to the operations of banking corporations and the provisions of Proper Conduct of Banking Business 411 as well as the exploitation of the Company by a third party for financing or execution of illegal activity. The realization of the risk gives rise to exposure to financial penalties, the imposition of criminal responsibility on the Company and on senior officers and risks to reputation, with significant implications.
12.	Modelling risk	Intermediate - high	The growing emphasis on digital banking, together with an increase in customers' expectations for maximizing value, for insights and appropriate products, which are available and immediate, lead to organizations in general and the banking system in particular have become more and more based on data and models, which has included the embedding of advanced artificial intelligence and machine learning based models. These aspects create developing challenges, both in the field of the development of models and also in the fields of validation and management of modelling risk. The Group takes action, pursuant to a multi-year work plan, to develop models and to improve the tools and the methodologies, which support the management of modelling risks, continuously.

Critical Accounting Policy and Assessments, Controls and Procedures

Accounting policies on critical matters

The Company's financial statements are prepared in accordance with the policies that are detailed in Note 2 to the financial statements.

The level of financial reporting regulations for banking corporations is among the highest in the financial reporting sphere in Israel. The directives and guidelines of the Supervisor of Banks are comprehensive and detailed and sometimes go as far as to dictate the actual wording the banking corporation is to use in implementing them. Nevertheless, there are areas where the implementation of the accounting policy is subject to a considerable degree of assessment and estimation, which is performed by the management of the banking corporation during the process of preparing the financial statements.

The implementation of generally accepted accounting principles and the directives and guidelines of the Supervisor of Banks by the Company's Management may thus sometimes require making various assumptions, assessments and estimates that affect the reported amounts of the Company's assets and liabilities, including contingent liabilities, and its reported financial results. Such assessments and estimates may differ in practice from those used when preparing the financial statements.

Some of the estimates and assessments used entail considerable uncertainty or sensitivity to various variables. Such estimates and assessments, a change in which could have a material effect on the financial results presented in the financial statements, are deemed estimates and assessments on "critical" matters.

The Company's Management believes that the estimates and assessments used in preparing the financial statements are reasonable and were made to the best of its knowledge and professional judgment.

Critical accounting assessments

A. Allowance for credit losses

Since January 2023, the Company has been implementing the Supervisor of Banks' directives, which require the implementation in full of generally accepted accounting principles in banks in the USA regarding allowances for expected credit losses (CECL), as described in Section C to Note 2 to the financial statements – Reporting principles and principal accounting policies.

Pursuant to the new principles, the allowance for credit losses is calculated in accordance with the expected loss over the entire lifetime of the credit. Significant use is made of forward looking information, which reflects reasonable forecasts, which are supported, regarding future economic events, wen estimating the allowance for credit losses. This estimate of the future losses is prepared in accordance with the methodology and the models that the Company has developed.

This process is based on significant estimates, which have inherent uncertainty, and on subjective assessments. Accordingly, changes in the aforesaid estimates or assessments might have a material effect on the allowance for credit losses presented in the Company's financial statements.

The Company tests the overall fairness of the allowance for credit losses. Such assessment of the fairness is based on the exercise of judgment by the management, which, inter alia, takes the assessment methods that are implemented in the determination of the allowance into account.

See Section 2B(4) of Note 2 to the financial statements – Reporting principles and principal accounting policies for details regarding the accounting policy. See Note 11 to the financial statements – Receivables for activity on credit cards and the allowance for credit losses for details regarding the credit and the quality thereof. See the section on "Structure and development of the assets, liabilities, equity and capital adequacy", which appears above, for details regarding the overall credit risk at the Group's responsibility for troubled borrowers.

The working assumptions, which have been used in the determination of the collective allowance. Use is made of orderly methodology, which makes a connection between the macro indices and the Company's economic losses within the framework of the calculation of the collective allowance for credit losses and also within the framework of the processes that the Company performs for the purpose of allocating capital and extreme scenarios. This is based on a formula, which is supported by a long-term statistical correlation between the Company's allowances and the macro indices. This methodology is used also for performing sensitivity tests on the collective allowance (see below). The Company has analyzed the impact of macro-economic factors, primarily unemployment and GDP, on the loss, within the framework of these tests. The working assumptions have taken the deterioration, which may derive from the outbreak of the "Swords of Iron" into account.

The bases scenarios that the Company has used are based on data from the Bank of Israel, pursuant to which the unemployment rate will stand at 3% and growth in GDP is expected to stand at 3.5% in the GDP in the coming year (2024). The Company has given weight to additional scenarios in order to reflect the geo-political risks deriving from the outbreak of the war.

Sensitivity tests. The sensitivity tests are intended to give quantitative expression to the impact of changes in the working assumptions, which have been presented above, on the estimation of the collective allowance. The sensitivity analysis is presented in relation to the impact of fixed, hypothetical changes in the abovementioned working assumptions.

In the Company's assessment, an increase of 1% in the unemployment rate and a 1% decrease in GDP (would cause an increase of approximately NIS 7 million in the collective allowance. A decrease of 1% in the unemployment rate and additional growth of 1% in GDP would cause a decrease of approximately NIS 7 million in the collective allowance.

It should be emphasized that the allowance is actually affected by numerous different variables, both sectoral and macro-economic, and by subjective assessments. Moreover, sensitivity tests are intended for testing changes in, common and normal situations of reality and their validity is reduced in situations of severe uncertainty, such as a war. In light of the aforesaid, the ability to foresee the calculation of the allowance that will actually be required on the assumption of the economic parameters at the rates that are mentioned above, is limited. It should also be emphasized that these impacts are not linear and accordingly it is not possible to derive the impact that a change in one of the main economic parameters that are mentioned above from the assessments that are presented above.

It should be mentioned in this connection that the basis assumption in relation to the security situation is a state of war of high intensity over several months and wide ground maneuvers on the Southern front and relatively low intensity security events on the Northern border. The significant extension of the length of the war and/or the development of a multi-front conflict may require the reassessment of the working assumptions.

It should be emphasized further that in the absence of a defined and uniform model for assessing the collective allowance that is required in the circumstances that are described above and in light of the fact that in the circumstances in hand the process of the determination of the allowance involves the use of subjective estimates and assumptions, extra care should be taken when examining the sensitivity tests, which are presented above and in making a comparison between the credit companies and the banks on this matter.

B. Contingent liabilities and law suits

Legal actions on various issues, including class actions and petitions to certify claims as class actions, are pending and in process against the Company and its subsidiaries.

The accounting treatment of contingencies is implemented in accordance with the American Standard FAS 5, *Accounting for Contingencies*, and its related guidelines, and in accordance with the guidelines and clarifications of the Banking Supervision Department, including the Reporting to the Public Directive, *Accounting for Pending Claims*. In assessing the required allowance, it is necessary to examine the probability of a loss and to assess its amount.

These evaluations affect both the actual obligation of having to create an allowance in respect of the claim and the manner and scope of the disclosure in the financial statements.

The US Standard prescribes that, if the risk cannot be assessed, no allowance should be created in respect thereto, but the matter should be disclosed if it might be material.

For the purpose of assessing possible losses as a result of the claims filed against the Company, the Company's Management relies on opinions of the legal counsel representing them in these matters. By their nature, such opinions are subjective and face objective evaluation difficulties. These difficulties become immensely greater when dealing with class actions. Accordingly, it is possible that the actual results of some of the claims will be different from those estimated based on the opinions of the legal counsel. In view of the scope of the actions pending against the Company, it may transpire that the non-materialization of such estimates would have a significant effect on its financial results. The Company's Management examines the claims once every quarter and update, where necessary, the provisions created therefore in the light of developments.

The Reporting to the Public Directive, *Accounting for Pending Claims*, prescribes that, in evaluating the pending legal actions, the management of a banking corporation is to rely on the opinions of its legal counsel, which should determine the probability of the exposure to the risk involved in such actions materializing.

The claims have been classified according to the probability range of the risk exposures materializing, as set forth in Note 2B(14) to the financial statements. The financial statements include appropriate provisions for claims in respect of which the probability of materialization of the related risk exposure is evaluated as "probable".

The disclosure in the financial statements regarding the material legal proceedings being conducted against the Company is presented according to the criteria set forth in Note 2B(14) to the financial statements. In addition, in Note 23 to the financial statements, a disclosure is presented regarding the total exposure in respect of claims that are evaluated as being, wholly or partly (for the relevant part), "reasonably possible".

The Company is exposed to demands/unasserted claims, with this being, inter alia, when doubt exists concerning the interpretation of an agreement/legal provision and/or the manner of its implementation. This exposure is brought to the Company's attention in a number of ways, including: by means of communications or complaints from third parties to parties within the Company.

In assessing the risk arising from demands or unasserted claims, the Company relies on the assessments of the internal parties dealing with the matter and of Management, as well as of the Company's legal counsel, weighting the assessment for the prospects of the claim being filed, for the prospects of the claim succeeding (if it should in fact be filed) and for compromise settlement payments if such should arise. The assessment is based on the experience gained in relation to the filing of claims and on an analysis of the merits of the demands. Due to the nature of this matter and in light of the preliminary stage reached in examining the legal argument, the actual outcome could be different from the assessment made at the stage prior to the claim being filed.

C. Employee rights

The Company implements US accounting principles on the subject of employee rights. Within this framework, inter alia, the Company recognizes amounts relating to pension and severance plans and other post-retirement plans based on computations that include actuarial and other assumptions, as detailed below: For additional details regarding the implementation of US accounting principles relating to employee rights, see Note 2B(13) to the financial statements regarding accounting principles and principal accounting policies.

Calculation of the capitalization coefficient. The discount rate in respect of employee benefits is calculated based on the yield on Israeli government debentures with the addition of an average spread on AA and above (international) rating of corporate debentures as at the reporting date. For practical reasons, it has been determined that the spread will be fixed according to the difference between the rates of the yield to maturity, according to periods to maturity, on corporate debentures in the US with an AA and above rating, and the rates of yield to maturity, for the same periods to maturity, on US government debentures, and all as at the reporting date.

Certain aspects regarding the implementation of the accounting policy on actuarial matters. The use of actuarial computations requires use of statistical tools and assessments regarding the future.

The actuarial computation is based on several parameters, including: life expectancy, age of employees retiring prior to pensionable retirement age, the rate of increase in the nominal salary anticipated (5% a year) and the discount rate. These parameters were determined, inter alia, based on forecasts prepared by the actuary and the experience accumulated in the Company. The actuarial computation is based on a computed discount rate, as detailed above. The computation is also based on the average retirement rates, according to age categories, in accordance with actual retirement rates in the past. In addition, the implementation of the accounting policy on actuarial issues involves assessments and judgment concerning the following:

- The definition of the yield to maturity of Israeli government debentures relevant to determining the discount rate, taking into consideration, among other things, the duration of the liability in respect of which the actuarial computation is prepared;
- The definition of the spread to be added to the aforementioned base yield, as estimated for the degree of risk, will be based on relevant US securities data, as defined in the directive (see above);

The forecast return on the plan assets is required to be assessed each year for the following year. The difference between the computation based on the last assumption of return and that based on the actual return in the reported period, will be included in other comprehensive income and recognized in the statement of profit and loss in accordance with the assessed average period of service. (Regarding this, it should be noted that the format of this treatment may result in certain fluctuations in the reported annual profit, including in respect of changes in the assessment of the average service period)

Long service (Jubilee) awards and post-retirement benefits. Some employees of the Company are entitled to long-service awards ("**Jubilee awards**") in a fixed amount, at the end of 10, 20, 30 and 40 years of employment with the Company. These liabilities depend on several conditions that have to materialize in the future. In accordance with the directives issued by the Supervisor of Banks, the Company is required to base the provision for these liabilities on an actuarial computation and to present it at present value. The actuarial computation is based on the parameters referred to above.

D. Provision for bonuses for meeting targets

The Company has commitments under agreements with various business partners, some of which include a bonus component, which are dependent upon meeting long-term performance targets. The forecasting of the probability of the meeting of many of the targets is performed in accordance with the best estimates that the Company has at the time of the publication of the report. As a result of the limitations that are inherent in the making of these estimates, which derive primarily from the lengthy periods of time between the time of the publication of the financial statements and the time set for the issue of the determination of the meeting of the target, differences may arise between the expected payments of the bonuses, as determined at the time of the preparation of the financial statements and the actual payment.

E. Testing for impairment in value of non-financial assets

From time to time, the Company's management tests whether circumstances exist that require the recording of a provision for impairment in value of non-financial assets, which are owned by the Company. Such an assessment, by its very nature, involves assumptions and estimates that may be seen to be distorted in hindsight.

Impairment in the value of self-development costs of computer software. Testing for impairment in value for self-development costs of computer software will also be performed if signs exist that have been mentioned in generally accepted accounting principles for banks in the United Stated. See Section D(10) of Note 2 – Reporting principles and principal accounting policies for additional details regarding such signs.

Controls and procedures

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Act of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.

In order to establish these declarations, the Company - with outside assistance - has examined the principal processes of production and delivery of information related to the financial statements by the Company's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formulated, and have been absorbed in the work processes.

Proper Conduct of Banking Business Directive 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive 309, in the spirit of Section 404 of the Sarbanes-Oxley Act of 2002, which requires the Company's Management to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.

In 2023, the Company has conducted a process of validation and updating of existing processes and effectiveness testing of the system of internal control over financial reporting, by means of the SOX Unit that operates within the framework of the Accounting Division.

Based on the findings of the aforementioned effectiveness testing of internal control, the Company's Management, together with the Chief Executive Officer and the Chief Accountant, has evaluated the effectiveness of the controls in the reported period over the Company's financial reporting.

Based on this evaluation, the Company's Chief Executive Officer and its Chief Accountant have arrived at the conclusion that, at the end of the reported period, the controls and procedures regarding the Company's financial reporting are effective in order to: record, process, summarize and report the information included in the annual financial statements, in accordance with the Public Reporting Directives of the Supervisor of Banks and on the date prescribed by those directives.

Changes in the internal control

During the fourth quarter that ended on December 31, 2022, no change occurred in the Company's internal control over financial reporting that materially affected, or that might reasonably have been expected to affect the Company's internal control over financial reporting materially.

Barak Nardi	**Levy Halevy**
Chairperson of the Board of Directors	**Chief Executive Officer**

March 7, 2024

Certification by the Chief Executive Officer

I, Levy Halevy, certify that:

1. I have reviewed the annual report of Israel Credit Cards Ltd. (the "Company") for 2023 (the "Report”).
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading in respect of the period covered by the Report.
3. Based on my knowledge, the annual financial statements and other financial information included in the Report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the Company as at and for the periods presented in the Report.
4. I and other persons in the Company making this certification are responsible for establishing and maintaining controls and procedures regarding the Company's disclosure and internal control over financial reporting, and have accordingly:
   a) Established such controls and procedures, or caused such controls and procedures to be established under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within the Company and those entities, particularly during the period of preparing the Report;
   b) Established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   c) Evaluated the effectiveness of the Bank’s controls and procedures and presented in the Report our conclusions regarding the effectiveness of the controls and procedures, as at the end of the period covered by the Report based on such evaluation; and
   d) Disclosed in the Report any change in the Company’s internal control over financial reporting that occurred in the fourth quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.
5. I and other persons in the Company making the statement have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
   a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Nothing in the aforesaid detracts from my responsibility or from the responsibility of any other person under any law

March 7, 2024

Levy Halevy
Chief Executive Officer

Certification by the Chief Accountant

I, Shaul Mizrachi, certify that:

1. I have reviewed the annual report of Israel Credit Cards Ltd. (the "Company") for 2023 (the "Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading in respect of the period covered by the Report.
3. Based on my knowledge, the annual financial statements and other financial information included in the Report fairly present, in all material respects, the financial position, results of operations, changes in equity and cash flows of the Company as at and for the periods presented in the Report.
4. I and other persons in the Company making this certification are responsible for establishing and maintaining controls and procedures regarding the Company's disclosure and internal control over financial reporting, and have accordingly:
   a) Established such controls and procedures, or caused such controls and procedures to be established under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within the Company and those entities, particularly during the period of preparing the Report;
   b) Established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   c) Evaluated the effectiveness of the Bank's controls and procedures and presented in the Report our conclusions regarding the effectiveness of the controls and procedures, as at the end of the period covered by the Report based on such evaluation; and
   d) Disclosed in the Report any change in the Company's internal control over financial reporting that occurred in the fourth quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
5. I and other persons in the Company making the statement have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
   a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Nothing in the aforesaid detracts from my responsibility or from the responsibility of any other person under any law.

March 7, 2024

Shaul Mizrahi
Vice President, Chief Accountant

Board of Directors and Management Report on the Internal Control over Financial Reporting

The Board of Directors and Management of Israel Credit Cards Ltd. (the "Company") are responsible for establishing and maintaining effective internal control over financial reporting (as defined in the Public Reporting Directives regarding "The Report of the Board of Directors"). The Company's internal control system has been designed to provide reasonable assurance to the Board of Directors and Management of the Company regarding the preparation and the fair presentation of financial statements published in accordance with generally accepted accounting principles in Israel and with the directives and guidelines of the Supervisor of Banks. Regardless of the quality of their level of design, all internal control systems have inherent limitations. Therefore, even if these systems are determined to be effective, they can only provide a reasonable degree of assurance regarding the preparation and presentation of a financial report.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls that is intended to ensure that transactions are made in accordance with Management authorizations, assets are protected and the accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, takes the necessary actions to ensure that communication and information channels are effective and monitor performance, including the performance of internal control procedures.

Management of the Company, under the supervision of the Board of Directors, evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2023, based on the criteria set forth in the Internal Control Model of the Committee Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, Management believes that as at December 31, 2023, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2021 has been audited by the Company's auditors, Messrs. Somekh Chaikin, as stated in their report presented on page 103, which includes an unqualified opinion regarding the effectiveness of the Company's internal control over financial reporting as at December 31, 2023.

Barak Nardi **Chairperson of the Board of Directors**	**Levy Halevy** **Chief Executive Officer**	**Shaul Mizrahi** **Vice President, Chief Accountant**

Date of the approval of the report: March 7, 2024.

FINANCIAL REPORT

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Report of the Independent Auditors to the Shareholders of Israel Credit Cards Ltd. - In Accordance with the Public Reporting Directives of the Supervisor of Banks Regarding Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Israel Credit Cards Ltd. and subsidiaries (collectively, “the Company”) as at December 31, 2023, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Company’s Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors’ and Management’s reports on internal control over the attached financial reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audits in accordance with the standards of the United States Public Company Accounting Oversight Board (PCAOB), regarding audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The internal control of a credit card company over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks. The internal control of a credit card company over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company’s assets (including disposal thereof); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks, and that the Company’s receipts and expenditures are being made only in accordance with the authorizations of the Company’s Management and Directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including disposal) of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2023, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We also have audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of credit card companies as determined by directives and guidelines of the Supervisor of Banks, the consolidated financial statements of the Company as at December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023, and our report, dated March 7, 2023, expressed an unqualified opinion on these financial statements as well as a referral, drawing attention to the contents of Note 22B to the financial statements regarding contingent liabilities.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 7, 2024

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Report of the Independent Auditors to the Shareholders of Israel Credit Cards Ltd. - Annual Financial Statements

We have audited the attached balance sheets of Israel Credit Cards Ltd. ("the Company") as at December 31, 2023 and 2022 and the consolidated balance sheets as at the same dates and the statements of profit and loss, statements of comprehensive income, statements of changes in equity and statements of cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2022. 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 did not audit the financial statements of an associate, the investment in which amounts to NIS 7 million and NIS 11 million as at December 31, 2023 and 2022, respectively. The financial statements of the aforesaid company were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for that company, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973 and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance that 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 Company's Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as at December 31, 2023 and 2022, and the results of operations, the changes in equity and cash flows - of the Company and consolidated - for each of the three years in the period ended December 31, 2023, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we draw attention to that stated in Note 22B regarding petitions to certify certain claims as class actions against the Company.

We have also audited, in accordance with standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control over financial reporting of the Company as at December 31, 2022, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report, dated March 7, 2023, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Company.

Key audit matter

The key audit matters, which are set forth below, are matters that have been communicated, or which were required to be communicated to the Company's Board of Directors and which, in our professional judgment, were very material to the current period audit of the consolidated financial statements. These matters includes, inter alia, any matter that (1) Relates or may relate to accounts or disclosures that are material to the financial statements and (2) Involved especially challenging, subjective, or complex auditor judgment. A response to these matters is provided in the framework of our audit and the preparation of our opinion on the consolidated financial statements as a whole. Communication of these following matters does not change our opinion on the consolidated financial statements as a whole, and does not constitute a separate opinion on these matter or on the accounts or disclosures to which they relate.

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Collective allowance for credit losses

Why this matter is determined to be a key audit matter

As described in Notes 2 and 11 to the consolidated financial statements, the allowance for credit losses in respect of off balance sheet credit to the public in the Company's consolidated financial statements amounts to NIS 509 million as at December 31, 2023 and includes an allowance on a specific basis and a collective on a collective basis in respect of the credit risk.

In the process of the estimation of the allowance for credit losses, the Company assesses the expected loss in the credit portfolio. The loss assessment process is based on significant estimates, which involve uncertainty, as well as on subjective assessments.

Since January 1, 2023, the Company has been implementing generally accepted accounting principles in the USA on the subject of expected credit losses (ASC 326). An estimate of the expected credit losses over the lifetime of the credit is made in the calculation of provision on a collective basis, in accordance with credit rating based methodology and models (such as the probability of a default and a loss on the assumption of as default), within the framework of which the amount of the expected loss in the event of the realization of a default is estimated. The models are based, inter alia, on historical data and on additional adjustments for the purpose of forecasting the expected credit losses. The determination of the estimates in the models, including the methodology, the assumptions and the data as well as the determination of additional adjustments involve the exercise of significant judgment in their selection and in their construction.

We identified the abovementioned estimates, which serve as the basis for the calculation of the allowance for credit losses, as a key audit matter. A change in these estimates or in these assumptions may have a significant impact on the allowance for credit losses, which is presented in the Company's financial statements.

The audit of the allowance for credit losses requires the exercise of judgment by the auditor and knowledge and experience in order to test the reasonability of the use of models, calculations and adjustments, which have been used by the management in the determination of the estimate of the allowance for credit losses.

The response that has been provided to the key audit matter

The following are the main procedures we performed for addressing this key audit matter:

- Examination of the work processes for the calculation of the allowance for credit losses and the effectiveness of the planning and the operation of certain internal controls over financial reporting, which are connected to the determination of the estimate for the allowance, including controls in the process, which are connected to the testing of the methodology, the main data and the reasonability of the allowance for credit losses as a whole.
- The testing of the methodology for the determination of the allowance for credit losses and the correlation thereof to the accounting principles that apply to the Company.
- Sample testing of the main data that have been used in models for the calculation of the allowance for credit losses.
- Testing of the reasonability of the fairness of the allowance for credit losses as a whole.

The accounting firm of Somekh Chaikin began serving as the Company's auditor in 1979.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 7, 2024

Statement of Profit and Loss for the Year Ended December 31

		Consolidated			Company		
		2023	2022	2021	2023	2022	2021
	Note	In NIS millions					
Income							
Credit card transactions	3	1,751	1,651	1,432	1,433	1,366	1,178
Net interest income	4	822	680	548	148	97	102
Non-interest income	5	310	102	5	314	57	7
Total income		**2,883**	**2,433**	**1,985**	**1,895**	**1,520**	**1,287**
Expenses (income)							
For credit losses	11	285	97	(9)	*-	4	(8)
Operating (1)	6	819	815	684	727	734	620
Selling and marketing (1)	7	721	632	533	477	451	375
Administrative and general (1)	8	107	97	85	100	90	80
Payments to banks		354	351	301	301	327	279
Management fees		-	-	-	(265)	(271)	(225)
Total expenses		**2,286**	**1,992**	**1,594**	**1,366**	**1,335**	**1,121**
Profit before taxes		597	441	391	529	185	166
Provision for taxes on income	9	148	134	122	130	49	42
Profit after taxes		**449**	**307**	**269**	**399**	**136**	**124**
Company's share in profits of investee companies (consolidated - associates), net of tax effect	14	1	2	2	51	173	147
Net profit:							
Attributable to equity holders in the Company		**450**	**309**	**271**	**450**	**309**	**271**
Basic and diluted earnings per ordinary shares in NIS:							
Net earnings attributable to equity holders of the Company		409.9	281.5	246.9	409.9	281.5	246.9

(1) Of which: in respect of salaries and social benefits in the amounts of NIS 422, 396 and 368 million in the years 2023, 2022 and 2021, respectively. It should be clarified that these amounts only include the service account, which is pursuant to amendment 2019-07 to the Codification regarding the improvement of the presentation of pension and other post-employment benefit expenses.

The notes to the financial statements form an integral part thereof.

Barak Nardi	**Levy Halevy**	**Shaul Mizrahi**
Chairperson of the Board of Directors	**Chief Executive Officer**	**Vice President, Chief Accountant**

Date of approval of the financial statements: March 7, 2024.

Consolidated Statement of Other Comprehensive Income for the Year Ended December 31

	2023	2022	2021
		In NIS millions	
Net profit attributable to equity holders of the Company	**450**	**309**	**271**
Other comprehensive income (loss) before taxes:			
Adjustments to liabilities in respect of employee rights**	**(19)**	**20**	**19**
Other comprehensive income (loss) before taxes	**(19)**	**20**	**19**
Related tax effect	**4**	**(5)**	**(4)**
Other comprehensive income (loss) attributable to equity holders of the Company, after taxes	**(15)**	**15**	**15**
Comprehensive income attributable to equity holders of the Company	**435**	**324**	**286**

** Reflects primarily adjustments in respect of year-end actuarial estimates of defined benefit pension plans and the write-down of amounts recorded in prior periods in other comprehensive income.

The notes to the financial statements form an integral part thereof.

Balance Sheet

		Consolidated		Company	
		December 31	December 31	December 31	December 31
		2023	2022	2023	2022
		In NIS millions			
	Note				
Assets:					
Cash and bank deposits	10	63	54	8	3
Amounts receivable from banks for credit card transactions, net		4,254	4,348	3,555	3,688
Receivables on credit card transactions	11	14,068	13,171	5,083	4,918
Allowance for credit losses	11	(479)	(347)	(29)	(26)
Receivables on credit card transactions, net		13,589	12,824	5,054	8,580
Securities	13	17	17	17	17
Investments in investee companies (consolidated - associates)	14	7	11	755	836
Buildings and equipment	15	462	705	462	705
Other assets	16	623	549	6,846	6,123
Asset held for sale	15	363	39	363	39
Total assets		**19,378**	**18,547**	**17,060**	**16,303**
Liabilities and equity:					
Credit from banks	17	3,770	3,222	2,881	1,423
Payables on credit card transactions	18	12,361	12,346	11,100	11,290
Other liabilities	19	800	859	632	1,470
Total liabilities		**16,931**	**16,427**	**14,613**	**14,183**
Total equity	20	2,447	2,120	2,447	2,120
Total liabilities and equity		**19,378**	**18,547**	**17,060**	**16,303**

The notes to the financial statements form an integral part thereof.

Statement of Changes in Equity

	Paid-up share capital	Retained earnings	Other comprehensive income	Total equity
	In NIS millions			
Balance as at January 1, 2021	*-	1,973	**(43)**	**1,930**
Changes in 2021				
Other comprehensive income, net, after tax effect	-	-	15	15
Net profit for the accounting year	-	271	-	271
Balance as at December 31, 2021	*-	2,244	(28)	2,216
Changes in 2022				
Dividend	-	(420)	-	(420)
Other comprehensive income, net, after tax effect	-	-	15	15
Net profit for the accounting year	-	309	-	309
Balance as at December 31, 2022	*-	**2,133**	**(13)**	**2,120**
Changes in 2023				
Adjustment to the opening balance, net of tax, for the impact of the initial implementation **	-	(34)	-	(34)
Adjusted balance as at January 1, 2023 after the initial implementation	*-	2,099	(13)	2,086
Dividend	-	(74)	-	(74)
Other comprehensive income, net, after tax effect	-	-	(15)	(15)
Net profit for the accounting year	-	450	-	450
Balance as at December 31, 2023	*-	2,475	(28)	2,447

* Represents an amount of less than NIS 1 million.

** The cumulative impact in respect of the initial implementation of accounting principles in the USA on the subject of expected credit losses. See Section C of Note 2 – reporting principles and principal accounting policies, which follows, for additional details.

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

Statement of Cash Flows for the Year Ended December 31

	Consolidated			Company		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Cash flows from operating activities:						
Net profit for the year	450	309	271	450	309	271
Adjustments:						
Company's equity in profits of investee companies (consolidated - associates)	(1)	(2)	(2)	(51)	(173)	(147)
Depreciation of buildings and equipment	106	102	97	106	102	97
Expenses for credit losses	285	97	(9)	*–	4	(8)
Deferred taxes, net	69	(112)	15	64	(74)	*–
Capital gain	(296)	(30)	–	(296)	(30)	–
Severance pay - (increase in excess of amount funded over liability)	(2)	(2)	1	(2)	(2)	1
Dividend received from an affiliated company treated at equity	5	*–	6	105	100	6
Changes in current asset:						
(Increase) decrease in receivables on credit card transactions, net	20	(676)	3,374	118	(619)	2,627
Effect of exchange rate fluctuations on cash balances	(2)	3	(4)	(*–)	4	6
Other assets	(124)	(52)	(23)	(781)	(703)	(1,552)
Changes in current liabilities:						
Decrease (increase) in payables on credit card transactions, net	15	713	715	(190)	675	657
Other liabilities	30	**120	224	(755)	**240	783
Net cash flows provided by (used in) operating activities	555	407	4,665	(1,232)	(167)	2,741
Cash flows from investment activities:						
Proceeds from the sale of securities	–	57	–	–	57	–
Proceeds from the sale of the CAL building	245	**100	–	245	**100	–
Taxes paid on the sale of the CAL building	–	**(65)	–	–	**(65)	–
Purchase of non-marketable shares	–	–	(3)	–	–	(3)
Repayment of capital note in a subsidiary company	–	–	–	–	7	7
Credit to cardholders and merchants, net	(1,032)	(1,575)	(796)	(615)	(157)	(90)
Acquisition of buildings and equipment	(236)	(279)	(204)	(236)	(279)	(204)
Net cash flows used in investing activities	(1,023)	(1,797)	(1,003)	(147)	(337)	(290)

Statement of Cash Flows for the Year Ended December 31 (Continued)

	Consolidated			Company		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Cash flows from financing activities:						
Dividend paid to equity holders	(74)	(420)	–	(74)	(420)	–
Short-term credit from banks, net	100	1,201	(3,839)	1,213	310	(2,561)
Receipt of long-term credit	730	800	400	730	740	320
Repayment of long-term credit	(281)	(282)	(215)	(485)	(115)	(195)
Redemption of subordinated notes	–	(7)	(7)	–	(7)	(7)
Net cash flows provided by (used in) financing activities	475	1,292	(3,661)	1,384	508	(2,443)
Increase (decrease) in cash and cash equivalents	7	*–	1	5	4	8
Effect of exchange rate fluctuations on cash balances	2	(3)	4	*–	(4)	(6)
Cash and cash equivalents at beginning of year	54	57	52	3	3	1
Cash and cash equivalents at end of year	63	54	57	8	3	3
Interest received	1,056	738	566	121	54	42
Interest paid	(238)	(70)	(24)	(151)	(47)	(15)
Dividend received	1	2	8	106	102	8
Taxes on income received	19	15	28	1	11	6
Taxes on income paid	(149)	(258)	(98)	(58)	(119)	(42)

* Represents an amount of less than NIS 1 million.

** Reclassified.

The notes to the financial statements form an integral part thereof.

Notes to the Financial Statements as at December 31, 2023

Note 1 - General

A. The reporting entity

Israel Credit Cards Ltd. (“the Company” or “CAL”) is an Israel corporation. The consolidated financial statements of the Group as at December 31, 2023 comprise those of the Company and its subsidiaries (“the Group”), as well as the Group’s rights in an associate. The financial statements have been prepared in accordance with generally accepted accounting principles in Israel (“Israeli GAAP”) and also in accordance with the directives and guidelines of the Supervisor of Banks. The notes to the financial statements relate to the financial statements of the Company and to the consolidated financial statements of the Company and its subsidiary, except in instances where it is stated in the note that it relates solely to the Company or solely to consolidated.

The Company is controlled by Israel Discount Bank Ltd. (“Discount Bank"). The First International Bank of Israel Ltd. (“FIBI”) also holds shares in the Company. See Note 30 to the financial statements for details regarding the separation of the Company from Discount Bank.

The Company has operated in the credit card field (under the “Visa” brand, since the day of its establishment, under the “Diners” brand since 1991, under the “MasterCard” brand, since 2002 and under the “Isracard brand”, since 2012). In respect of the “Isracard” brand, the Company is only active in the acquiring segment.

The Company is an auxiliary corporation under the Banking (Licensing) Law, 1981. On March 15, 2023, the Company's and Diners' temporary acquiring permit was extended until the earlier of March 31, 2024 or until the receipt of a permanent license.

The financial statements were approved for publication by the Company’s Board of Directors on March 7, 2024.

B. Definitions

In these financial statements:

International Financial Reporting Standards (“IFRS”) - the standards and interpretations adopted by the International Accounting Standards Board (IASB), which comprise International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including interpretations of these standards determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations determined by the Standing Interpretations Committee (SIC), respectively.

Accounting principles generally accepted in US banks - the accounting principles that US banks listed in the United States are required to implement. These principles are prescribed by the US banking regulatory authorities, the US Securities and Exchange Commission, the US Financial Accounting Standards Board and additional US bodies, and are implemented in accordance with the hierarchy determined in FAS 168 (ASC 105-10), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. In addition to the aforesaid, as determined by the Banking Supervision Department, despite the hierarchy prescribed in FAS 168, it has been clarified that any position made public by the banking supervisory authorities in the United States or by the staff of the banking supervisory authorities in the United States, regarding the manner in which US generally accepted accounting principles (“US GAAP”) are to be implemented, is to be considered "a generally accounting principle in US banks".

The Company - Israel Credit Cards Ltd. (“the Company” or “CAL”).

The Group - CAL and its subsidiaries - Diners Club Israel Ltd., CAL (Financing) Ltd., CAL (Deposits) Ltd., Diners (Financing) Ltd. and Yatzil Finances Ltd.

Subsidiaries - companies whose statements are fully consolidated, directly or indirectly, with the financial statements of the Company.

Note 1 - General (Continued)

B. Definitions (Continued)

Associates - companies, other than subsidiaries, the Company's investment in which, directly or indirectly, is presented in the Company's financial statements by the equity method.

Investee companies - subsidiaries and associates.

Functional currency - the currency of the primary economic environment in which the Company operates; normally, this is the currency of the environment in which the corporation primarily generates and expends cash.

Presentation currency - the currency in which the financial statements are presented.

Related parties and interested parties - as defined in Section 80 of the Public Reporting Directives.

CPI - the Consumer Price Index as published by the Israeli Central Bureau of Statistics.

Note 2 - Reporting Principles and Accounting Policy

A. Basis for the preparation of the financial statements

The Company's financial statements are prepared according to Generally Accepted Accounting Principles in Israel (Israeli GAAP) and according to the Public Reporting Directives of the Supervisor of Banks.

In most of the subjects, these directives are based on accounting principles generally accepted by US banks. As regards other matters, of lesser materiality, the directives are based on International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in Israel (Israeli GAAP).

Where the International Financial Reporting Standards (IFRS) allow several alternatives, or where they do not include a specific reference to a particular situation, these directives state specific implementation guidelines, based mostly on the generally accepted accounting principles in US banks.

(1) Functional currency and presentation currency

The consolidated financial statements are presented in new Israeli shekel ("NIS"), which is the functional currency of the Group, and are rounded to the nearest million, unless stated otherwise. The NIS is the currency that represents the primary economic environment in which the Group operates.

(2) Measurement basis

The financial statements have been prepared on the basis of historical cost, apart from the assets and liabilities that are detailed below:

- Financial instruments and other derivative financial instruments that are measured at fair value through profit or loss;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities for employee benefits;
- Investments in associates.

(3) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Israel (Israeli GAAP) and with the directives and guidelines of the Supervisor of Banks requires the Company's Management to make judgments, assessments, estimates and assumptions that affect policy implementation and the amounts of assets and liabilities, income and expenses.

It should be clarified that the actual results may differ from these estimates.

Note 2 - Reporting Principles and Accounting Policy (Continued)

A. Basis of preparation of the financial statements (Continued)

(3) Use of estimates (Continued)

At the time of formulating the accounting estimates that are used in preparing the financial statements, the Company's Management is required to make assumptions regarding circumstances and events that entail considerable uncertainty. The Company's Management uses its judgment in making the estimates based on past experience, various facts, external factors, and reasonable assumptions appropriate to the relevant circumstances of each estimate.

The estimates and the assumptions on which they are based are regularly reviewed. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

B. Accounting policy applied in the preparation of the financial statements

(1) Foreign currency and linkage

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate in effect at that date.

Exchange differences on monetary items are the difference between amortized cost in the functional currency at the beginning of the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognized in profit or loss.

CPI-linked assets and liabilities not measured at fair value

CPI-linked assets and liabilities are included in accordance with the linkage terms prescribed for each balance. The following are details of the representative exchange rates of the US dollar and the Consumer Prices Index (2010 base), and the percentage change therein:

	December 31			Percentage change in year		
	2023	2022	2021	2023	2022	2021
Exchange rate in NIS of:						
US dollar	3.627	3.519	3.110	3.1	13.2	(3.3)
Consumer Prices Index in points:						
For December	119.5	116.1	110.3	3.0	5.3	2.8

(2) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group, the financial statements of which are consolidated with those of the Group from the date of obtaining control until control ceases.

Investments in associates

Associates are entities in which the Group has a significant influence over their financial and operational policies, but in which it has not gained control. There is an assumption that a holding at a rate of between 20%-50% in an investee company confers significant influence.

Investments in associates are accounted for under the equity method and are initially recognized at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of income and expenses and of the profit or loss of investee entities accounted for under the equity method. Investments in associates are tested for impairment in value when events or changes in the circumstances indicate that the carrying value of the investment in the accounting records is not recoverable, impairment in value is impaired with it is of a non-temporary nature.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

Transactions eliminated on consolidation

Intercompany balances within the Group and unrealized income and expenses deriving from intercompany transactions have been eliminated upon consolidation of the financial statements. Unrealized profits resulting from transactions with associates have been eliminated against the investment in accordance with the rights of the Group in these investments.

(3) Income and expenses recognition basis

(a) Income from merchant discount fees and issuing fees are recognized on an accrual basis at the time that the transaction is recorded by the Company (mainly close to receipt of the data on the vouchers from Automatic Banking Services Ltd.). For payment transactions, which are financed by the merchant, income in respect of each payment is credited as a separate transaction.

(b) Financing income and expenses are included on an accrual basis, except for interest accrued on troubled debts that have been classified as non-interest bearing non-accrual debts and recognized on a cash basis.

(c) Income from fees for rendering services is recognized in profit or loss upon the Company becoming entitled to receive such fees.

(d) Other income and expenses - recognized on an accrual basis.

(4) Non-accrual debts, credit risk and allowance for credit losses

In accordance with the Supervisor of Banks' directive, *Measurement and Disclosure of Non-accrual Debts, Credit Risk and Allowance for Credit Losses*, the Group applies the US accounting standard (ASC 310) and the positions of the US banking supervisory authorities, as well as of the US Securities and Exchange Commission, as adopted in the Public Reporting Directives and in the positions and guidelines of the Banking Supervision Department. Furthermore, the Group implements the Banking Supervision Department's guidelines, *Treatment of Troubled Debts*. Likewise, the Group implements the Banking Supervision Department's directives, *Updating the Disclosure Concerning the Credit Quality of Debts and Concerning the Allowance for Credit Losses*. The directive is applied to all debit balances, such as, bank deposits, receivables on credit card transactions, etc.

In addition, from time to time, the Banking Supervision Department updates the Public Reporting Directives and the FAQ file regarding the manner of implementing the provisions regarding non-accrual debts and the allowance for credit losses, in order to integrate therein the provisions that apply to the banks in the United States, including guidelines of the US regulatory authorities.

Receivables on credit card transactions and other debit balances

Credit to the public and other debt balances for which no specific rules on the topic of the measurement of the allowance for credit losses have been prescribed in the Public Reporting Directives (for example: bank deposits, etc.) are included in the Group's accounting records at "recorded debt balance". The "recorded debt balance" is defined as the debt balance, net of accounting write-offs, but before deducting the allowance for credit losses in respect of that debt. The recorded debt balance does not include accrued interest that has not been recognized, or that was previously recognized and was subsequently reversed.

Identification and classification of non-accrual debts

The Group has determined procedures for identifying troubled credit and for classifying impaired debts. In accordance with these procedures, the Group classifies all its troubled debts and the off-balance-sheet troubled credit items into the following categories: special supervision, substandard or non-accrual. A debt is classified as non-accrual when, based on the latest information and events, it is expected that the Group will be unable to collect all the amounts due to it pursuant to the contractual terms of the debt agreement.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(4) Non-accrual debts, credit risk and allowance for credit losses (Continued)

The decision regarding the classification of the debt is taken based, inter alia, on the extent to which the debt is in arrears, an assessment of the financial position and solvency of the borrower, the existence and state of the collateral, the financial position of guarantors, if any, and their undertakings to participate in the debt, and the ability of the borrower to obtain third-party financing.

In every case, a debt is classified as non-accrual when the principal or interest in respect thereto is in arrears for 90 days or more, except when the debt is also properly secured and when debt recovery procedures are also being implemented. To this end, the Group monitors the number of days the debt is in arrears, which is determined by reference to the debt's contractual repayment terms. Debts (including "Other assets") are in arrears when the principal or the interest in respect thereto has not been paid on its due date. From the time at which it is classified as non-accrual, the debt is treated as a debt that does not accrue interest income (such a debt is referred to as a "non-performing debt"). Likewise, any debt whose terms are changed within the framework of a troubled debt restructuring will be classified as a non-accrual debt.

Troubled debt restructuring

A debt that has undergone a formal troubled debt restructuring is defined as a debt regarding which the Group, for economic or legal considerations related to the financial difficulties of the debtor, has made concessions regarding the terms of the debt, with the aim of relieving the burden of the debtor's short-term cash repayments (by reducing or deferring the cash repayments that the debtor is required to make) or by means of accepting other assets as settlement of the debt (partly or completely).

For the purpose of determining whether a debt arrangement made by the Company constitutes the restructuring of a troubled debt, the Group conducts a qualitative examination of all the terms of the arrangement and the circumstances within the setting of which the arrangement was made, with the aim of determining: (1) whether the debtor is in financial difficulties, and (2) whether the Group has granted concessions to the debtor as part of the arrangement. For the purpose of determining whether the debtor is in financial difficulties, the Company examines whether there are indications pointing to the borrower being in financial difficulties at the time of the arrangement or whether there is a reasonable possibility that the borrower would encounter financial difficulties were it not for the arrangement. Inter alia, the Group checks whether one or more of the following situations exist:

- If the debtor is in default, at the time of the debt arrangement, including where any another debt of the borrower is in default;
- For debts that are not in arrears at the time of the arrangement, the Group evaluates whether, based on his present solvency, the borrower is likely to find himself in the foreseeable future in a default situation and be unable to comply with the original contractual terms of the debt;
- Whether the debtor has been declared bankrupt, is in receivership or significant doubts have arisen as to whether the borrower is able to continue as a going concern; and
- Whether, without a change in the terms of the debt, the debtor will be unable to raise debt from other sources at the customary market rate applicable to debtors that are not in default.

The Group concludes that concessions have been granted to the debtor as part of the arrangement, even if an increase has been made to the contractual interest within the framework of the arrangement, if one or more of the following situations exist:

- As a result of the restructuring, the Group does not expect to collect the full amount of the debt (including accrued interest in accordance with the contractual terms);
- The up-to-date fair value of the collateral regarding collateral-dependent debts does not cover the balance of the contractual debt and indicates inability to collect all of the debt amounts;

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(4) Impaired debts, credit risk and allowance for credit losses (Continued)

- It is not possible for the debtor to raise funds at the customary market rate for a debt with terms and characteristics such as those of the debt that is being provided within the framework of the arrangement.

Furthermore, the Group does not classify a debt as a restructured troubled debt if, within the framework of the arrangement, the debtor has been granted a payments deferral, which is not material, taking the frequency of the payments, the contractual repayment term and the average expected duration of the original debt into account. For this purpose, if several arrangements have been made that involve a change in the terms of the debt, the Group takes into account the cumulative effect of the previous restructurings for the purpose of determining whether the payment deferral is not material.

Debts whose terms were changed in a troubled debt restructuring, including those that prior to restructuring were examined on a group basis, will be classified as non-accrual debts. In light of the fact that the debt regarding which the troubled debt restructuring was carried out will not be repaid in accordance with its original contractual terms, the debt will continue to be classified as a non-accrual debt even if the debtor adheres to the repayment schedule under the new terms.

Allowance for credit losses

Since January 1, 2023, the Group has been implementing generally accepted accounting principles for banks in the USA on the subject of the measurement of credit losses deriving from financial instruments, as set forth in Topic 326 of the Codification (ASC-326) – Financial instruments – credit losses.

As part of the implementation of the Standard, the Group has determined procedures for the classification of credit and for the measurement of allowances for credit losses in order to maintain an appropriate level of allowance to cover anticipated credit losses as regards its credit portfolio. In addition, the Group has determined procedures necessary to maintain an appropriate level of allowance to cover anticipated credit losses in connection with certain off-balance-sheet credit exposure.

The estimate of the allowance for credit losses is calculated in the forecast period of the financial asset, whilst taking the estimate of early repayments into account. The contractual period for extensions, renewals and expected changes are not taken into account, unless one or more of the following conditions is met: (A) at the reporting date the Group has reasonable expectation that a reorganization of troubled debt will be executed with the borrower; or (B) an option for extension or renewal is included in the original contact or in the updated contract at the reporting date, and they can be cancelled unconditionally by the Group.

The Group takes the impacts of past events, current conditions and reasonable and substantiable forecasts of the collectability of the financial assets into account when developing the estimate of expected credit differences.

Generally, the calculation of the allowance for expected credit losses is assessed collectively where the assets have similar risk characteristics. These characteristics include, inter alia: (1) internal or external credit scores or ratings; (2) risk rating or risk classification; (3) the type of financial asset; (4) the type of collateral; (5) size; (6) the sector in which the borrower operates; (7) the year in which the credit was provided.

The Group calculates the allowance for expected credit losses for every group of financial assets having similar credit risk characteristics, in accordance with one of the methods for measuring the allowance, which are permitted in the Standard, which in the Group's assessment is expected to lead to the best estimate of the allowances for credit losses. These methods include, inter alia: (1) a method that is based on the loss rate, such as the WARM method; (2) the probability of a default/ loss in the event of a default method (LGD/PD); (3) the credit roll rate method; (4) the discounted cash flows method.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(4) Impaired debts, credit risk and allowance for credit losses (Continued)

In order to assess the estimate of the expected credit losses over the assets' contractual period, the Group bases itself on historical information, whilst examining the need to adjust the historical information in order to reflect the degree to which the existing terms and the forecasts of reasonability that can be substantiated will be different from the terms that existed in the period in which the historical information was estimated. For the purpose of this determination, the Group takes the characteristics of the financial assets, including factors that are relevant to the determination of the expected collectability, such as: The borrower's financial position, the borrower's credit rating, the quality of the asset, the borrower's ability to execute payments of principal or interest at the time set, the balance of the time for repayment, the extent and the severity of the financial assets in arrears and of financial assets with a negative rating or classification, the Group's policies and procedures for providing credit, including changes in the strategy for providing credit, underwriting processes and etcetera into account, for the purposes of this determination. Where the reasonable and substantiable period that the Group has determined is shorter than the lifetime of the financial asset, the Group reverts to using historical information that has not been adjusted for the current economic conditions or for expectations regarding future economic conditions, such as: a change in the unemployment rate, the values of assets, the values of commodities, arrears and etcetera. The reversion to information on historical losses may be executed under one of the following methods: (1) immediate reversion; (2) reversion on a straight-line basis; (3) the use of some other logical basis and method.

<u>Allowance for credit losses – consumer and business credit</u>

The Group measures the allowance for credit losses for the credit portfolio, which included loans to private individuals based on the LGD/PD method, with the credit portfolio being split into segments with similar risk characteristics, such as the customer's internal rating, the type of financial asset, the type of collateral and etcetera. For the purpose of adjusting the historical information to the current economic conditions and for expectations regarding future economic conditions, the Group has determined that the reasonable substantiable period is one year.

<u>Allowance for credit losses – off-balance sheet credit exposures</u>

Off-balance sheet credit exposures include credit exposures in respect of a commitment to provide credit and other similar instruments. The allowance for credit losses in respect of off-balance sheet credit exposure is estimated in accordance with principles that were determined in Topic 326 of the Codification and is based on the allowance rates that have been set for the on-balance sheet credit (as set forth above), whilst taking the rate of the expected realization into credit that is expected at the time of a default for the off-balance sheet risk exposure into account. The realization rate that is expected at the time of a default is calculated by the Group for each type of off-balance sheet exposure, based on past experience, which indicates the realization rate into credit at the time of default. The Group does not calculate an estimate for the expected credit losses for off-balance sheet obligations for the provision of credit, which are cancellable unconditionally by the Group.

<u>Allowance for credit losses – credit that is assessed on an individual basis</u>

Commercial credit, the contractual balance of which is in excess of NIS 1 million, which is classified as non-accrual, is treated in accordance with the discounted cash flows method, which is calculated at the level of an individual debt.

Accounting write-offs

The Company records an accounting write-off for any debt or part thereof that is examined on a group basis based on the period that the debt is in arrears (in most cases, a consecutive period exceeding 150 days in arrears) and on other parameters indicating financial difficulties.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(4) Impaired debts, credit risk and allowance for credit losses (Continued)

With regard to debts examined on a specific basis, the Group makes an accounting write-off for any debt (or part thereof) that is considered uncollectible and having a very low value, to the extent that leaving it as an asset would be unjustified, or a debt that would require Management of the Group to engage in long-term collection efforts (which, in most cases, are defined as extending over a period exceeding two years). It should be noted that accounting write-offs do not require legal waiver and they reduce the balance of the reported debt solely for accounting purposes, while creating a new cost basis for debt in the Group's accounting records.

Recognition of income

When a debt is classified as non-accrual, the Group defines the debt as a debt that does not accrue interest income and it ceases to accrue interest income on the debt. Likewise, at the time of classifying the debt as non-accrual, the Group reverses all the interest income accrued and recognized as income in the statement of profit and loss, but not yet collected. The debt will continue to be classified as a debt that does not accrue interest, so long as its classification as a non-accrual debt has not been cancelled. Debts that have been examined and provided for on a collective basis, which are found to be 90 days or more in arrears, do not accrue interest income.

Disclosure requirements

The Group implements the provisions of the Banking Supervision Department’s circular on the subject of the updating of the disclosure regarding the credit quality of debts and regarding the allowance for credit losses as determined within the context of the updating of Accounting Standard ASU 2010-20, which requires broader disclosure regarding the balance of debts, movement in the balance of the allowance for credit losses, any material acquisitions and sales of debts during the reporting period and disclosure regarding the quality of credit.

(5) Securities

(a) Securities in which the Group has invested are classified as securities that are not for trading.

Shares that are not for trading – shares for which the fair value is available are presented in the balance sheet in accordance with the fair value on the reporting date. Shares for which no fair value is readily available are presented in the balance sheet at cost, less impairment in value and less observed price changes in regular transactions in similar investments or identical investments of the same issuer. Unrealized gains or losses from adjustments for such changes in quoted process, are reflected in the statement of income.

(b) Dividend income, accrued interest, linkage and exchange differences, amortization of premium or discount (according to the effective interest method) as well as impairment losses not of a temporary nature are recognized in the statement of profit and loss.

(6) Derivative financial instruments, including hedge accounting

Hedge accounting is not applied to derivative instruments as part of the Group's assets and liabilities management (ALM). Changes in the fair value of such derivatives are recognized in profit or loss as they occur.

(7) Determination of fair value of financial instruments

Fair value is defined as the price that would be received on the sale of an asset or the price that would be paid on the transfer of a liability in an orderly transaction between market participants at the measurement date. Inter alia, the amendment requires, for fair value assessment purposes, that maximum possible use be made of observable inputs and minimum use made of unobservable inputs. Observable inputs represent available market information that is obtained from independent sources, while unobservable inputs reflect the Group's assumptions. Sub-topic 820-10 in the Codification details a hierarchy of measurement techniques based on the question of whether the inputs used in determining the fair value are observable or unobservable. These types of inputs create a fair value scale as detailed below:

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(7) Determination of fair value of financial instruments (Continued)

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: unobservable inputs for the asset or liability.

Other non-derivative financial instruments

No "market price" can be quoted for most of the financial instruments in this category (such as: receivables for credit card activity, bank deposits and subordinated notes), since there is no active market on which they are traded. Accordingly, the fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. For this purpose, future cash flows in respect of non-accrual debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses in respect of the debts.

(8) Setting-off of assets and liabilities

The Group sets off assets and liabilities deriving from the same counterparty and presents their net balance in the balance sheet, when the following cumulative conditions exist:

- Where there is a legally enforceable right of set-off of liabilities against assets for such liabilities;
- Where there is an intention to settle the liabilities and realize the assets on a net basis or simultaneously;
- Where both the Group and the counterparty owe determinable amounts to one another.

(9) Fixed assets (buildings and equipment)

Recognition and measurement

Fixed asset items are measured at cost net of accumulated depreciation and accumulated impairment losses. Cost includes expenditure that may be directly attributed to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor costs and any additional costs that may be directly attributed to bringing the asset to the location and condition necessary for it to be able to function in the manner intended by Management. The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, in accordance with the Public Reporting Directives, the Company classifies within the fixed assets item the cost of purchased software assets or capitalized costs of software developed internally for its own use. Gains or losses on the disposal of a fixed assets item are determined by comparing the proceeds from disposal of the asset to its carrying value, and are recognized net in the "Other income" item in the statement of profit and loss.

Depreciation

Depreciation is recognized in the statement of profit and loss on a straight-line basis over the estimated useful life of each part of a fixed asset item, since this method best reflects the predicted pattern for the consumption of future financial benefits inherent in the asset. Leasehold improvements are depreciated over the lease period, including the option held by the Company to extend the lease period, which does not exceed the economic useful life of the asset. Land owned by the Group is not depreciated. An asset is depreciated from the time at which it is ready for use, meaning the time at which it has reached the location and state that are required for it to operate in the manner intended by Management. The annual depreciation rates are as follows:

	%
Building	2
Equipment and furniture	6-15
Software costs	20-25
Computer and peripheral equipment	25-33

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(9) Fixed assets (buildings and equipment) (Continued)

Depreciation (Continued)

The estimates regarding the depreciation methods, useful lives and residual values are retested where events or changes in circumstances indicate that the current estimates are no longer appropriate and they are adjusted where necessary.

The Company tests non-current assets for impairment in value when events or changes in circumstances occur, which indicates that the net book value may not be recoverable. Impairment losses are only recognized if the carrying value of a non-current asset in the accounting records is not recoverable and exceeds its fair value. The carrying value in the accounting records is not recoverable if it exceeds the total of the undiscounted cash flows that are expected to derive from the use of the non-current asset and from its disposal.

Impairment losses at the level of the difference between the carrying value of the non-current asset in the accounting records and its fair value are reflected in the statement of profit and loss. Where impairment in value is recognized, the carrying value in the non-current asset constituted a new cost basis. These losses are not cancelled in subsequent periods even if there is an increase in value.

(10) Intangible assets

Intangible assets, having defined lifetimes are amortized to profit and loss under the straight-line method over the useful lifetimes of the intangible assets, as from the time at which the assets are available for use.

The Company tests intangible assets having a defined lifetime for impairment in value where events or changes in circumstances occur, indicating that the amortized cost may not be recoverable. Impairment losses are only recognized if the carrying value of the intangible asset in the accounting records is not recoverable and exceeds its fair value. The carrying value in the accounting records is not recoverable if it exceeds the undiscounted amount of the cash flows that are expected to derive from the use of the asset and from its ultimate disposal.

Impairment losses are recognized at the level of the difference between the carrying value of the intangible asset in the accounting record and its fair value and are reflected in the statement of profit and loss. Where an impairment loss is recognized, the adjusted carrying value of the intangible asset in the accounting records constitutes the new cost basis. These losses are not cancelled in subsequent periods even if there is an increase in value.

Software costs for self-use

Software is measured at cost less accumulated amortization and accumulated impairment losses.

Capitalization of costs relating to the development of software for self-use: The Company only capitalizes costs that are connected to the development of software for self-use when: (1) the first stage of the project has been completed; and (2) Management has approved and committed to finance the software development project, directly and indirectly, and it is also expected that the development will be completed.

The Company capitalizes the following costs: the direct costs of material and services required, the labor costs of the employees directly associated with the development activity or the obtaining of the software. Other costs in respect of development activity and costs at the first stage of the project are recognized in profit or loss as incurred.

Amortization

Amortization is recognized in the statement of profit and loss on a straight-line basis over the estimated useful life of the intangible assets, including software assets, commencing from the period in which the assets are ready for use. The Company tests self-use software assets where events or changes in circumstances occur, which indicate that the net book value may not be recoverable. Impairment losses are recognized only if the carrying value of the asset in the accounting records is not recoverable and exceeds the fair value.

The carrying value in the accounting records is not recoverable if it exceeds the cash flows in non-discounted amounts, which are expected to derive from the use of the asset and from its ultimate disposal.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(10) Intangible assets (Continued)

Subsequent costs

Costs of upgrades and improvements to software for internal use are capitalized only if it is expected that the costs incurred will lead to additional functionality. Other subsequent costs are recognized as an expense as incurred.

Guide lines regarding the capitalization of self-development software costs

In light of the accounting complexity of the process of capitalizing self-development software costs and in light of the materiality of the amount of the software costs that have been capitalized, the Banking Supervision Department has set guide lines on the subject of the capitalization of software costs. The guidelines that the company has implemented are:

- A materiality threshold of NIS 300,000 has been set for capitalization. A software development project for which the total software costs that may be capitalized is lower than the materiality threshold that has been set is to be reflected as an expense in profit and loss;
- The amortization period of the software development costs may not exceed 5 years;
- Capitalization facts have been set for hours of work, which are lower than 1, such that the potential for a variance in the calculation of the hours of work and economic inefficiency will be taken into account.
- The grade of employees whose cost are capitalized to assets is to be restricted, such the upper grade will at the most be that of a manager, where it can be shown that most of his time is spent being engaged in actual development, they are responsibly for a considerable number of employees, and the quantity of hours that they have actually invested in each development project can be measured accurately.
- Costs that have not been attributed to a project in accordance with a specific report on hours worked, in which the employee declared, based on a daily report, that he invested those costs specifically in a project, are to be recorded as an expense.

(11) Leases

Contracts that afford the Company control over the use of an asset within the framework of a lease for a period of time for consideration, are treated as leases. A liability is recognized at the time of the initial recognition, in an amount equivalent to the present value of the future lease payments during the course of the period of the lease (these payments do not include variable lease payments (these payments do not include variable leasing payments), with a right of use asset being recognized in parallel at the level of the leasing liability, adjusted for leasing payments that have been paid in advance or accrued and less leasing incentives, and with the addition of direct costs that have been incurred on the lease.

The leasing period is determined to be the period in which the lease in non-cancellable, together with periods that are covered by an option to extend or to cancel the lease, if it is reasonably certain that the lessee will exercise or will not exercise the option, respectively, and together with periods that are covered by an option to extend or to cancel the lease where the right to exercise is controlled by the lessor.

The Company has elected to implement the practical relied pursuant to which short-term leases of up to one year are treated such that the lease fees are reflected to profit and loss under the straight-line method, over the period of the leases, without recognizing a right of use asset and/or a leasing liability in the statement of financial position.

In a lease of land and buildings, the land component and the buildings component are tested separately for the purpose of classification and measurement, with a significant measure of judgment being involved in the classification of the land component because of the fact that land generally has an indefinite lifetime. The Company has elected to implement the practical relied not to separate non-leasing components, such as services or maintenance, from the leasing component, but rather to treat them as a single leasing component.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(11) Leases (Continued)

Subsequent measurement

Following the initial recognition, the leasing liability (operating and financing) is measures at amortized cost under the effective interest method, furthermore, the Company tests the right of use asset (for operating and financing leases) for impairment in value pursuant to the provisions of sub-topic 360-10-35 in the Codex regarding Impairment in value for fixed assets.

Leasing payments

Operating leases

Leasing payments, except for variable leasing payments, are reflected in profit and loss under the straight-line method, over the length of the period of the lease. Leasing incentives, which have been received, are recognized as an integral part of the total leasing expenses under the straight-line method, over the period of the lease. Variable leasing payments, which are dependent on an index or interest rate are recognized in profit or loss in the period of the change.

Variable leasing payments that are not dependent on an index or interest rate are recognized in profit or loss in the period in which it is expected that the specific objective that has led to the changing of the leasing payments will be achieved and will be cancelled in the period in which it is no longer expected that the specific objective will be achieved.

At every subsequent reporting date, the right of use asset is recognized at the level of the amortized cost of the leasing liability, as adjusted for leasing payments that have been paid in advance or which have accrued and less the balance of the leasing incentives, with the addition of direct costs that have not yet been amortized and less accumulated impairment losses in respect of the right of use asset.

(12) Non-current assets and disposal groups, which are held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying value will be recovered primarily by mean of its sale and not by means of its continuing use (except for assets that have been seized), in the period in which all of the following criteria are met: (1) the management, which has the authority to approve the transaction, commits to a plan to sell the asset (or the disposal group); (2) the asset (or the disposal group) is available for sale immediately in its present state; (3) an action plan for finding a purchase an other activity to complete the plan for the sale of the asset has begun; (4) the sale of the asset disposal group) is probable and the transfer of the asset (the disposal group) is expected to qualify as a sale that has been completed within one year; (5) the asset (the disposal group) is being marketed actively for the purpose of a sale at a price that is reasonable compared to its present fair value; (6) activity that is required in order to complete the plan indicated that it is not reasonably expected that significant changes will be made in the planning or that the plan will be cancelled.

Immediately before the initial classification of the asset as held for sale, the carrying value of the asset is measured in accordance with the standards that are relevant in subsequent periods, the Group measures the asset at the lower of the carrying value and the fair value less selling costs. Depreciable assets that are classified as held for sale are not subject to periodic depreciation.

(13) Employee rights

Post-retirement benefits - pension, severance pay and other benefits ("Pension") - defined benefits plans

The Pension benefit is part of the remuneration paid to an employee in return for his services. In a defined benefits pension plan, the Company guarantees to provide, in addition to the current salary, retirement income payments in future years after the employee has retired or has terminated his service. Generally, the amount of the benefit to be paid depends on certain future events that are included in the plan's benefit formula, which sometimes includes the length of the employee's life, or that of his heirs, the number of years of service provided by the employee and the employee's remuneration in the years immediately preceding his retirement or termination.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(13) Employee rights (Continued)

In most instances, the services are provided over several years prior to the employee retiring and receiving or beginning to receive the pension. Even though the services that are provided by an employee have ended and the employ has gone on pension, the amount of the overall benefit that the Company has promised and the cost to the Company of the services that have been provided cannot be determined exactly, but rather they can only be measured by means of the benefit formula and estimates regarding the relevant future events, most of which are outside of the bank's control. The net pension cost for the period is the amount recognized in the Company's financial statements as the cost of a pension plan for a specific period. The components of the pension cost for a specific period, in accordance with the Public Reporting Directives, are: the service cost, the interest cost, the actual return on plan assets, and the gain or loss.

The term "net pension cost for the period" is used instead of "net pension expense for the period" since part of the cost recognized in a period could be capitalized, together with additional costs, as part of an asset, such as software for internal use. For this purpose, gain or loss is the amount of (1) the difference between the actual yield on plan assets and the predicted yield on plan assets and of (2) the write-down of the gain or loss, net recognized in cumulative other comprehensive income. Pension benefits are usually attributed to an employee's service periods based on the plan's benefit formula, where attribution is specified in the formula or is alluded to therein.

The Company calculates the forecasted long-term rate of return on the plan assets using historical rates of return over the long term in a portfolio having a similar assets composition. To this end, the Company is aided by data available on the market regarding each of the significant categories of the assets in the portfolio, and assigns weightings to them in accordance with the composition of the plan assets.

The obligation in respect of the anticipated benefit reflects the actuarial present value of all the benefits attributable to the employee's service provided prior to the balance-sheet date. Measurement of this obligation is based on the appropriate actuarial assumptions as at the Company's balance-sheet date (e.g., employee turnover, mortality rates, discount rates, and so forth) and data from the latest population census at said date.

If the obligation for the anticipated benefit exceeds the fair value of the plan assets, the Company recognizes a liability in its balance sheet equal to the unfunded portion of the anticipated benefit.

Post-retirement benefits - pension, severance pay and other benefits ("Pension") - defined benefits plans (Continued)

If the fair value of the plan assets exceeds the obligation for the anticipated, the Company an asset in its balance sheet equal to the over-funded portion of the anticipated benefit. The Company groups the state of all the under-funded plans and recognizes this amount as a liability in the balance sheet. The Company reviews its assumptions on a periodic basis and updates these assumptions accordingly.

A change in the value of the obligation in respect of the anticipated benefit or of the plan assets, due to actual experience differing from that predicted, or due to changes in an actuarial assumption, is a "gain or loss" ("Actuarial Gain or Loss"). At the time of their occurrence, Actuarial Gains or Losses are not recognized in net pension cost for the period, but in other comprehensive income. In subsequent periods, such actuarial gains or losses are recognized thereafter in the Statement of Profit and Loss as a component of net pension cost for the period, using the straight-line method over the average remaining service period of the employees expected to receive benefits under the plan.

The discount rate in respect of employee benefits is computed based on the yield on Israeli government debentures with the addition of an average spread on AA and above (international) rating of corporate debentures as at the reporting date. For practical reasons, it has been determined that the spread will be fixed according to the difference between the rates of the yield to maturity, according to periods to maturity, on corporate debentures in the US with an AA and above rating, and the rates of yield to maturity, for the same periods to maturity, on US government debentures, and all as at the reporting date.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(13) Employee rights (Continued)

The Company applies the guidelines issued by the Banking Supervision Department concerning internal control over the financial reporting process in the matter of employee rights, including regarding examining the "obligation in substance" of the Company to grant its employees benefits in respect of increased severance pay and/or early pension.

Post-retirement benefits - defined contribution plans

A defined contribution plan is a plan that provides post-retirement benefits in return for services provided, that assigns a personal account to every plan participant and that defines how the contributions to the employee's account will be determined (rather than determining the benefit amount that the employee will receive). In a post-retirement defined contribution plan, the benefits that a plan participant will receive depend solely and exclusively on the amount deposited in the plan participant's account, on the accumulated yield from the investments made from these contributions and on the benefit forfeitures of other plan participants that might be allocated to the account of said participant. Should it be necessary for the defined plan contributions to a person's account to be made for periods during which that person is providing services, the net Pension cost or the net post-retirement other benefit cost for the period will be the required contribution for said period. The Company's liability to pay severance pay pursuant to Section 14 of the Severance Pay Law is accounted for as a defined contribution plan.

Non-recurring redundancy benefits

The Company makes a distinction between the payments that are paid within the framework of the routine benefits (both under a written benefits agreement and also in a substantive plan) and non-recurring events. This distinction requires the exercise of judgment in accordance with the facts and circumstances that are relevant. In the event that the benefits are considered to be non-recurring benefits in respect of the redundancy or employees, the accounting treatment is in accordance with the provisions of Topic 420 of the Codification.

Non-recurring benefits in respect of the termination of employees will only be accumulated as from the time of the notification (i.e., the time at which notification of the redundancy program was delivered to the employees) and subject to compliance with a number of criteria that are set forth in Topic 420 of the Codification, and may be recognized over the future service period until the time of the termination of employment.

The basis for the recognition of a liability in the management's commitment to an arrangement and notification of the promise to provide a non-recurring benefit for employees being made redundant, which created an "implicit" obligation at the time of the notification. Accordingly, as mentioned above, the Company recognizes a liability where all of the following criteria are met:

- The management, which has the authority to approve the activity, is committed to the redundancy program.
- The program mentions the number of the employees who will be made redundant, the classification of their positions, functions and locations, as well as the expected time of the completion of the program.
- The program determines the terms of the benefits arrangement, including the benefits that the employees will receive at the time of their departure (including inter alia, payments in cash), with sufficient details such that the employees can determine the type and the amount of the benefits that they will receive if they are dismissed involuntarily.
- The activity that is required in order to complete the program indicate that it is unlikely that significant changes will be made in the program or that the program will be cancelled.

The timing of the recognition – if the employees are required to provide service until the end of their employment beyond a minimal service (based on a collective agreement or other contracts, and which may not exceed the legal period of notice, which for the most part is a period not exceeding 60 days), the recognition of the benefit will be spread over the future service period, otherwise the expense is to be recognized immediately.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(13) Employee rights (Continued)

Other post-retirement benefits - gifts for religious festivals

The Company recognizes the un-capitalized amount of the current benefit at the time of providing the service. In addition, the Company accrues the liability over the relevant period, this being determined in accordance with the rules pertaining to other post-retirement benefits.

Vacation

The Company accrues the liability over the relevant period, as determined. For the purpose of calculating the liability, actuarial assumptions and discount rates are not taken into account. The liability for vacation leave is recognized routinely in profit and loss.

Sick leave

The Company does not accrue a liability for sick-leave days.

Other long-term benefits for active employees - Jubilee awards

The Company accrues the liability over the period giving entitlement to the benefit. For the purpose of computing the liability for such benefits, the actuarial assumptions and discount rates are taken into consideration. All the components of the benefit cost for the period, including actuarial profits or losses, are recognized immediately in the Statement of Profit and Loss.

(14) Contingent liabilities

The financial statements include appropriate provisions for claims, based on Management's assessment and relying on opinions from legal counsel. The disclosure format is in accordance with the Supervisor of Banks' directives, pursuant to which the claims filed against the Company are classified into three categories:

(1) Probable risk - where the probability of the risk exposure materializing is in excess of 70%. A provision is recorded in the financial statements for claims falling within this risk category.

(2) Reasonably possible risk - where the probability of the risk exposure materializing is in excess of 20% but less than, or equal to, 70%. No provision is recorded in the financial statements for claims falling within this risk category, however disclosure is provided.

(3) Remote risk - where the probability of the risk exposure materializing is less than 20%. No provision is recorded in the financial statements for claims falling within this risk category and no disclosure is provided.

A claim, for which it has been determined that the Company is required to make a monetary refund, is classified as "probable" and a provision is created in respect thereto in the amount of the refund that the Company is required to make. Quantitative disclosure is included on Note 22, "Contingent Liabilities and Commitments", regarding the amount of the exposures, which have a probability of materializing that is not remote, for which no provision has been made.

In accordance with the Supervisor of Banks' directives, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing in respect of an ordinary claim and a claim certified as a class action, in four financial statements (including one annual financial statements) that are published subsequent to the filing of a claim together with a petition to have it certified as a class action; such period is not to include a period in which the Court has decided to stay the proceedings.

The Company has described material legal proceedings being conducted against the Company and Group companies. In this respect, the Company has determined that, as a general rule, a legal proceeding will be disclosed where the amount claimed exceeds 0.5% of the capital of the Company and it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the capital where there are reasonably possible prospects of the risk exposure materializing or where the prospects of the risk exposure materializing are remote.

The Company is exposed to unasserted claims/ lawsuits due, inter alia, to doubts regarding interpretation of agreements and/or statutory provisions and/or their application.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(14) Contingent liabilities (Continued)

The Company is made aware of such exposure in several ways, including: applications or complaints by third parties to Company parties. In assessing the risk associated with unasserted claims/lawsuits, the Company relies on internal assessment by the handling parties and by management, and of the Company's legal counsel, who weigh the assessed risk of a claim being made, the prospects of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience regarding the claims filed and on an analysis of the merits of the allegations. Naturally, in view of the preliminary stage of the inquiry into the legal allegation, the actual outcome may differ from the assessment made prior to filing the claim.

(15) Income tax expenses

The Company's financial statements include current and deferred taxes. The provision for taxes on income for the Company's subsidiaries, which are financial institutions for Value Added Tax purposes, include profits tax, which is imposed on income pursuant to the Value Added Tax Law.

Current taxes

Current tax is the expected tax that has been paid or that will be paid (or refunded) for the current period, as determined by the implementation of the tax laws that have been enacted on the chargeable income. Current tax expenses also include changes in tax payments relating to previous years.

Deferred taxes

Deferred tax liabilities and deferred tax assets represent the future impact on taxes on income deriving from timing differences and losses that are available to be carried forward at the end of the period. The Group recognizes deferred tax liabilities with respect to all of the timing differences that are chargeable to taxation, expect for timing differences with respect to undistributed earnings of subsidiary companies, which are substantially permanent.

The Group recognizes deferred tax assets with respect to all of the deductible timing differences and losses that are available to be carried forward, and in parallel, it recognizes a separate provision (valuation allowance) for the amount that is included in the asset that it is more likely than not will be realized.

The Group reduces the deferred tax asset by the amounts of any tax benefits whatsoever that are not expected to be realized based on the available evidence – both positive evidence that supports the recognition of deferred tax asset and also negative evidence, which supports the creation of a provision with respect to a deferred tax asset, in order to test whether it is possible to recognize a net deferred tax asset. A deferred tax liability or a deferred tax asset is measured using the legislated tax rates, which are expected to apply to sufficient taxable income in periods in which it is expected that the deferred tax liability will be settled or the deferred tax asset will be realized.

The Group classifies interest income and expenses with respect to taxes on income under "taxes on income". Furthermore, fines to the tax authorities are classified under "taxes on income".

The offsetting of deferred tax assets and liabilities

The Group offsets deferred tax assets and liabilities, as well as the entire related "valuation allowance" (provision for a deferred tax asset), for a particular taxpayer component and within the boundaries of a particular tax jurisdiction.

Uncertain tax positions

The Group recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the tax authorities or by the courts. Recognized tax positions are measured according to the highest amount having a realization probability in excess of 50%. Changes in recognition or in measurement are reflected in the period in which changes in the circumstances that led to the change in considerations occurred.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(16) Earnings per share

The Group presents earnings per share data, basic and diluted, in respect of its ordinary share capital. The basic per share earnings is computed by dividing the profit or loss attributable to the Company's ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. No adjustments to the basic earnings per share are required in calculating the Company's diluted earnings per share.

(17) Statement of cash flows

The Company reports on cash flows in accordance with generally accepted accounting principles for banks in the USA and it implements the provision of Topic 230-10 in the codification regarding "Statement of cash flows".

The statement of cash flows is presented with a division into cash flows from operating activities, from investment activities and from financing activities.

(18) Segmental reporting

The Company implements generally accepted accounting principles in the USA regarding "Segmental reporting", as stated in Topic 280 of the Codification, as well as directives issued by the Banking Supervision Department.

An operating segment is a component in a company that is engaged in activities from which the operating segment is likely to derive income and bear expenses, the results of whose operations are regularly examined by management and the board of directors in order to make decisions regarding resource allocation and performance evaluation, and regarding which separate financial information exists.

(19) Transactions with controlling interests

The Company implements US GAAP in accounting for transactions between a banking corporation and its controlling shareholder and with a company under the control of a banking corporation. In situations not covered by the aforesaid principles, the Company applies the principles prescribed in Standard 23 of the Israel Accounting Standards Board, on the subject of the accounting treatment of transactions between a corporation and a controlling interest therein.

Assets and liabilities for which a transaction has been executed with a controlling interest are measured in accordance with the fair value at the time of the transaction.

(20) Financial assets transfers and servicing and the extinguishment of liabilities

The Group applies the measurement and disclosure rules prescribed Topic 860-10 in the Codification, *Accounting for Direct Transfers of Financial Assets and Extinguishments of Liabilities*, for the purpose of the treatment of transfers of financial assets and extinguishment of liabilities.

The transfer of financial assets in which the transferor waives control of those financial assets, are recorded as a sale or purchase, if and only if the following conditions are met:

1. The financial assets that have been transferred have been separated from the transferor and they are beyond the transferor's and its creditors' reach even in the case of bankruptcy or some other receivership.
2. Every recipient has the rights to charge or to replace the assets that it has received and there is no condition that also restricts the recipient from utilizing its right to charge or to replace and also grants the transferor a benefit that is more than trivial.
3. The transferor does not retain effective control over financial assets that have been transferred.

If the transfer meets the conditions that are detailed above, the Company derecognizes the assets that have been transferred and recognizes assets that have been received at fair value.

Note 2 - Reporting Principles and Accounting Policy (Continued)

B. Accounting policy applied in the preparation of the financial statements (Continued)

(20) Financial assets transfers and servicing and the extinguishment of liabilities

The Group only de-recognizes a liability if the liability has been extinguished, namely that one of the following conditions has been fulfilled: (a) the Group has paid its creditor and has been released from its obligations regarding the liability, or (b) the Group has been legally released through legal proceedings or, with the consent of the creditor, from being the principal debtor for the liability.

(21) Provision for losses

The financial statements include provisions for losses arising from forgery or theft. Such provisions are made when the misuse of a credit card is suspected. The rate of the provision is based on past experience in relation to the rates of actual losses.

(22) Receivables/payables on credit card transactions

When a credit card transaction takes place, an asset is created for the acquirer that acquires the transaction, in respect of the card issuer’s or cardholder’s debt; concurrently, a liability in favor of the merchant is created. Furthermore, an asset is created for a credit card company that is an issuer in respect of the cardholder’s or the issuing bank’s debt, while a liability is concurrently created opposite the acquiring acquirer. The balances of receivables and payable on credit card transactions represent the movements processed up to the morning of the reporting date (or the business day preceding the reporting date, if the reporting date is not a business day).

(23) Provision for gift offers

The financial statements include a provision for gift offers for credit cardholders. In determining the adequacy of the provision, Management bases its assessment on past experience gathered regarding the future realization rates and in accordance with the projected cost, as updated from time to time, and in accordance with the code of rules for the offers.

(24) Issuing agreements with customer clubs

The Group's issuing agreements with various customer clubs arrange, inter alia, the manner of the division of the revenues between the parties as well as aspects relating to expenses, including marketing and advertising budgets that will be made available by the parties and the division of the costs. In relation to the Group's commitments with customer clubs, the Group's revenues in respect of interchange fees from transactions that have been executed on the club cards as well as revenues from interest from transactions on such cards are reflected in the Group's financial statements under revenues (under revenues from transaction on credit cards and under interest income, net, respectively).

The amount to which the customer clubs are entitled in respect of their share of such revenues, as well as the Group's share of such expenses, are recorded under selling and marketing expenses. Furthermore, for some of the Group's agreements with customer clubs bonuses are included, which are dependent upon the meeting of performance targets, in relation to which the Group makes an estimate each period regarding the entitlement to such bonuses, and accordingly are reflected in the financial statements (which are spread over the relevant period). Amounts that have been paid to customer clubs and which are presented under non-current assets and are tested for impairment in value, pursuant to the provisions of Topic 360 of the Codification, where events or changes in circumstances indicate that the carrying value in the accounting records may not be recoverable. Impairment losses are to be recognized only if the carrying value of the asset in the accounting records exceeds its fair value. The carrying value in the accounting records is not recoverable if it exceeds the amount of the undiscounted cash flows that are expected to derive from the use of the non-current asset and from its disposal.

Impairment losses are at the level of the difference between the carrying value of the non-current asset (or group of assets) and its fair value and is reflected in the statement of income. Where an impairment loss is recognized, the adjusted carrying value of the asset in the accounting records forms the new base cost. These losses are not cancelled in subsequent periods, even if there is an increase in value.

Note 2 - Reporting Principles and Accounting Policy (Continued)

C. The initial implementation of accounting standards, updates to accounting standards and directives of the Supervisor of Banks

As from January 1, 2023, the Group has been implementing the standard on the subject of the adoption of updated to generally accepted accounting principles in banks in the United States - Allowance for credit losses and additional provisions.

On March 28, 2018, the Banking Supervision Department published a letter on the subject of the "Adoption of updates to generally accepted accounting principles in banks in the United States – Allowance for losses and other directives", within the framework of which, inter alia, there is a requirement, inter alia, to implement the generally accepted accounting principles in banks in the United States on the subject of allowances for credit losses. The initial implementation was performed pursuant to the transition provisions that have been set in the principles in the United States.

The objective of the new principles is to improve the quality of the reporting on the banking corporation's financial position, by means of advancing the recording of the allowances for credit losses in a manner that strengthens the anti-cyclical nature of the behavior of the allowances for credit losses, which supports a faster response by the banks to a deterioration in the quality of the borrower's credit, and its strengthens the connection between the management of the credit risks and the manner in which those risks are reflected in the financial statements, based on the existing methods and processes.

The main changes in the accounting treatment in the financial statements of banking corporations following the implementation of these principles are, inter alia:

- The allowance for credit losses is being calculated in accordance with the loss that is expected over the lifetime of the credit, instead of estimating the loss that has been caused and has not yet been identified;
- The estimate of the allowance for credit losses is being made making significant use of forward looking information that reflects reasonable forecasts in respect of future economic events;
- The expansion of the disclosure on the impact of the timing at which the credit is extended on the quality of the credit portfolio is to be expanded;
- The manner in which impairment in the value of bonds in the available for sale portfolio has been changed; and
- New principles for the calculation of the allowance for credit losses that apply to credit and certain off-balance sheet credit exposures.

On December 1, 2020, a circular was published on the subject of "Supervisory capital – the impact of the implementation of accounting principles in the subject of expected credit losses. Transition provisions were determined within the context of the circular, which apply to the impact of the initial adoption of the new principles, and this in order to reduce the unexpected impacts of the implementation of the supervisory capital principles.

Certain processes in connection with the classification and the testing of troubled credit, the definition of credit as non-accrual and interest income, the principles for writing off and the methods for measuring the allowance, have been changed as a result of the implementation of the standard. Furthermore, the disclosure requirements have been adapted to the requirements of the accounting standards in the USA, as adopted by the Banking Supervision Department, within the context of the public reporting directives, all of which as set forth below.

The initial implementation of the new directives, as from January 1, 2023, was made while reflecting the cumulative impact to the balance of the retained earnings at the time of the initial implementation. Furthermore, certain reliefs were adopted at the time of the initial implementation, as allowed by the transition provisions, including the spreading of the impact of the initial implementation on all that is connected to its impact on the tier 1 shareholders' equity ratio over three years: 75% in the year in which the initial implementation took place, 50% in the second and 25% in the third.

Note 2 - Reporting Principles and Accounting Policy (Continued)

C. The initial implementation of accounting standards, updates to accounting standards and directives of the Supervisor of Banks (Continued)

The cumulative impact that has been reflected to the balance of retained earnings at the time of the initial implementation, on January 1, 2023, amounts to NIS 34 million (an amount of NIS 50 million before the impact of tax), after the related tax impact, which derives from the decrease in the balance of the provision for credit losses,

It should be mentioned that the implementation of the new principles requires the formulation of methodology and complex models, as well as the implementation of new technology. By the very nature of things, even after the initial implementations, the improvement and the development of the process for the measurement of the allowance for credit losses will continue and accordingly, these activities may require certain changes in the measurement process.

	December 31, 2022	Impact of the implementation of CECL	January 1, 2023
	(Audited)	(Unaudited)	
	In NIS millions		
Balance sheet			
Total balance of the allowance for credit losses	347	50	397
Of which: Allowance for credit losses - private individuals	320	34	354
Of which: Allowance for credit losses – commercial	24	16	40
Shareholders' equity			
Balance of retained earnings before the impact of tax	2,133	(50)	2,083
The impact of tax	-	16	16
Balance of retained earnings after the impact of tax	**2,133**	**(34)**	**2,099**
Capital adequacy and leverage			
Tier 1 shareholders' equity ratio	12.4%	0.0%	12.4%
Overall equity ratio	13.5%	(0.1%)	13.4%
Leverage ratio	9.2%	(0.1%)	9.2%

D. New accounting standards and directives of the Supervisor of Banks in the period prior to their implementation

The updating of the ASU 2022-02 Standard regarding the re-organization of troubled debts and the disclosure requirement in accordance with the year in which the credit was provided

On March 31, 2022, the American Financial Accounting Standards Board (the "FASB") published ASU 2022-02 regarding the regarding the re-organization of troubled debts and disclosure requirements in accordance with the year in which the credit was provided on the subject of the allowance for credit losses.

The Update cancels the directives that deal with the reorganization of borrowers' troubled debts, whilst improving the disclosure requirements relating to borrowers who are experiencing economic difficulties. Furthermore, the Update adds a disclosure requirement for gross right-offs in accordance with the year in which the credit was provided.

The provisions of the Update apply to entities that adopt the Update to Standard 2016-13 as from annual and interim periods commencing after December 15, 2022.

On October 19, 2023, the Banking Supervision Department distributed an amendment to the public reporting directives regarding "Changes in the conditions of debts of borrowers having financial difficulties", as from January 1, 2024.

In the Company's assessment, the update is not expected to have a significant impact.

Note 2 - Reporting Principles and Accounting Policy (Continued)

E. Changes and instability in the macro-economic environment

The State of Israel entered a state of emergency on October 7, 2023 in the wake of the terror attack on Israel and the start of the "Swords of Iron" war. Inter alia, the war has caused a slowdown in economic activity in the economy, following broadscale call ups for reserve military duty, damage to property, the disruption of the supply chain and places of work being shuttered. In addition, it is possible that there will be an additional escalation on additional fronts. In light of the high level of uncertainty that exists regarding the length and the nature of the war and the impact thereon on the economy and on the Group's operations and in light of the budgetary and policy decisions that the government is facing, the risk and the potential impact on the Israeli economy and on the group itself, is high. At the beginning of the war, there were sharp falls in the prices of securities on the Tel-Aviv Stock Exchange and a devaluation of the shekel against other currencies, which were trends that reversed partly by the end of 2023, such that the leading indices on the Stock Exchange returned to a similar level as that which they had before the war and the shekel recorded a revaluation opposite foreign currencies.

The disruption of routine life and the impacts of the war on the Israeli economy caused the Bank of Israel to publish directives to the banking corporations in order to provide relief to their customers. The directives include the possibility of exceeding credit facilities or enabling reliefs for borrowers such as the setting of new repayment arrangements for the short-term (inter alia, the waiving of arrears interest and the deferral of payments of interest and principle for a period of three months). Pursuant to a letter of December 26, 2023 from the Bank of Israel, the outline has been extended by an additional three months as at the end of the year and the nature of the reliefs for those entitled has been expanded.

In addition to the outline, which the Bank of Israel has published regarding support for those injured by the war and the encouragement of businesses, the Group has harnessed itself to assisting its customers and has been offering additional reliefs, furthermore, the Group has been assisting residents of the confrontation lines and emergency organizations by means of donations and encouraging volunteering in the community, The estimated amount of the said benefits will be affected by the extent of the utilization and the length of time for which the outline will be provided.

In light of the war and its expected negative impacts on the Israeli economy, Moody's and Fitch, the international rating agencies, announced already at the beginning of October 2023 that they were placing the State of Israel on a negative rating watch, as a result of a change int eh perception of the risks. Later on, in February 2024, Moody's announced the lowering of Israel's credit rating by one grade, to a rating of A2. S&P, the international rating agency, on which the Company relies in the determination of the credit risk assets, announced the lowering of the State of Israel's credit outlook from stable to negative, although the rating itself remained at a level of AA-. As at the date of this report, no change has occurred in the outlook and the rating.

The continuation of the war could lead to a deterioration in economic activity in a range of sectors of business activity to which the Group is exposed, including an increase in credit risk and liquidity difficulties for borrowers, and as a result of this, the impairment of the quality of the credit in both the business segment and also in the private customers segment.

Note 3 - Income from Credit Card Transactions

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Income from merchants:						
	1,034	1,008	906	815	802	717
Other income	29	23	21	9	9	8
Total income from merchants - gross	1,063	1,031	927	824	811	725
Less - fees to other issuers	(364)	(359)	(306)	(363)	(357)	(305)
Total income from merchants - net	699	**672**	**621**	461	**454**	**420**
Income from credit cardholders:						
Issuer fees	566	533	436	534	510	424
Service fees	276	268	262	241	233	226
Fees on overseas transactions	199	168	103	187	160	99
Other income	11	10	10	10	9	9
Total income from credit cardholders	1,052	**979**	**811**	972	**912**	**758**
Total income from credit card transactions	1,751	**1,651**	**1,432**	1,433	**1,366**	**1,178**

Note 4 - Net Interest Income

		Consolidated			Company		
		Year ended December 31			Year ended December 31		
		2023	2022	2021	2023	2022	2021
		In NIS millions					
A.	Interest income in respect of assets						
	From credit to private individuals	921	681	524	1	1	-
	From commercial credit	142	71	47	60	28	19
	From subordinated notes	-	-	-	-	*-	*-
	From credit to investee companies	-	-	-	237	115	98
	From other assets	4	1	-	*-	*-	*-
	Total interest income	**1,067**	**753**	**571**	**298**	**144**	**117**
B.	Interest expenses in respect of liabilities						
	To banking corporations	231	68	22	138	43	14
	On other liabilities	14	5	1	12	4	1
	Total interest expenses	**245**	**73**	**23**	**150**	**47**	**15**
	Total net interest income	**822**	**680**	**548**	**148**	**97**	**102**

* Represents an amount of less than NIS 1 million

Note 5 –Non-Interest Income

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Exchange differences, net	6	(1)	5	4	(3)	2
Gains from investment in shares (1)	–	30	–	–	30	–
Income from the sale of a building (2)	296	–	–	296	–	–
Dividend	1	2	2	1	2	2
Other (3)	7	71	(2)	13	28	3
Total non-interest financing income	**310**	**102**	**5**	**314**	**57**	**7**

(1) In the third quarter of 2022, the Company realized shares in Visa Inc., which had been released from blocking, belonging to CAL and the banks that hold it, in an amount of approximately NIS 57 million. Accordingly, the Company has recognized income of approximately NIS 30 million and income of approximately NIS 23 million, net of tax (less the owning banks' share) in the quarter. See Note 13 to the financial statements – Securities, for additional details regarding the sale of shares in Visa Inc.

(2) See Note 15 – Buildings and equipment for additional details regarding income from the sale of CAL House in Givatayim.

(2) Including income from interest and index hedging in an amount of NIS 5 million in 2023, NIS 68 million in 2022 and NIS 5 million in 2021.

Note 6 - Operating Expenses

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Salaries and related expenses	280	263	244	280	263	244
Data processing and computer maintenance	53	43	34	52	42	33
Payments to international credit card organizations	147	173	122	107	139	99
Depreciation and amortization	106	102	97	106	102	97
Communications	5	4	5	5	4	5
Issuing cards and mailing	45	35	36	39	30	31
Losses arising from misuse of credit cards	11	11	5	11	11	3
Building rental and maintenance	27	21	21	27	21	21
Vehicle maintenance	9	9	8	9	8	8
Operating commissions	46	40	35	42	37	33
Other*	90	114	77	49	77	46
Total operating expenses	**819**	**815**	**684**	**727**	**734**	**620**

Note 7 - Selling and Marketing Expenses

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Salaries and related expenses	91	85	79	83	78	73
Advertising	15	18	16	9	10	9
Recruitment of customers	111	126	125	92	113	115
Royalties to clubs (1)	454	361	311	257	222	183
Gift offers to credit cardholders (2)	34	26	(11)	28	22	(11)
Vehicle maintenance	6	6	5	6	5	5
Other	10	10	8	2	1	1
Total selling and marketing expenses	**721**	**632**	**533**	**477**	**451**	**375**

(1) Including royalties to customer clubs.

(2) The expenses in 2021 included a non-recurring decrease in the provision for certain customer benefit programs in an amount of NIS 33 million, before tax, which expired in the third quarter of 2021.

Note 8 - Administrative and General Expenses

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Salaries and related expenses	51	48	45	51	48	45
Professional services	28	27	23	25	24	20
Insurance	4	4	3	4	4	3
Other	24	18	14	20	14	12
Total administrative and general expenses	**107**	**97**	**85**	**100**	**90**	**80**

Note 9 - Provision for Taxes on Profit

A. Composition

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Current taxes for the accounting year	122	193	99	54	117	41
Current taxes for prior years	(43)	53	8	12	6	1
Total current taxes	79	246	107	66	123	42
Add (less)						
Deferred taxes for the accounting year	14	(65)	13	64	(74)	(1)
Deferred taxes for prior years	55	(47)	2	-	-	1
Total deferred taxes	69	(112)	15	64	(74)	*-
Total provision for taxes on income	**148**	**134**	**122**	**130**	**49**	**42**

* Represents an amount of less than NIS 1 million.

The above table does not include the tax exposure in respect of certain items, which are recognized under other comprehensive income. The tax impact of the items that have been recognized under other comprehensive income amounted to a decrease of NIS 4 million in 2023, an increase of NIS 5 million in 2022 and an increase of NIS 4 million in 2021.

B. Reconciliation between the theoretical amount of tax, for which the Company would have been liable had the profit been taxed at the statutory tax rate applicable to banking corporations in Israel, and the provision for taxes on profit, charged in the statement of profit and loss:

	Consolidated			Company		
	Year ended December 31			Year ended December 31		
	2023	2022	2021	2023	2022	2021
	In NIS millions					
Income before tax	597	441	391	529	185	166
Rate of tax applicable in Israel on the Company (in %)	23%	23%	23%	23%	23%	23%
Amount of tax based on statutory tax rate	**137**	**101**	**90**	**122**	**43**	**38**
Tax expense (tax saving) in respect of						
Differences due to subsidiary's different tax rate	3	26	23	-	-	-
Exempt income and at reduced tax rates	(4)	(*-)	(1)	(4)	(*-)	(*-)
Depreciation differences	(*-)	(*-)	(*-)	(*-)	(*-)	(*-)
Other nondeductible expenses	*-	1	-*	-*	-*	2
Taxes in respect of prior years	12	6	10	12	6	2
Provision for taxes on income	**148**	**134**	**122**	**130**	**49**	**42**

* Represents an amount of less than NIS 1 million.

C. Income tax assessments

On February 7, 2024, the Company and the Assessing Officer for Large Enterprises signed on an assessments agreement for the 2018 - 2021 tax years. The impacts of the signing of the agreement were reflected in the results for the year 2023. The signing of the agreement has not had a significant impact on the financial statements.

On March 30, 2022, CAL Financing Ltd. and the Assessing Officer for the Gush Dan Region signed on an assessments agreement for the years 2018 - 2020. The subsidiary companies, Diners, Diners Financing CAL Deposits and Yatzil Financing have tax assessments up to and including the 2018 tax years, which are final or which are deemed to be final.

Note 9 - Provision for Taxes on Profit (Continued)

D. VAT assessments

On December 14, 2016, the Director of Value Added Tax ("the Director") issued assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, stands at NIS 48 million. The Company is disputing the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, the Company filed an appeal on March 9, 2017. To the best of the Company's knowledge, assessments on this issue have also been received by the Company's competitors.

On March 8, 2018, the Company received a decision from the Director of Value Added Tax. In the decision, the objection was dismissed, and the amount of the charge in the assessment was increased to NIS 75 million (including interest and linkage). On January 31, 2019, the Company submitted an appeal in the District Court in Lod against the said decision.

On November 3, 2019, the Supreme Court approved an agreed petition for the consolidated of the hearings on the appeal with the appeals submitted by the Company’s competitors. A pre-trial hearing was held on March 5, 2020.

Evidentiary hearings were held in June and July 2022. The parties conducted negotiations in the reporting period in order to reach a compromise in relation to the said assessment. The parties have not reached agreements, and accordingly the Company submitted summations in.

On February 12, 2023, the Company received Value Added Tax assessments for the years 2018 – 2022, in an overall amount of NIS 192 million, including interest and linkage (the "Additional assessments"). The issues in these assessments are similar, in principal to the assessments that were issued for the previous charge periods. If the Company's position is not accepted by the Court, the Company may be charged in respect of issues in the assessment and in the additional assessments and in later periods than the date of the assessment.

The Company assesses the amount of the exposure for which no provision has been recorded in the financial statements at NIS 254 million.

E. Unrecognized tax liabilities

Pursuant to the transition provisions that have been determined in directives issued by the Supervisor of Banks, the Company has not recognized a deferred tax liabilities for certain temporary differences that are connected the Company's investments in subsidiary companies. The said amount will only be taxed at the time of the sale or liquidation of the subsidiary company.

The said temporary difference amounts to NIS 8 million as at December 31, 2023 (NIS 7 million as at December 31, 2022). If the Company were required to recognize a deferred tax liability for the abovementioned undistributed profits, that liability would amount to NIS 3 million as at December 31, 2023 (NIS 3 million as at December 31, 2022).

Note 9 - Provision for Taxes on Profit (Continued)

F. Movement in deferred taxes:

	Allowance for credit losses	Losses arising from misuse of cards	Provision for vacation pay and bonuses	Excess of liabilities for employee benefits over	Adjustment of depreciable nonmonetary assets	Other	Total
	In NIS millions						
	Consolidated						
Balance of deferred tax assets (liabilities) as at January 1, 2021	**145**	**4**	**6**	**10**	**(8)**	**11**	**168**
Changes carried to profit and loss	(14)	1	1	7	(*–)	(10)	(15)
Changes carried to equity	–	–	–	(4)	–	–	(4)
Balance of deferred tax assets (liabilities) as at December 31, 2021	**131**	**5**	**7**	**13**	**(8)**	**1**	**149**
Changes carried to profit and loss	52	2	(*–)	(1)	1	58	112
Changes carried to equity	–	–	–	(5)	–	–	(5)
Balance of deferred tax assets (liabilities) as at December 31, 2022	**183**	**7**	**7**	**7**	**(7)**	**59**	**256**
Changes carried to profit and loss	(28)	(4)	1	(*–)	7	(45)	(69)
Changes carried to equity	16	–	–	4	–	–	20
Balance of deferred tax assets (liabilities) as at December 31, 2023	**171**	**3**	**8**	**11**	**–**	**14**	**207**

* Represents an amount of less than NIS 1 million.

	Allowance for credit losses	Losses arising from misuse of cards	Provision for vacation pay and bonuses	Excess of liabilities for employee benefits over	Adjustment of depreciable nonmonetary assets	Other	Total
	In NIS millions						
	Company						
Balance of deferred tax assets (liabilities) as at January 1, 2021	**8**	**4**	**6**	**10**	**(8)**	**8**	**28**
Changes carried to profit and loss	(2)	1	1	7	(*–)	(7)	*–
Changes carried to other comprehensive income	–	–	–	(4)	–	–	(4)
Balance of deferred tax assets (liabilities) as at December 31, 2021	**6**	**5**	**7**	**13**	**(8)**	**1**	**24**
Changes carried to profit and loss	(*–)	2	*–	(1)	1	72	74
Changes carried to other comprehensive income	–	–	–	(5)	–	–	(5)
Balance of deferred tax assets (liabilities) as at December 31, 2022	**6**	**7**	**7**	**7**	**(7)**	**73**	**93**
Changes carried to profit and loss	(2)	(4)	1	(*–)	7	(66)	(64)
Changes carried to other comprehensive income	2	–	–	4	–	–	6
Balance of deferred tax assets (liabilities) as at December 31, 2023	**6**	**3**	**8**	**11**	**–**	**7**	**35**

* Represents an amount of less than NIS 1 million.

Note 9 - Provision for Taxes on Profit (Continued)

G. Taxes on income

Changes in legislation in the tax field.

The corporate income tax rate that applies to the Company has been 23% in the years 2021-2023. The corporate income tax rate for the subsidiary companies in the Group, which are classified as a "financial institution" stands at 34.19%.

On January 23, 2024, a draft amendment to the Value Added Tax Order (The rate of tax for charities and financial institutions), which determines, inter alia, what the salary tax and profit tax rates that are imposed on financial institutions will be, was published.

It is determined in the draft amendment that the rate of profit tax and salaries tax that will be imposed on financial institutions will be 18% as from January 1, 2025, instead of 17% (as imposed at present).

If the order is approved, the Company's deferred tax balances will increase by an amount of less than NIS 1 million, and the effective tax rate of the subsidiary company, which is a "financial institution" will increase from 34.19% to 34.75%.

The deferred tax balances have been calculated in accordance with the new tax rate that is expected to apply at the time of the reversal.

The current taxes for the reported periods have been calculated in accordance with the tax rates that are presented above.

Note 10 - Cash and Bank Deposits

	Consolidated		Company	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
Cash	21	12	8	3
Deposits in banks for an original period of up to 3 months	42	42	–	–
Total cash and cash equivalents	63	54	8	3

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis

A. Receivables and credit on credit card transactions

	Consolidated		Company	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
Credit risk:				
Private individuals: (1)	**12,270**	**11,760**	**3,898**	**4,100**
Of which: receivables in respect of credit cards (2)	4,529	4,726	3,898	4,100
Of which: credit (2) (3)	7,741	7,034	-	-
Commercial:	**1,481**	**1,180**	**955**	**672**
Of which: receivables in respect of credit cards (2)	217	31	157	23
Of which: credit (2) (4)	1,264	1,149	798	649
Total credit risk not guaranteed by banks	**13,751**	**12,940**	**4,853**	**4,772**
Other receivables:				
International credit card companies and organizations	117	61	117	61
Income receivable	191	151	113	85
Other	9	19	-	-
Total receivables on credit card transactions	**14,068**	**13,171**	**5,083**	**4,918**

(1) Individuals as defined on pages 621-5 in the Public Reporting Directives(in Hebrew), *Total Credit Risk According to Economic Sectors on a Consolidated Basis*.

(2) Receivables in respect of credit cards - free of interest charges: includes balances in respect of regular transactions, transactions paid in installments on merchants' accounts and other transactions. Credit to cardholders - with interest charges: includes credit transactions, transactions on revolving credit cards, direct credit, and other transactions.

(3) Includes secured credit for vehicles totaling NIS 246 million and NIS 373 million as at December 31, 2023 and as at December 31, 2022, respectively.

(4) Credit to merchants. This amount includes vouchers discounted for merchants totaling NIS 453 million and NIS 495 million as at December 31, 2023 and as at December 31, 2022, respectively, which did not meet merchant liability extinguishment terms, pursuant to FAS 166.

The Company purchased commercial credit in the years 2023 and 2022 in the amounts of NIS 3,467 million and NIS 3,025 million, respectively. This credit is untroubled. No transactions have been executed for the purchase of off-balance sheet credit, credit sales, syndications and participation in the syndication of loans.

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

B. Debts** and off-balance-sheet credit instruments:

(1) Movement in the balance of the allowance for credit losses:

	Consolidated					
	Year ended December 31, 2023					
	Allowance for credit losses					
	Credit risk not guaranteed by banks					
	Individuals		Commercial			
	Receivables in respect to credit cards	Credit (2)	Receivables in respect to credit cards	Credit (2)	Others (3)	Total
	In NIS millions					
Balance at the beginning of the year	79	275	*–	24	4	382
Adjustment to the opening balance for the impact of initial implementation (4)	(42)	76	7	9	–	50
Expenses (income) for credit losses	(6)	291	*–	*–	*–	285
Accounting write offs	–	(281)	–	(8)	–	(289)
Collection of debts subject to accounting write-offs in prior years	–	78	–	3	–	81
Accounting write-offs, net	–	(203)	–	(5)	–	(208)
Balance of the allowance at the end of the year	31	439	7	28	4	509
[1] Of which:						
In respect of off-balance-sheet credit instruments	23	–	5	*–	1	29
In respect of deposits in banks	–	–	–	–	*–	*–
In respect of receivables for credit cards guaranteed by banks	–	–	–	–	1	1

	Consolidated					
	Year ended December 31, 2022					
	Allowance for credit losses					
	Credit risk not guaranteed by banks					
	Individuals		Commercial			
	Receivables in respect to credit cards	Credit (2)	Receivables in respect to credit cards	Credit (2)	Others (3)	Total
	In NIS millions					
Balance at the beginning of the year	86	276	*–	23	4	389
Expenses (income) for credit losses	(7)	100	–	4	–	97
Accounting write offs	–	(168)	–	(4)	–	(172)
Collection of debts subject to accounting write-offs in prior years	–	67	–	1	–	68
Accounting write-offs, net	–	(101)	–	(3)	–	(104)
Balance of the allowance at the end of the year	79	275	*–	24	4	382
[1] Of which:						
In respect of off-balance-sheet credit instruments	–	34	–	*–	1	35
In respect of deposits in banks	–	–	–	–	*–	*–
In respect of receivables for credit cards guaranteed by banks	–	–	–	–	3	3

* Represents an amount of less than NIS 1 million.
** Receivables for activity on credit cards, deposits in banks and other debts.

See the comments on the tables on the following page.

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

B. Debts** and off-balance-sheet credit instruments (Continued):

(1) Movement in the balance of the allowance for credit losses (Continued):

	Consolidated					
	Year ended December 31, 2021					
	Allowance for credit losses					
	Credit risk not guaranteed by banks					
	Individuals		Commercial			
	Receivables in respect to credit cards	Credit (2)	Receivables in respect to credit cards	Credit (2)	Others (3)	Total
	In NIS millions					
Balance at the beginning of the year	85	313	*–	31	6	435
Expenses for credit losses	1	(2)	–	(6)	(2)	(9)
Accounting write offs	–	(96)	–	(2)	–	(98)
Collection of debts subject to accounting write-offs in prior years	–	61	–	*–	–	61
Accounting write-offs, net	–	(35)	–	(2)	–	(37)
Balance of the allowance at the end of the year	86	276	*–	23	4	389
[1] Of which:						
In respect of off-balance-sheet credit instruments	–	39	–	*–	1	40
In respect of deposits in banks	–	–	–	–	*–	*–
In respect of receivables for credit cards guaranteed by banks	–	–	–	–	2	2

(2) Interest bearing credit. This credit includes credit transactions, transactions on revolving credit cards, and credit to cardholders, credit not to cardholders and other transactions.

(3) Receivables and credit in respect of credit cards from banks, bank deposits, international credit card companies and organizations, income receivable and other receivables.

(4) The cumulative impact in respect of the initial implementation of generally accepted

* Represents an amount of less than NIS 1 million.

** Receivables on credit card transactions, bank deposits and other debts.

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

B. Debts** and off-balance-sheet credit instruments (Continued):

(2) Additional information regarding the calculation of the allowance for credit losses on debts and regarding the debts** for which it was calculated:**

	Consolidated					
	December 31, 2023					
	Allowance for credit losses					
	Credit risk not guaranteed by banks					
	Individuals		Commercial			
	Receivables in respect of credit cards	Credit (1)	Receivables in respect of credit cards	Credit (1)	Others (1)	Total
	In NIS millions					
Recorded debt balance of debts**:						
Examined on a specific basis	–	45	–	1,264	–	1,309
Examined on a collective basis	4,529	7,696	217	–	4,634	17,076
Total debts**	4,529	7,741	217	1,264	4,634	18,385
Of which:						
Non-accrual debts	4	173	1	4	–	182
Debts in arrears of 90 days or more**	–	–	–	–	–	–
Other troubled debt	20	270	3	10	–	303
Total troubled debts	24	443	4	14	–	485
Allowance for credit losses in respect of debts**:						
Examined on a specific basis	–	–	–	28	*–	28
Examined on a collective basis	8	439	2	–	2	451
Total allowance for credit losses	8	439	2	28	2	479
Of which: for non-accrual debts	2	111	–*	1	–	114
Of which: for other troubled debts	1	46	–*	4	–	51

See the comments on the following page.

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

B. Debts** and off-balance-sheet credit instruments (Continued):

(2) Additional information regarding the calculation of the allowance for credit losses on debts and regarding the debts** for which it was calculated (Continued)**

	Consolidated					
	December 31, 2022					
	Allowance for credit losses					
	Credit risk not guaranteed by banks					
	Individuals		Commercial			
	Receivables in respect of credit cards	Credit	Receivables in respect of credit cards	Credit	Credit risk guaranteed by banks and others	Total
	In NIS millions					
Recorded debt balance of debts**:						
Examined on a specific basis	34	141	23	1,149	115	1,462
Examined on a collective basis	4,692	6,893	8	–	4,518	16,111
Total debts**	**4,726**	**7,034**	**31**	**1,149**	**4,633**	**17,573**
Of which:						
Non-accrual debts	*–	73	–	12	–	85
Debts in arrears of 90 days or more**	–	30	–	–	–	30
Other troubled debt	15	214	–	*–	–	229
Total troubled debts	**15**	**287**	**–**	**12**	**–**	**314**
Allowance for credit losses in respect of debts**:						
Examined on a specific basis	–	19	–	24	*–	43
Examined on a collective basis	79	222	–	–	3	304
Total allowance for credit losses	**79**	**241**	**–**	**24**	**3**	**347**
Of which: for non-accrual debts	–	37	–	8	–	45
Of which: for other troubled debts	–	89	–	*–	–	89

* Represents an amount of less than NIS 1 million.

** Receivables on credit card transactions, bank deposits and other debts.

(1) Interest bearing credit. This credit includes credit transactions, rolling transactions on credit cards, credit to cardholders, credit other than to holders of credit cards and other transactions.

(2) Receivables and credit for amounts receivables from banks, deposits in banks, international credit card companies and organizations, income receivable and other receivables.

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

C. Debts (1):

(1) Credit quality and arrears according to the year in which the credit was provided:

	December 31, 2023								
	2023	2022	2021	2020	2019	Prior	Recorded debt balance of renewable loans	Recorded debt balance of revolving loans converted into short-term loans	Total
	In NIS millions								
	(Unaudited								
Credit for individuals									
Receivables for credit cards:	**4,442**	**68**	**17**	**2**	**-**	**-**	**-**	**-**	**4,529**
Credit not in arrears with a performance rating	4,375	66	16	-	-	-	-	-	4,459
Credit not in arrears and not at a performance rating	61	2	1	-	-	-	-	-	64
In arrears 30 – 89 days	2	-	-	-	-	-	-	-	2
In arrears more than 90 days	-	-	-	-	-	-	-	-	-
Non-accrual credit	4	-	-	-	-	-	-	-	4
Credit:	**2,820**	**1,591**	**611**	**131**	**72**	**1**	**2,515**	**-**	**7,741**
Credit not in arrears with a performance rating	2,597	1,422	541	118	64	1	2,189	-	6,929
Credit not in arrears and not at a performance rating	137	124	55	10	7	-	270	-	603
In arrears 30 – 89 days	15	7	3	-	-	-	10	-	36
In arrears more than 90 days	-	-	-	-	-	-	-	-	-
Non-accrual credit	71	38	12	2	1	-	49	-	173
Commercial									
Receivables for credit cards:	**215**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**217**
Credit not in arrears with a performance rating	171	2	-	-	-	-	-	-	173
Credit not in arrears and not at a performance rating	41	-	-	-	-	-	-	-	41
Troubled accrual debt	2	-	-	-	-	-	-	-	2
Troubled non-accrual debt	1	-	-	-	-	-	-	-	1
Credit:	**912**	**224**	**78**	**29**	**21**	**-**	**-**	**-**	**1,264**
Credit not with a performance rating	884	215	72	27	21	-	-	-	1,219
Credit without a performance rating and not troubled	19	8	3	1	-	-	-	-	31
Troubled accrual debt	6	1	2	1	-	-	-	-	10
Troubled non-accrual debt	3	-	1	-	-	-	-	-	4
Other	**4,382**	**197**	**50**	**5**	**-**	**-**	**-**	**-**	**4,634**
Total	**12,771**	**2,082**	**756**	**167**	**93**	**1**	**2,515**	**-**	**18,385**

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

C. Debts (1):

(1.1) Credit quality and arrears:

	Consolidated					
	December 31, 2023					
	Not troubled (7)	Troubled (2)			Unimpaired debts - additional information	
		Accrual	Non-accrual	Total	90 days or more in arrears	30 days-89 days in arrears (3)
	In NIS millions					
Credit to the public						
Private individuals						
Receivables in respect of credit cards	4,505	20	4	4,529	-	2
Credit	7,298	270	173	7,741	-	36
Commercial						
Receivables in respect of credit cards	213	3	1	217	-	-
Credit	1,250	10	4	1,264	-	*-
Others (4)	4,634	-	-	4,634	-	-
Total (5)	**17,900**	**303**	**182**	**18,385**	**-**	**38**

	Consolidated					
	December 31, 2022					
	Not troubled (7)	Troubled (2)			Unimpaired debts - additional information	
		Accrual	Non-accrual	Total	90 days or more in arrears	30 days-89 days in arrears (3)
	In NIS millions					
Credit to the public						
Private individuals						
Receivables in respect of credit cards	4,711	15	*-	4,726	-	1
Credit	6,747	214	73	7,034	-	52
Commercial						
Receivables in respect of credit cards	31	-	-	31	-	-
Credit	1,137	-	12	1,149	-	*-
Others (4)	4,633	-	-	4,633	-	-
Total (5)	**17,259**	**229**	**85**	**17,573**	**-**	**53**

* Represents an amount of less than NIS 1 million.
** Receivables for activity on credit cards, deposits in banks and other debts.
*** Restated in accordance with the new disclosure format.

(1) Receivables on credit card transactions, bank deposits and other debts.
(2) Non-accrual debts, substandard debts, or debts under special supervision.
(3) Reclassified as troubled debts that accrue interest income.
(4) Amounts receivable from banks, bank deposits, international credit card companies and organizations, income receivable and other receivables.
(5) Of which: NIS 17,414 million as at December 31, 2023 and NIS 16,905 million as at December 31, 2022 relate to debts whose credit rating on the date of the report corresponded to the credit rating for the granting of new credit in accordance with Company policy.

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

C. Debts (1) (Continued):

(2) Additional information regarding non-accrual debts :

	Consolidated					
	December 31, 2023					
	Balance (2) of non-accrual debts for which an allowance exists	Balance of allowance	Balance (2) of non-accrual debts for which no allowance exists	Total non-accrual debts	Balance of contractual principal of impaired debts	Interest income recorded
	In NIS millions					
Credit to the public						
Individuals						
Receivables in respect of credit cards	4	3	*-	4	4	-
Credit	173	111	-	173	173	-
Commercial						
Receivables in respect of credit cards	1	*-	-	1	1	-
Credit	4	1	-	4	4	-
Other (2)	-	-	-	-	-	-
Total (3)	**182**	**115**	**-**	**182**	**182**	**-**
Of which:						
Measured at present value of cash flows	182	115	-	182		
Debts in troubled debt restructuring	30	3	-	30		

	Consolidated					
	December 31, 2022					
	Balance (2) of non-accrual debts for which an allowance exists	Balance of allowance	Balance (2) of non-accrual debts for which no allowance exists	Total non-accrual debts	Balance of contractual principal of impaired debts	Interest income recorded
	In NIS millions					
Credit to the public						
Individuals						
Receivables in respect of credit cards	-	-	*-	*-	*-	-
Credit	34	17	39	73	73	-
Commercial						
Receivables in respect of credit cards	-	-	-	-	-	-
Credit	12	8	*-	12	12	
Other (2)	-	-	-	-	-	-
Total (3)	**46**	**25**	**39**	**85**	**85**	
Of which:						
Measured at present value of cash flows	46	25	39	85		
Debts in troubled debt restructuring	35	17	-	35		

* Represents an amount of less than NIS 1 million.

**` Restated in accordance with the new disclosure format for non-accrual debts instead of disclosure on impaired debts.

(1) Receivables on credit card transactions, bank deposits and other debts.

(2) Amounts receivable from banks, bank deposits, international credit card companies and organizations, income receivable and other receivables.

(3) If the non-accrual debts were to accrue interest in accordance with their original terms, interest income of NIS 13 million and of NIS 9 million would have been recorded in the years 2023 and 2022, respectively.

(4) The average balance of the non-accrual debts that is recorded is NIS 167 million as at December 31, 2023 and NIS 97 million as at December 31, 2022.

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

C. Debts (1) (Continued):

(2) a. Additional information on debts that have undergone reorganization of troubled debt

(b) Average debt balance and interest income:

	Consolidated		
	As at December 31, 2023		
	Recorded debt balance		
	Not accruing interest	Accrual (2) not in arrears	Total (3)
	In NIS millions		
Credit to the public			
Individuals			
Receivables in respect of credit cards	-	-	-
Credit	26	-	26
Commercial			
Receivables in respect of credit cards	-	-	-
Credit	-	-	-
Others (4)	-	-	-
Total	**26**	**-**	**26**

	Consolidated		
	Year ended December 31, 2022		
	Recorded debt balance		
	Average balance of impaired debts (2)	Interest income recorded (3)	Of which: recorded on a cash basis
	In NIS millions		
Debts not guaranteed by banks			
Individuals			
Receivables in respect of credit cards	-	-	-
Credit	33	-	33
Commercial			
Receivables in respect of credit cards	-	-	-
Credit	2	-	2
Debts guaranteed by banks and others (4)	-	-	-
Total	**35**	**-**	**35**

* Represents an amount of less than NIS 1 million.
**` Restated in accordance with the new disclosure format for non-accrual debts instead of disclosure on impaired debts.

(1) Receivables on credit card transactions, bank deposits and other debts.
(2) Accruing interest income.
(3) Included in non-accrual debts.
(4) Amounts receivable from banks, banks, bank deposits, international credit card companies and organizations, income receivable and other receivables.
(5) As at December 31, 2023 and 2022, the Company did not have commitments to grant further credit to debtors for whom a troubled debt restructuring was performed, in the course of which changes were made to the terms of the credit

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

C. Debts (1) (Continued):

(2) Additional information regarding impaired debts (Continued):

(c) Debts in troubled debt restructuring (Continued):

	Consolidated				
	Year ended December 31, 2023				
	Restructurings performed in the reporting period			Restructurings that failed (2)	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring
		In NIS millions			In NIS millions
Credit to the public					
Individuals					
Receivables in respect of credit cards	-	-	-	-	-
Credit	1,581	25	25	274	5
Commercial					
Receivables in respect of credit cards	-	-	-	-	-
Credit	-	-	-	-	-
Others	-	-	-	-	-
Total	**1,581**	**25**	**25**	**274**	**5**

	Year ended December 31, 2022				
	Restructurings performed in the reporting period			Restructurings that failed (2)	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring
		In NIS millions			In NIS millions
Credit to the public					
Individuals					
Receivables in respect of credit cards	-	-	-	-	-
Credit	2,347	31	31	1,196	5
Commercial					
Receivables in respect of credit cards	-	-	-	-	-
Credit	5	4	4	-	-
Others	-	-	-	-	-
Total	**2,352**	**35**	**35**	**1,196**	**5**

See the comments on the table on the following page.

Note 11 - Credit Risk, Receivables on Credit Card Transactions and Allowance for Credit Losses on a Consolidated Basis (Continued)

C. Debts (1) (Continued):

(2) Additional information regarding impaired debts (Continued):

(c) Debts in troubled debt restructuring (Continued):

	Consolidated				
	Year ended December 31, 2020				
	Restructurings performed in the reporting period			Restructurings that failed (2)	
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring
		In NIS millions			In NIS millions
Credit to the public					
Individuals					
Receivables in respect of credit cards	-	-	-	-	-
Credit	1,977	30	30	1,254	5
Commercial					
Receivables in respect of credit cards	-	-	-	-	-
Credit	-	-	-	-	-
Others	-	-	-	-	-
Total	**1,977**	**30**	**30**	**1,254**	**5**

(1) Receivables on credit card transactions, bank deposits and other debts.

(2) Debts that became impaired debts during the reporting year, which were restructured in the past in a troubled debt restructuring in the course of the 12 months preceding the time at which the debts became debts in arrears.

(3) Amounts receivable from banks, bank deposits, international credit card companies and organizations, income receivable and other receivables.

Note 12 - Receivables (1) on Credit Card Transactions and Off-Balance-Sheet Credit Risk by Size of Borrower's Debts

	Consolidated		
	Year ended December 31, 2023		
	Receivables on credit card transactions		
	No. of Borrowers (2)	Total	Off-balance sheet credit risk (3)
	In NIS millions		
Credit ceiling (in NIS thousands) (4)			
Borrower balances up to 5	**185,542**	**156**	**332**
Borrower balances above 5 up to 10	**177,721**	**334**	**1,053**
Borrower balances above 10 up to 15	**121,464**	**431**	**1,169**
Borrower balances above 15 up to 20	**169,835**	**639**	**2,356**
Borrower balances above 20 up to 30	**284,989**	**1,754**	**5,410**
Borrower balances above 30 up to 40	**138,012**	**1,663**	**3,488**
Borrower balances above 40 up to 80	**213,596**	**4,981**	**7,083**
Borrower balances above 80 up to 150	**22,993**	**1,965**	**834**
Borrower balances above 150 up to 300	**3,856**	**556**	**226**
Borrower balances above 300 up to 600	**396**	**65**	**100**
Borrower balances above 600 up to 1,200	**191**	**68**	**85**
Borrower balances above 1,200 up to 2,000	**78**	**56**	**56**
Borrower balances above 2,000 up to 4,000	**59**	**114**	**43**
Borrower balances above 4,0000 up to 8,000	**30**	**123**	**37**
Borrower balances above 8,000 up to 20,000	**20**	**188**	**31**
Borrower balances above 20,000 up to 40,000	**4**	**121**	**4**
Borrower balances above 40,000 up to 200,000	**2**	**100**	**–**
Borrower balances above 200,000 up to 400,000	**2**	**554**	**–**
More than 400,000	**–**	**–**	**–**
Total	**1,318,790**	**13,868**	**22,307**
Income receivable and other receivables		**200**	**–**
Total		**14,068**	**22,307**

(1) The receivables on credit card transactions and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses and before the effect of deductible collateral for the purpose of the debts of a borrower.

(2) The total number of borrowers according to the total receivables and off-balance-sheet credit risk.

(3) Credit risk on off-balance-sheet financial instruments, as calculated for the purpose of restrictions on the borrower's debts (excluding credit facilities guaranteed by banks).

(4) The borrowers are classified according to the relevant credit ceilings, in accordance with the total amount of the Company's credit facilities.

Note 12 - Receivables (1) on Credit Card Transactions and Off-Balance-Sheet Credit Risk by Size of Borrower's Debts (Continued)

	Consolidated		
	Year ended December 31, 2022		
	Receivables on credit card transactions		
	No. of Borrowers (2)	Total	Off-balance sheet credit risk (3)
	In NIS millions		
Credit ceiling (in NIS thousands) (4)			
Borrower balances up to 5	241,630	153	322
Borrower balances above 5 up to 10	165,246	354	909
Borrower balances above 10 up to 15	128,949	478	1,175
Borrower balances above 15 up to 20	186,363	758	2,461
Borrower balances above 20 up to 30	281,204	1,824	5,042
Borrower balances above 30 up to 40	127,628	1,675	3,068
Borrower balances above 40 up to 80	187,803	4,653	5,919
Borrower balances above 80 up to 150	16,594	1,335	611
Borrower balances above 150 up to 300	2,631	374	153
Borrower balances above 300 up to 600	371	69	89
Borrower balances above 600 up to 1,200	177	69	77
Borrower balances above 1,200 up to 2,000	68	48	53
Borrower balances above 2,000 up to 4,000	57	114	45
Borrower balances above 4,0000 up to 8,000	26	98	39
Borrower balances above 8,000 up to 20,000	13	129	29
Borrower balances above 20,000 up to 40,000	5	113	4
Borrower balances above 40,000 up to 200,000	3	371	–
Borrower balances above 200,000 up to 400,000	1	386	–
More than 400,000	–	–	–
Total	1,338,769	13,001	19,996
Income receivable and other receivables		170	–
Total		13,171	19,996

(1) The receivables on credit card transactions and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses and before the effect of deductible collateral for the purpose of the debts of a borrower.

(2) The total number of borrowers according to the total receivables and off-balance-sheet credit risk.

(3) Credit risk on off-balance-sheet financial instruments, as calculated for the purpose of restrictions on the borrower's debts (excluding credit facilities guaranteed by banks).

(4) The borrowers are classified according to the relevant credit ceilings, in accordance with the total amount of the Company's credit facilities.

Note 13 - Securities

1. On November 2, 2015, Visa Inc. and Visa Europe Ltd. ("Visa Europe") informed the Company of a commitment under an agreement, pursuant to which Visa Inc. would acquire Visa Europe ("The transaction") from the principal members who held its shares.

   On June 21, 2016, the consideration for the transaction, which included, inter alia, blocked preference shares for periods of 4 to 12 years, which are convertible into shares in Visa Inc., was received.

   The consideration for the transaction is divided between the Company (approximately 68% of the transaction) and Discount Bank and First International Bank (hereinafter: "The parties"), all of whom have the status of principal member in Visa.

   In the third quarter of 2022, the Company realized shares in Visa Inc., belonging to the Company and to the banks that hold it, which had been released from blocking, in an amount of approximately NIS 57 million and accordingly, the Company recognized revenues of approximately NIS 30 million and income of approximately NIS 23 million, net of tax (after deducting the holding banks' share). After the provision, as foresaid, the Company holds nonmarketable preference shares with an overall value (including the share of the banks that own CAL) as of the reporting date is estimated at approximately NIS 88 million ("Naïve value"). The equity value of these shares, which are presented at cost, is NIS 14 million. It is clarified that the conversion ratio for the preference shares may reduce in the future, depending upon the clarification of pending and outstanding lawsuits against Visa, which relate to Visa Europe's operations.

   The distribution was performed and will be performed in the future in accordance with an agreed distribution mechanism that has been formulated by the parties.

2. In December 2021, the Company made a commitment under an agreement with Custodia Inc., within the framework of which a loan of 1 million dollars, which is convertible into equity, was provided to Custodia. Pursuant to the agreement, after the conversion of the investment into shares (insofar as it may be converted), it will hold approximately 3% (and in certain circumstances - up to approximately 4%) in Custodia's share capital.

Note 14 - Investments in Investee Companies (Consolidated - Associates) and Details Thereof

A. Composition:

	December 31, 2023			December 31, 2022		
	Associates	Subsidiaries	Total	Associates	Subsidiaries	Total
	In NIS millions					
Investments in shares according to the equity method (including goodwill)	7	748	755	11	825	836
Including - Profits accumulated since acquisition	7	644	651	11	721	732
Details concerning goodwill:						
Original amount	-	3	3	-	3	3
Amortized balance	-	1	1	-	1	1

B. Company's equity in profits or losses of investee companies:

	Year ended								
	December 31, 2023			December 31, 2022			December 31, 2021		
	Associates	Subsidiaries	Total	Associates	Subsidiaries	Total	Associates	Subsidiaries	Total
	In NIS millions								
Company's equity in profits of investee companies	1	68	69	2	256	258	2	225	227
Provision for taxes:									
Current taxes	-	68	68	-	76	76	-	58	58
Prior year taxes	-	(55)	(55)	-	47	47	-	7	7
Deferred taxes	-	5	5	-	(38)	(38)	-	15	15
Total provision for taxes	**-**	**18**	**18**	**-**	**85**	**85**	**-**	**80**	**80**
Company's equity in profits of investee companies, net of tax effect	1	50	51	2	171	173	2	145	147

Note 14 - Investments in Investee Companies (Consolidated - Associates) and Details Thereof (Continued)

C. Balance of goodwill in respect of subsidiaries:

	December 31	
	2023	2022
	In NIS millions	
Consolidated		
Cost	3	3
Accumulated amortization	2	2
Amortized balance	1	1

The balance of goodwill in respect of subsidiaries is included in the consolidated balance sheet under "Other assets".

D. Details of principal investee companies:

Company name	Activity of company	Interest in capital conferring rights to receive profits		Interest in voting rights		Other equity investments		Investment in shares according to equity method		Balance of goodwill		Contribution to net profit attributable to equity holders of the Company		Dividend recorded	
		2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
		Percentages				In NIS millions									
1. Subsidiaries:															
Diners Club Israel Ltd.	Credit cards	100	100	100	100	–	–	411	393	1	1	18	1	–	–
CAL (Financing) Ltd.	Provision of credit	100	100	100	100	–	–	100	233	-	-	(3)	124	100	100
Yatzil Finances Ltd.	Discounting credit card vouchers	100	100	100	100	–	–	145	126	-	-	19	16	–	–
Cal (Deposits) Ltd.	Prepaid cards	100	100	100	100	–	–	5	5	-	-	*-	(*–)	–	–
2. Investee company of Diners Club Israel Ltd.															
Diners (Financing) Ltd. (1)	Provision of credit	100	100	100	100	–	–	87	68	-	-	16	30	–	70

(1) Wholly owned (100%) subsidiary of Diners Club (Israel) Ltd.

Note 14 - Investments in Investee Companies (Consolidated - Associates) and Details Thereof (Continued)

E. Details of principal associates

Company name	The Company's activity	Investment in shares according to equity method		Contribution of operating activities to net profit		Dividend recorded		Interest in capital conferring rights to receive profits		Interest in voting rights	
		2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
		In NIS millions						As a percentage			
Shlomo C.A.L. Ltd.	Leasing to individuals	7	11	1	2	5	-	20	20	20	20

F. See Note 23(C) for details regarding guarantees that have been provided to affiliated companies.

Note 15 - Buildings and Equipment

	Buildings and land	Installations and leasehold improvements	Computers and peripheral equipment	Software costs (1)	Office furniture and equipment	Other equipment	Total
	In NIS millions						
A. Consolidated:							
Cost:							
At January 1, 2023	311	31	153	833	91	2	1,421
Additions	63	2	31	140	*-	*-	236
Disposals	-	(6)	-	(11)	(22)	-	(39)
Reclassification to asset held for sale	(363)	–	–	–	–	–	(363)
At December 31, 2023	11	27	184	962	69	2	1,255
Accumulated depreciation:							
At January 1, 2023	10	25	115	487	78	1	716
Additions	*-	1	21	83	1	*-	106
Disposals	-	(5)	-	(11)	(13)	-	(29)
At December 31, 2023	10	21	136	559	66	1	793
Net book value:							
At December 31, 2023	1	6	48	403	3	1	462
Weighted average depreciation rate in 2023 (%)	2.0	13.1	25.6	24.5	8.9		

	Buildings and land	Installations and leasehold improvements	Computers and peripheral equipment	Software costs (1)	Office furniture and equipment	Other equipment	Total
	In NIS millions						
A. Consolidated:							
Cost:							
At January 1, 2022	259	29	131	708	90	2	1,219
Additions	127	2	23	126	1	–	279
Disposals	–	–	(1)	(1)	(*–)	–	(2)
Reclassification to asset held for sale	(75)	–	–	–	(*–)	–	(75)
At December 31, 2022	311	31	153	833	91	2	1,421
Accumulated depreciation:							
At January 1, 2022	45	22	102	406	76	1	652
Additions	1	3	14	82	2	*–	102
Disposals	–	–	(1)	(1)	(*–)	–	(2)
Reclassification to asset held for sale	(36)	–	–	–	(*–)	–	(36)
At December 31, 2022	10	25	115	487	78	1	716
Net book value:							
At December 31, 2022	301	6	38	346	13	1	705
Weighted average depreciation rate in 2022 (%)	2.0	15.6	26.2	23.6	10.1		

* Represents an amount of less than NIS 1 million.

(1) Including capitalized software cost for software developed for internal use that amounted to NIS 366 million as at December 31, 2023 (2022 - NIS 310 million). See Note B(10) - Reporting principles and principal accounting policies, regarding the policy on the capitalization of software costs policy.

Note 15 - Buildings and Equipment (Continued)

	Buildings and land	Installations and leasehold improvements	Computers and peripheral equipment	Software costs (1)	Office furniture and equipment	Other equipment	Total
	In NIS millions						
B. Company:							
Cost:							
At January 1, 2023	311	31	153	832	91	2	1,420
Additions	63	2	31	140	*–	*–	236
Disposals	–	(6)	–	(11)	(22)	–	(39)
Reclassification to asset held for sale	(363)	–	–	–	–	–	(363)
At December 31, 2023	11	27	184	961	69	2	1,254
Accumulated depreciation:							
At January 1, 2023	10	25	115	486	78	1	715
Additions	*–	1	21	83	1	*–	106
Disposals	–	(5)	–	(11)	(13)	–	(29)
At December 31, 2023	10	21	136	558	66	1	792
Net book value:							
At December 31, 2023	1	6	48	403	3	1	462
Weighted average depreciation rate in 2023 (%)	2.0	13.1	25.6	24.5	8.9		

	Buildings and land	Installations and leasehold improvements	Computers and peripheral equipment	Software costs (1)	Office furniture and equipment	Other equipment	Total
	In NIS millions						
B. Company:							
Cost:							
At January 1, 2022	259	29	131	707	90	2	1,218
Additions	127	2	23	126	1	–	279
Disposals	–	–	(1)	(1)	(*–)	–	(2)
Reclassification to asset held for sale	(75)	–	–	–	(*–)	–	(75)
At December 31, 2022	311	31	153	832	91	2	1,420
Accumulated depreciation:							
At January 1, 2022	45	22	102	405	76	1	651
Additions	1	3	14	82	2	*–	102
Disposals	–	–	(1)	(1)	(*–)	–	(2)
Reclassification to asset held for sale	(36)	–	–	–	–	–	(36)
At December 31, 2022	10	25	115	486	78	1	715
Net book value:							
At December 31, 2022	301	6	38	346	13	1	705
Weighted average depreciation rate in 2022 (%)	2.0	15.6	26.2	23.6	10.1		

`* Represents an amount of less than NIS 1 million.

1`) Including capitalized software cost for software developed for internal use that amounted to NIS 366 million as at December 31, 2023 (2022 - NIS 310 million). See Note 2B(10) - Reporting principles and principal accounting policies, regarding the policy on the capitalization of software costs policy.

Note 15 - Buildings and Equipment (Continued)

C. Sale of CAL's share of the "Discount campus"

In 2016, the Company made a commitment with Discount Leasing Ltd., a subsidiary company of Discount Bank, under an agreement for the construction of the CAL building on the Discount Campus, which is houses Discount's head office and the head offices of its main subsidiary companies in Israel – the Company and Mercantile Discount (the "Group"). The Company's share of the project is approximately 25%.

The extent of the rights deriving from the project as a whole stands at approximately 135 thousand Sq.m., both primary and service areas, on the land. In addition, an option was exercised for the acquisition of the commercial rights, which was afforded within the framework of the contract for the acquisition of the land. An amount of approximately NIS 20 million was paid in consideration for the acquisition of the land. The Group has a right under the agreement to return part of the construction rights that exist on the plot of land to the Municipality and to receive the consideration that it paid for it.

The Company's share in the project costs in the Group's campus stands at NIS 363 million as at December 31, 2023.

In July 2023, in light of the expected separation from Discount Bank, in July 2023 the Company's Board of Directors approved the sale of CAL's share in the "Discount Campus" to Discount Leasing. This transaction has not been completed yet and its completion is expected to take place in the coming months. When it is completed, the Company is recognize net income (after deducting the deductions that are involved in the sale and the impact of taxation) in an amount of approximately NIS 20 million. In light of the Board of Directors' approval, as mentioned above, the Company share in the "Discount Campus" has been classified as "held for sale" in these financial statements. However, the Company's secondary computer has been transferred to the Discount Campus in Rishon Le'Zion as planned.

D. Move to the CAL building

On March 23, 2022, the Company signed on an agreement for the sale of the CAL building in Givatayim for consideration of NIS 336 million, with the addition of VAT and betterment levies.

The transaction was completed on March 30, 2023. In light of the completion of the transaction, the Company recognized a non-recurring profit of NIS 231 million after tax. On the other hand, the Company has recognized non-recurring direct costs, which are involved in the sale of the building and preparations for the move to the new Cal House, in an amount of NIS 16 million after tax. In parallel, the Company and Gazit Globe signed on agreements that will enable the extension of the rental agreement for the building in Givatayim until the time of the transfer to CAL House in Bnei Brak.

On January 1, 2024, the Company signed on a rental agreement for a period of ten years with an option for an extension for an additional 14 years in an office building in Bnei Brak.

In January 2024, the Company signed on an agreement with a main contractor for the performance of adaptation works for the building in Bnei Brak, in addition to which additional agreements have been signed in the telecommunications and multimedia fields. The total construction costs, most of which are expected to be capitalized to leasehold improvements, are estimated at NIS 110 million.

E. The replacement of the infrastructure for the core system:

On April 5, 2017, the Company and HPE Software Israel Ltd. ("HPE") signed on an agreement for the provision of computer services to the Company within the context of a multi-year project for the replacement of the infrastructure for the Company's core system. The objective of the project is to improve business continuity in the core activity, taking note of the time of the end of the lifetime of the existing technological infrastructure and its replacements with advanced infrastructure with a long-term horizon. The extent of the project as a whole, including internal inputs that will be invested in it, is estimated at NIS 250 million. The project is forecast to be completed by the end of 2024.

The project is in advanced stages of delivery checks and is transitioning to focusing on business checks, checks opposite various external parties and exercising process for going live.

Note 15 - Buildings and Equipment (Continued)

D. Information on leasing:

As from January 1, 2020, the Company has been implementing the provisions of Topic 842 in the Codification on the subject of leasing. The leasing contracts under which the Company makes commitments are operating lease contracts for buildings and motor vehicles.

1. Leasing expenses:

	Consolidated	
	For the year ended December 31	
	2023	2022
	In NIS millions	
Expenses for operating leases	17	17
Expenses for short-term leases	-	-
Expenses for variable leasing payments	4	2
Total expenses for leases	**21**	**19**

2. Additional information on leases:

	Consolidated	
	For the year ended December 31	
	2023	2022
	In NIS millions	
Cash flows from operating activities for operating leases	17	17
Right of use assets that have been recognized for new operating leases	10	1
Weighted average period (in years) for operating leases	3	3
Weighted average discount interest rate for operating leases	4.8%	2%

3. Undiscounted cash flows and liabilities for operating leases:

	Consolidated			
	December 31. 2023		December 31, 2022	
	Undiscounted cash flows	Leasing liabilities	Undiscounted cash flows	Leasing liabilities
	In NIS millions			
Up to one year	12	10	10	9
More than 1 year and up to 2 years	5	5	6	5
More than 2 years and up to 3 years	5	4	5	4
More than 3 years and up to 4 years	2	1	3	2
More than 4 years and up to 5 years	2	1	3	2
More than 5 years	32	24	33	28
Total	**58**	**45**	**60**	**50**

Note 16 - Other Assets

	Consolidated		Company	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
Deferred tax assets, net (see Note 9E)	207	256	35	93
Surplus of advance payments for income tax over current provisions	73	27	–	–
Goodwill	1	1	–	–
	281	284	35	93
Other receivables and debit balances:				
Investee companies	–	–	6,553	5,848
Right of use asset for operating leasing	45	50	45	50
Loans to employees	1	1	1	1
Income receivable	7	**32	–	–
Prepaid expenses	173	119	97	70
Assets for Automated Banking Services Ltd.	53	–	53	–
Other	116	**63	115	61
Total other receivables and debit balances	342	265	6,811	6,030
Total other assets	623	549	6,846	6,123

** Reclassified.

Note 17 - Credit from Banking Corporations

	2023 average annual interest rate (in %)		Consolidated		Company	
			December 31		December 31	
			2023	2022	2023	2022
	On the closing balance	On trans actions in the last month	In NIS millions			
Credit in current accounts	5.1	5.1	2,166	2,066	1,582	564
Other loans	3.8	–	1,604	1,156	1,299	859
Credit on current account facilities			3,770	3,222	2,881	1,423

Note 18 - Payables on Credit Card Transactions

	Consolidated		Company	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
Merchants (1)	12,000	12,107	10,846	11,142
Liabilities for deposits (2)	17	11	–	–
International credit card companies and organizations	94	14	92	14
Income received in advance	60	51	3	2
Provision for points	11	10	10	9
Accrued expenses	179	153	149	123
Total payables on credit card transactions	12,361	12,346	11,100	11,290

(1) Net of the balance of vouchers for merchants discounted totaling NIS 1,896 million and NIS 1,893 million at December 31, 2023 and 2022, respectively, which have complied with the merchant liability extinguishment

terms in accordance with FAS 166. And less balances for the advancement of payments to merchants in the amounts of NIS 86 million and of NIS 163 million as at December 31, 2023 and 2022, respectively.

(2) All the deposits were raised in Israel and are non-interest bearing. Furthermore, all of the deposits are held for private individuals and do not exceed an amount of NIS 1 million, for a single deposit.

Note 19 - Other Liabilities

	Consolidated		Company	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
Excess of current income tax provisions over advances paid	49	52	42	34
Excess of amount provided for severance pay	38	25	38	25
Allowance for credit losses on unutilized credit facilities	29	35	1	1
Other payables and credit balances:				
Accrued salaries and related expenses	125	98	125	98
Operating leasing liabilities	45	50	45	50
Trade payables	117	93	117	93
Provision for losses arising from misuse of credit cards	5	19	1	13
Accrued expenses	273	203	203	172
Institutions	30	26	26	21
Other	89	258	34	963
Total other payables and credit balances	684	747	551	1,410
Total other liabilities	**800**	**859**	**632**	**1,470**

Note 20 - Employee Benefits

A. Employee benefits comprise short-term benefits, post-retirement benefits, other long-term benefits and benefits upon dismissal

Labor laws and the Severance Pay Law in Israel obligate the Company to pay severance pay to an employee upon his dismissal or retirement or to make regular contributions to a defined contribution plan, pursuant to Section 14 of the Severance Pay Law, as described below. The Group's liabilities due to this are treated as post-retirement benefits.

The Group's liability for post-retirement benefits is calculated in accordance with the employee's valid employment agreement and is based on the Group's forecast of the employee's salary at the time of his dismissal or retirement.

Post-retirement benefits are funded, generally, by depositing amounts in suitable insurance policies and in central severance pay funds and are classified as a defined contribution plan or as a defined benefit plan, as set forth below:

Defined benefit plan

The Company's obligation to pay severance pay to employees, based on one month's salary for each year of work, as is normal practice, is partly covered by contributions to the severance pay funds, insurance policies and pension funds, and by a provision recorded in the Company's books. That part of the severance payments that is not covered by contributions to defined contribution plans, as referred to above, is treated by the Group as a defined benefit plan pursuant to which a liability is recorded in respect of employees' rights.

Defined contribution plan

Part of the severance pay payments are subject to the provisions of Section 14 of the Severance Pay Law, 1963, pursuant to which the Group's regular contributions to insurance policies and/or pension funds exempt it from any additional liability toward the employees, in respect of whom the aforementioned amounts were contributed. Such contributions, as well as contributions in respect of benefits, constitute defined contribution plans.

Plan assets

The plan assets include assets held long-term by the benefits fund for the employee (employees provident funds and pension funds), as well as appropriate insurance policies.

Some of the Company's employees are entitled to Jubilee (long-term) awards in a set amount at the end of 10, 20, 30 and 40 years work with the Company. In accordance with the directives of the Supervisor of Banks, the provision in respect of this liability is calculated on an actuarial basis and is presented at present value.

The Company's employees are entitled to annual leave in accordance with existing labor agreements, and subject to the provisions of the Annual Leave Law, 1951. The obligation for leave is recognized during the work period in which the entitlement to leave is accrued. The obligation is determined based on the last salary in the reporting period, with the addition of related payments.

The Company's employees are entitled to certain benefits after leaving to go on pension. The aforesaid liability is calculated on an actuarial basis and is recognized during the course of the employee's period of employment.

Note 20 - Employee Benefits (Continued)

B. Composition:

	December 31, 2023	December 31, 2022
	In NIS millions	
Post-retirement benefits:		
Amount of the liability	200	175
The fair value of the plan assets	162	150
Excess of the liability over plan assets (excess of plan assets over the liability)	38	25
Jubilee awards:		
Amount of the liability	1	2
Excess of the liability over the plan assets	1	2
Excess of the liabilities recorded under "Other liabilities"	1	2
Other benefits	11	6
Total excess of the liabilities recorded under "Other liabilities"	50	33

Note 20 - Employee Benefits (Continued)

C. Defined benefit pension plans

(1) Commitments and funding status

	Pension plans	Other post-retirement benefits	Pension plans	Other post-retirement benefits
	December 31, 2023		December 31, 2022	
	In NIS Millions			
1.1 Change in commitment in respect of anticipated benefits				
Commitment in respect of anticipated benefits at the beginning of the year	175	6	196	7
Service cost	11	*–	12	*–
Interest cost	8	*–	5	*–
Deposits by participants in the plan	–	–	–	–
Actuarial (gain) loss	11	5	(29)	(1)
Benefits paid	(5)	(*–)	(9)	(*–)
Reductions, settlements, special and contractual benefits in respect of termination of employment	–	–	–	–
Commitment in respect of anticipated benefits at the end of the year	200	11	175	6
Commitment in respect of accumulated benefits at the end of the year	153	11	117	6

	Pension plans	Other post-retirement benefits	Pension plans	Other post-retirement benefits
	December 31, 2023		December 31, 2022	
	In NIS Millions			
1.2 Change in fair value of the plan assets and the funding status of the plan				
Fair value of the plan assets at the beginning of the year	150	–	149	–
Actual return on the plan assets	6	–	(2)	–
Deposits by the Company to the plan	10	–	10	–
Benefits paid	(4)	–	(7)	–
Fair value of the plan assets at the end of the year	162	–	150	–
Funding status - liability (asset), net, recognized at the end of the year	38	11	25	6

* Represents an amount of less than NIS 1 million.

Note 20 - Employee Benefits (Continued)

C. Defined benefit pension plans

(1) Commitments and funding status

	December 31, 2023	December 31, 2022
	In NIS Millions	
1.3 Amounts recognized in the consolidated balance sheet		
Amounts recognized under the "Other assets" item	–	–
Amounts recognized under the "Other liabilities" item	49	31
Asset (liability), net, recognized at the end of the year	**(49)**	**(31)**

** Reclassified.

	Pension plans	Other post-retirement benefits	Pension plans	Other post-retirement benefits
	December 31, 2023		December 31, 2022	
	In NIS Millions			
1.4 Amounts recognized in accumulated other comprehensive income, before tax effect				
Actuarial loss, net	23	10	9	5
Closing balance in accumulated other comprehensive income	**23**	**10**	**9**	**5**

(2) Expense for the period

	Pension plans	Other post-retirement benefits	Pension plans	Other post-retirement benefits
	December 31, 2023		December 31, 2022	
	In NIS Millions			
2.1 Components of net benefit cost recognized in profit and loss				
Service cost	11	*–	12	*–
Interest cost	8	*–	5	*–
Anticipated return on plan assets	(9)	–	(9)	–
Amortization of unrecognized amounts:				
Actuarial loss (gain), net	*–	*–	1	*–
Other				
Total net benefit cost	**10**	***–**	**9**	***–**
2.2 Changed in the plan assets and in the commitment for benefits recognized in other comprehensive income (loss), before the tax effect				
Net actuarial loss (gain)	14	5	(18)	(1)
Amortization of actuarial gain (loss)	(*–)	(*–)	(1)	(*–)
Total recognized in other comprehensive income	**14**	**5**	**(19)**	**(1)**
Total net benefit cost	**10**	***–**	**9**	***–**
Total recognized in net benefit cost and in comprehensive income	**24**	**5**	**(10)**	**(1)**

* Represents an amount of less than NIS 1 million.

Note 20 - Employee Benefits (Continued)

C. Defined benefit pension plans (Continued)

(3) Assumptions

3.1 Assumptions on a weighted average basis used in determining the commitment in respect of the benefits and in measuring the net benefit cost

	Pension plans and other post-retirement benefits	
	December 31, 2023	December 31, 2022
	In NIS Millions	
3.1.1 Principal assumptions used in determining the commitment in respect of the benefits		
Discount rate	2.35%	1.65%
CPI increase rate	2.65%	2.75%
Retirement rate	4% - 14%	3% - 30%
Real remuneration growth rate	2.35%	1.1% - 1.6%

	Pension plans	Other post-retirement benefits	Pension plans	Other post-retirement benefits	Pension plans	Other post-retirement benefits
	December 31, 2023		December 31, 2022		December 31, 2021	
	In NIS Millions					
3.1.2 Principal assumptions used in measuring the net benefit cost for the period						
Discount rate	1.65%	1.85%	2.60%	2.70%	0.55%	0.90%
Anticipated long-term return on plan assets	5.90%	-	6.20%	-	3.80%	-
Real remuneration growth rate	1.60%	-	1.60%	-	1.60%	-

	Pension plans			
	Increase of one percentage point		Decrease of one percentage point	
	December 31		December 31	
	2023	2022	2023	2022
	In NIS millions			
3.2 Effect of one percentage point change on the commitment in respect of the anticipated benefits , before tax effect				
Discount rate	(13)	(16)	21	21
Retirement rate	(2)	(1)	2	2
Real remuneration growth rate	19	18	(16)	(16)

Note 20 - Employee Benefits (Continued)

C. Defined benefit pension plans (Continued)

(4) Plan assets

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
	In NIS millions			
4.1 Composition of the fair value of the plan assets				
Type of asset -				
Cash and bank deposits	19	–	–	19
Shares	52	–	–	52
Bonds -				
Government	8	31	–	39
Corporate	10	1	–	11
Total bonds	18	32	–	50
Other	–	41	–	41
Total	89	73	–	162

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
	In NIS millions			
4.1 Composition of the fair value of the plan assets				
Type of asset -				
Cash and bank deposits	18	–	–	18
Shares	51	–	–	51
Bonds -				
Government	5	28	–	33
Corporate	11	1	–	12
Total bonds	16	29	–	45
Other	–	36	–	36
Total	85	65	–	150

	Allocation target	% of plan assets	
	December 31		
	2023	2022	2021
4.2 Fair value of the plan assets by type of assets and allocation target			
Type of asset -			
Cash and bank deposits	3%	1%	1%
Shares	36%	55%	52%
Bonds -			
Government	26%	10%	18%
Corporate	18%	20%	21%
Total bonds	44%	31%	39%
Other	17%	13%	8%
Total	100%	100%	100%

Note 20 - Employee Benefits (Continued)

C. Defined benefit pension plans (Continued)

(5) Cash flows

		Actual deposits	
		For the year ended December 31	
	2024 forecast*	2023	2022
	In NIS millions		
5.1 Contributions			
Contributions	9	10	10

* Estimate of expected contributions with defined benefit pension plans during the next financial year.

	Pension plans
	In NIS millions
5.2 Benefits expected to be paid by the Company in the future	
2024	9
2025	9
2026	8
2027	7
2028	15
2029 – 2033	53
2034 and thereafter	321
Total	422

D. Remuneration plans for the CEO and for the Company's employees and managers

(1) General

On August 14, 2022, following the decision of the Board of Directors' Remuneration Committee, the Company's Board of Directors approved a remuneration plan for the Chief Executive Officer of the Company and a variable remuneration plan for the employees of the Company and its managers.

The remuneration plans adopt the principles of the group remuneration policy of the Discount Group, with the necessary changes, and these conform with the Supervisor of Banks' guideline, *Remuneration Policy in a Banking Corporation*.

The objectives at the basis of the plan include: supporting realization of the Company's strategy, objectives and goals; motivating the managers and employees to work toward creating long-term economic value for the Company; encouraging striving toward excellence and professionalism and to provide differential remuneration accordingly; supporting compliance with laws, regulatory directives and the Company's procedures; aligning remuneration with the risk appetite and the risk management framework; forming a link between the remuneration and the Company's performance and personal performance; creating a fair and proper balance between the variable (performance-dependent) remuneration components and the fixed remuneration components; and ensuring fair and proper remuneration for employees at the various grades, in accordance with their contribution, level of responsibility and relative impact on the Company's activity.

Several formats are determined in the remuneration plan, in accordance with the different grades. In any event, the total of the variable remuneration for all the employees in respect of a bonus year may not exceed a ceiling of 12.5% of the total net profit for the bonus year, after eliminating the bonuses and the tax effect in respect thereof. In addition, the total variable remuneration for all the officers will not exceed 2.5% of the net profit for the bonus year, without eliminating the bonuses and the tax effect in respect thereto.

Note 20 - Employee Benefits (Continued)

D. Remuneration plans for the CEO and for the Company's employees and managers (Continued)

(1) General (Continued)

The payment of bonuses in 2023 was made conditional upon a capital adequacy rate of 11.1%. Income and expenses relating to the sale of CAL House in Givatayim and the expense in respect of the phantom option have been eliminated in the calculation of the fulfillment of the target.

The Board of Directors, following the recommendation of the Remuneration Committee and at its sole discretion and for whatever reason it deems to be correct, may reduce the amount of the bonuses and even cancel them altogether in a given year.

(2) Adjustments to the Remuneration Law on the subject of officers in financial corporations (special confirmation and disallowance of an expense for tax purposes for exceptional remuneration) - 2016

Officers, other than the CEO, will not be entitled to part of a bonus that will result in the total annual remuneration exceeding NIS 2.5 million (index linked pursuant to the Remuneration Law and exclusive of payments and contributions for the payment of pensions and severance pay pursuant to the law). However, an exception from the abovementioned ceiling will be permitted in the case of nonrecurring contributions in the terms of employment (such as for a non-competition/ acclimatization bonus and/or accounting adjustments of a similar nature). Despite the aforesaid, after a recommendation from the Remuneration Committee and subject to the approval of Discount Bank's Renumeration Committee and Board of Directors, the Board of Directors shall be entitled to approve the exceeding of the ceiling, in the event of the cutting off of the annual bonus for maximal performance, and solely that such approval may be given for up to 4 members of the management.

(3) Threshold goals for entitlement to annual bonus

Entitlement to the annual bonus in respect of a particular calendar year ("the Bonus Year") will be contingent upon the fulfillment of all the cumulative minimum terms prescribed in the plan, which define quantitative goals in the spheres of the yield on equity and the capital adequacy ratio, as set by the Board of Directors each year for the purpose of calculating the bonus and compliance with risk management limits and qualitative metrics (a personal index).

(4) Company indices

The Company's indices and weightings are derived from the Company's work plan and are presented to the Remuneration Committee and the Board of Directors each year for approval.

(5) The annual bonus

The annual bonus for the CEO will comprise a formula-based bonus, computed according to attainment of the Company's indices and a management quality index in accordance with the Board of Directors' assessment, which will be determined based on particular criteria set forth in the remuneration policy.

The annual bonus for vice presidents, who are not numbered among the gatekeeper functionaries, will comprise a formula-based bonus, computed according to attainment of the Company's indices (see above) and indices of the division for which the vice president is responsible, and an additional bonus that will be distributed at the discretion of the CEO, the size of which will be determined in accordance with a format that is defined in the plan.

The indices for the division's goals will be set at the beginning of the bonus year, based on the Company's annual work plan. The bonus for vice presidents, who are numbered among the gatekeeper functionaries, will be set in accordance with the meeting of the Company indices (see above), the indices for the division for which they are responsible, an assessment by the relevant committee of the Board of Directors, an assessment by the parallel functionary in the parent company and an assessment by the person to who they report. The personal indices will be presented to the Remuneration Committee at the beginning of the Bonus Year.

The annual bonus for key employees and department managers will comprise a formula-based bonus, computed according to attainment of the Company's indices, the division's indices and the department's indices, and an additional bonus that will be distributed at the discretion of the head of the division. The annual bonus for the rest of the employees will be computed in accordance with the total bonus budget, the organizational grade of the employee and his personal assessment score.

Note 20 - Employee Benefits (Continued)

D. Remuneration plans for the CEO and for the Company's employees and managers (Continued)

(5) The annual bonus (Continued)

Spreading the annual bonus for officers and key employees over installments - Payment of the annual bonus for a particular bonus year will be made in four installments: an amount equivalent to 50% of the annual bonus will be paid with the April salary in the distribution year. Three deferred bonus installments, each at a rate of 33%, will be paid after publication of the financial statements for each of the three years following the bonus year.

No spreading will take place in a year in which the total variable remuneration for officers (including the CEO) and key employees is less than 40% of the total fixed remuneration.

Payment of the deferred bonus will be contingent on the percentage attainment of the net profit target in the Bonus Year preceding the date of paying the deferred bonus, and to the percentages prescribed in the plan.

(6) Special bonuses

Special contribution bonus - the Company's CEO, with the approval of the Remuneration Committee and the Board of Directors, will be entitled to grant, from time to time, an additional bonus to a vice president for exceptional performance and/or for a special contribution, from a special comprehensive budget, which will not exceed the amount prescribed in the plan.

Special circumstances bonus - the Remuneration Committee and the Board of Directors will be entitled to grant an annual bonus, from time to time, where the Company has not attained the minimum terms for the payment of the bonus and subject to the Remuneration Committee and the Board of Directors having found that special circumstances existed during that year at the Company or in the business environment or in the macroeconomic situation and also subject to the Company not sustaining a net loss after the payment of the aforesaid bonuses. The aforesaid annual bonus will not exceed the limit prescribed in the plan. The Remuneration Committee and the Board of Directors will approve the criteria for distributing the bonus to the officers. The amount of the annual grant for a Vice President may not exceed 8 salaries.

Mechanism for reconciliation to Discount Bank's expenses:

No bonus may be paid to officers and employees in a year in which Discount Bank has recorded a loss in its annual financial statements. Despite the aforesaid, the Board of Directors will be entitled, after receiving the recommendation of the Remuneration Committee, to refer to Discount's Remuneration Committee, in order to recommend a bonus as it may recommend.

(7) Long-term remuneration plan

On February 26, 2023, the Company's Board of Directors approved a long-term remuneration program for the years 2023 – 2025 for the CEO and for the officers in the Company. The remuneration is based on the fulfillment of CAL's net income and yield on capital targets in the period covered by the program. Entitlement to remuneration within the framework of the program will be conditional upon the fulfilment of quantitative threshold targets for the weighted net income, a yield on capital of at least 7%, fulfillment of capital adequacy targets and fulfillment of a personal qualitative index. It is determined in the plan that weighting will be given to the risks management score in the determination of the level of the remuneration.

The remuneration will be awarded in accordance with the Proper Conduct of Banking Business Directives in relation to the scheduling of variable remuneration. The remuneration is recoverable and in any year, the variable remuneration may not exceed 100% of the fixed remuneration.

In the event of a change in control in the company in the course of the program, the Board of Directors will have the authority to bring the program to an early end. In such a case, the officers will be entitled to proportional remuneration.

Note 20 - Employee Benefits (Continued)

E. Employment agreement for the Company's CEO

The Board of Directors has approved terms of employment, which include a fixed salary, contributions for social benefits, payment in lieu of an appropriate motor vehicle, variable remuneration in accordance with the Company's remuneration policy, mutual notice in advance, and an acclimatization grant at the height of 4 salaries, which will be given at the time of the conclusion of his employment, for the Company's CEO. Furthermore, the CEO is committed to a period of non-competition.

The Company's CEO's total remuneration may not exceed an amount of NIS 4.6 million, linked to the index (including payments and contributions for pension payments and severance pay pursuant to the law), however, an exception will be permitted in the event of non-recurring provisions in the terms of employment. Despite the aforesaid, after a recommendation from the Remuneration Committee and subject to the approval of Discount Bank's Renumeration Committee and Board of Directors, the Board of Directors shall be entitled to approve the exceeding of the ceiling, in the event of the cutting off of the annual bonus for maximal performance.

On September 14, 2023, the Company's Board of Directors approved the updating of the remuneration plan for the Company's CEO, which contained two components. The first is remuneration, the overall extent of which will be derived from the value of the company in a sale within the framework of the separation of the Company from Discount (the "Sale bonus"). It should be mentioned that in the year in which the bonus will be recorded in the Company's accounting records it is possible that a (permitted) exception from the ceiling for the annual remuneration, which has been set in the remuneration plan for the Company's CEO, may arise.

The second component is remuneration for the increasing of value through the business platform, which the Company has developed, the extent of which will be derived from parameters, which have been defined.

Discount Bank, the controlling interest in the Company, has undertaken to indemnify the Company for the sale bonus.

Note 21 - Capital Adequacy and Leverage Pursuant to the Supervisor of Banks' Directives

A. Share capital

Details regarding the Company's share capital are presented below:

	December 31, 2023 and 2022	
	Authorized	Issued and paid-up
	In NIS millions	
Management A shares of NIS 0.0001 each	0.0098	0.0098
Management B shares of NIS 0.0102 each	0.0102	0.0102
Ordinary shares of NIS 0.0001 each	9,999.98	109.78
Total share capital	**10,000**	**109.8**

The 98 Management A shares, each with a par value of NIS 0.0001, confer on their holders 49% of the voting rights at general meetings of the Company.

The Management B share, with a par value of NIS 0.0102, confers 51% of the voting rights at general meetings of the Company and the right to appoint a majority of the Company's directors.

Note 21 - Capital Adequacy and Leverage Pursuant to the Supervisor of Banks' Directives (Continued)

B. Distribution of dividends

The following is information regarding the dividend distributions in the three years preceding that balance-sheet date:

Declaration date by the General Meeting	Distribution date	Total dividend (in NIS millions)	Dividend per share (in NIS)
March 30, 2023	March 30, 2023	74	67.4
September 29, 2022	September 29, 2022	80	72.9
May 16, 2022	May 17, 2022	340	309.7

The main limitation affecting the Company's ability to distribute dividends is the capital ratio limitation.

C. Capital adequacy pursuant to the Supervisor of Banks' directive

The Company implements the Proper Conduct of Banking Business Directives 201-211 regarding the measurement of capital adequacy.

Capital adequacy target

As part of the gradual process of adopting the Basel III instructions in Israel, the Banking Supervision Department issued a guideline letter on March 28, 2013, *Basel III Framework - Minimum Core Capital Ratio*" that requires the banks and acquirers to meet a common equity Tier 1 (core capital) ratio of 9% and a total capital ratio of 12.5% by January 1, 2015.

On May 2, 2016, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 472, *Acquirers and Acquiring Charge Card Transactions*. The directive includes a relief regarding the equity required of an acquirer with receivables in excess of NIS 2 billion in its last annual financial statements, which is to be calculated in accordance with Proper Conduct of Banking Business Directives 201-211, *Capital Measurement and Adequacy;* pursuant to the relief, regardless of that stated in Section 40 of Proper Conduct of Banking Business Directive 201, the common equity Tier 1 ratio is not to be less than 8% and the total capital ratio is not to be less than 11.5%. The Directive went into effect on June 1, 2016.

The Group has a policy, which has been approved by the Board of Directors and Management, to maintain a level of capital adequacy commensurate with the capital target, which is higher than the required minimum ratio as defined by the Supervisor of Banks, pursuant to which, the Board of Directors approves the Company's capital target, which includes the overall tier 1 shareholders' equity at least once a year. These targets are based on the policy that has been approved by the Board of Directors, which expresses the Company's appetite for risk, pursuant to which the Company is required to hold a higher level of capital adequacy than the rate that is required in accordance with the ICAAP result and in accordance with the systematic extreme scenario. It should be mentioned that inter alia, these targets take the results of the processes involved in the determination of the Company's internal capital targets (the ICAAP results) and the dialogue between the Company and the Banking Supervision Department in relation to the specific risks and the Company's equity position into account.

On February 25, 2024, against the background of the performance of the said processes, the Company's Board of Directors decided that the tier 1 capital ratio is to stand at 9.9% and the overall capital ratio is to stand at 9.9% and that the overall capital ratio is to stand at 11.9%. These targets are intended to support the realization of significant internal and external events, which may have a significant impact on the Company's capital ratio, on both the capital side and on the risk assets side. In the Group's opinion, the capital targets, which have been set by the Board of Directors and the management reflect the appropriate capital level, which is required, taking its risk profile and appetite for risk into account.

Note 21 - Capital Adequacy and Leverage Pursuant to the Supervisor of Banks' Directives (Continued)

C. Capital adequacy pursuant to the Supervisor of Banks' directive (Continued)

The following are data regarding the risk assets, the regulatory capital and the capital ratios, which have been calculated in accordance with Proper Conduct of Banking Business Directives 201 – 211, regarding "Capital measurement and adequacy" and in accordance with Directive 299 regarding "Supervisory capital -transition provisions":

		Consolidated	
		December 31	
		2023	2022
		In NIS millions	
a.	Capital adequacy pursuant to the Supervisor of Banks' directives		
1.	Capital for the purpose of calculating the capital ratio:		
	Common equity Tier 1, after deductions	2,472	2,119
	Tier 2 capital, before and after deductions	192	181
	Total capital	2,664	2,300
2.	Weighted balance of risk assets:		
	Credit risk	15,044	14,107
	Market risk	51	37
	CVA ratio	9	31
	Operational risk (1)	3,490	2,863
	Total weighted balances of risk assets	18,594	17,048
.3	Ratio of capital to risk components (in %):		
	Ratio of common equity Tier 1 to risk components	13.3%	12.4%
	Ratio of total capital to risk components	14.3%	13.5%
	Minimum common equity Tier 1 ratio required by the Supervisor of Banks (2)	8.0%	8.0%
	Minimum total capital ratio required by the Supervisor of Banks (2)	11.5%	11.5%
b.	Significant subsidiaries (in %)		
	Diners Club Israel Ltd.		
	Ratio of common equity Tier 1 to risk components	21.1%	21.3%
	Ratio of total capital to risk components	21.1%	22.3%
	Minimum common equity Tier 1 ratio required by the Supervisor of Banks (2)	8.0%	8.0%
	Minimum total capital ratio required by the Supervisor of Banks (2)	11.5%	11.5%

See the comments on the table on the following page.

Note 21 - Capital Adequacy and Leverage Pursuant to the Supervisor of Banks' Directives (Continued)

C. Capital adequacy pursuant to the Supervisor of Banks' directive (Continued)

	Consolidated	
	December 31	
	2022	2021
	In NIS millions	
c. Capital components for the purpose of calculating the capital ratio (consolidated data)		
1. Common equity Tier 1		
Equity attributable to equity holders of the Company	2,447	2,120
Differences between equity and common equity Tier 1	–	–
Total common equity Tier 1, before regulatory adjustments and deductions	2,447	2,120
Regulatory adjustments and deductions		
Goodwill and intangible assets	(1)	(1)
Supervisory adjustments and other deductions – Tier 1 capital	26	–
Total regulatory adjustments and deductions - Tier 1 capital	25	(1)
Total common equity Tier 1, after regulatory adjustments and deductions	2,472	2,119
2. Tier 2 capital		
Tier 2 capital: instruments, before deductions	–	–
Tier 2 capital: provisions, before deductions	192	181
Total Tier 2 capital, before deductions	192	181
Deductions:		
Total deductions - Tier 2 capital	–	–
Total Tier 2 capital	192	181

(1) The operational risk assets are calculated according to the standardized approach.

(2) Tier 1 shareholders' equity requirements at a rate of 8% and a comprehensive equity ratio at a rate of 11.5% apply as from June 1, 2016.

Note 21 - Capital Adequacy and Leverage Pursuant to the Supervisor of Banks' Directives (Continued)

D. Leverage ratio pursuant to the Supervisor of Banks' directives

Calculated in accordance with Proper Conduct of Banking Business Directive No. 218 on the subject of the leverage ratio.

Temporary directive to provide relief in the leverage ratio in light of the Corona crisis

On November 15, 2020, the Banking Supervision Department published an update to Proper Conduct of Banking Business Directives, which dealt with a relief in the leverage ratio in a banking corporation such that it would stand at 4.5% for banking corporations whose share of the market is less than 24%. This was done in order to prevent a situation in which the leverage ratio would be a barrier to the provision of credit.

The temporary directive has been extended from time to time. In a circular dated November 16, 2023, the validity of the relief that has been set on this matter was extended such that it will remain in effect until June 30, 2026, and solely that the leverage ratio shall not be less than the lower of the rate on December 31, 2025 or the minimal leverage ratio that is required of a banking corporation prior to the temporary directive.

	December 31	
	2023	2022
	In NIS millions	
a. Consolidated data		
Tier 1 capital	**2,472**	**2,119**
Total exposures	**25,127**	**22,984**
	In percentages	
Leverage ratio	**9.8%**	**9.2%**
Minimum leverage ratio required by the Supervisor of Banks	**4.5%**	**4.5%**
b. Significant subsidiaries		
Diners Club Israel Ltd.		
Leverage ratio	**13.4%**	**12.8%**
Minimum leverage ratio required by the Supervisor of Banks	**4.5%**	**4.5%**

Note 22 - Contingent Liabilities and Commitments

	Consolidated and Company			
	December 31		December 31	
	2023	2022	2023	2022
			Allowance for credit losses	
	In NIS millions			
A. Off-balance-sheet financial instruments				
Unutilized facilities on credit cards				
Credit risk for which the Company is responsible	**22,289**	**19,988**	**28**	**34**
Credit risk for which the bank is responsible	**21,494**	**18,584**	**1**	**1**
Other credit facilities	**18**	**8**	***–**	***–**

* Represents an amount of less than NIS 1 million.

B. Pending claims

Various claims and demands are pending and outstanding against the Company and subsidiaries. As assessed by the Managements of the Company and of the subsidiaries, relying on the opinions of their legal counsel, appropriate provisions are included in the financial statements, where necessary.

The amount of the exposure to claims filed against the Company, the likelihood of whose materialization, in whole or in part, is reasonably possible amounts to approximately NIS 273 million.

(1) Petition for the approval of a class action regarding immediate charge cards

On June 8, 2016, a petition for the approval of a lawsuit as a class action was submitted in the Central Region District Court against the three credit card companies, including the Company ("The amended petition"). The amended petition replaced a previous petition, which had been submitted on April 28, 2014. The subject matter of the Petition is two restrictive arrangements in relation to immediate charge (“debit”) cards and regarding rechargeable (“prepaid”) payment cards. The first restrictive arrangement, as alleged by the petitioners, is an arrangement for the collection of an interchange fee on transactions carried out with “debit” and “prepaid” cards. The second restrictive arrangement, as alleged by the petitioners, is the unlawful delay of approximately 20 days in transferring the money due to the merchant after it has been received by the credit card companies.

On July 9, 2023, a petition for the approval of a compromise arrangement between the petitioner and the Company and Isracard was submitted to the Court.

After the signing of the compromise agreement between the Company and Isracard, Max It Finances also reached an arrangement with the petitioners. In light of the terms of the compromise arrangement between the petitioners and Max, the Company and Isracard requested to amend the compromise arrangement accordingly, and an amended petition for approval of a compromise arrangement was submitted on December 26, 2023.

(2) Petition for the approval of a class action on the subject of the approval of direct marketing transactions

On July 22, 2018, a lawsuit and a petition for the approval thereof as a class action was submitted in the District Court in Tel-Aviv, against the Company and against two additional credit card companies. The subject matter of the action is transactions that were executed by the members of the group as missing documentation transactions (primarily telephone transactions) in merchants that are engaged in "direct marketing" field.

It is alleged in the petition for approval that the merchants took advantage of the population of senior citizens and unlawfully charged their credit cards in respect of numerous transactions, and also charged them with additional charges that had not been approved by them. The petitioner alleges that the credit card companies entered into an acquiring agreement with the "direct marketing" companies and in this way they enabled their activities. The petitioner alleges that the amount of the damage for all of the members of the group is approximately NIS 900 million.

Note 22 - Contingent Liabilities and Commitments (Continued)

B. Pending claims (Continued)

(2) Petition for the approval of a class action on the subject of the approval of direct marketing transactions (Continued)

On January 6, 2022, an additional hearing was held within the framework of which the parties stated their claims in relation to the Attorney General's position. The Company submitted its summations on the petition on June 29, 2022 and the petitioners submitted response submissions on July 14, 2022. A ruling was handed down by the District Court in August 12, 2022, dismissing the petition for approval. The petitioners submitted notification of an appeal against the District Court's ruling on November 13, 2022 and the Company submitted a response on its part on November 21, 2022. The respondents' response to the appeal was submitted on May 21, 2023. After the submission of the Attorney General's position, a hearing on the appeal has been set for June 19, 2024.

(3) Monetary claim on the subject of an agreement for the sale of shares in Diners

On November 29, 2015, the Company and Diners, on the one hand and Dor Alon Finances Ltd. ("Dor Alon") with Alon Blue Square Israel Ltd. ("Blue Square") on the other hand, On November 29, 2015, the Company and Diners entered into a commitment with Dor Alon Finances Ltd. ("Dor Alon") on the one hand, entered a commitment under an agreement pursuant to which the Company would acquire Dor Alon's and Blue Square's entire holdings in Diners (49%) (hereinafter, jointly: "The shares being sold"), such that upon the completion of the transaction the Company will hold all of the rights (100%) in Diners.

The transaction was completed on December 15, 2015. At that time, the Company paid consideration in an overall amount of NIS 130 million to Blue Square and Dor Alon against the transfer of the shares. Disputes have arisen between the parties regarding the sellers' entitlement to additional consideration, which was conditional upon crucial conditions. The parties referred to mediation proceedings on the subject, which were unsuccessful.

On September 24, 2019, a monetary claim was submitted in the Tel-Aviv-Jaffa District Court against the Company, within the context of which the Court is being requested to charge the Company to pay the plaintiffs (Alon Blue Square Israel Ltd. and Dor Alon Finance Ltd.) an amount of approximately NIS 21 million, in respect of the transaction for the sale of "Diners" to the Company. On February 9, 2020, the Company submitted a statement of defense in respect of the claim. Together with the submission of a statement of defense, the Company submitted a counter-suit within the context of which the Court was requested to charge the counter-respondents to pay an amount of approximately NIS 33 million to the Company. On June 15, 2020, the plaintiffs submitted a statement of response in which they repeated their claims, and on the same day, they submitted a counter statement of defense, in which they rejected the Company's claims in the counter claim.

On July 31, 2022, the plaintiffs submitted a petition on their behalf for the awarding for an order for the revealing and reviewing of documents and on September 14, 2022, the Company submitted a response on its behalf. The disclosure and review processes have ended. The plaintiffs submitted their evidence on July 9, 2023 and the Company is to submit its evidence by April 4, 2024. A pretrial hearing, after the submission of the evidence, has been set for May 5, 2024.

(4) Petition for the approval of a class action on the subject of the termination of a card fee benefit

On May 14, 2020, a lawsuit was submitted against the Company in the Central Region District Court, to which a petition for recognition as a class action was attached. According to what is being alleged in the lawsuit, faults occurred in the notification that was sent to the petitioner regarding her future charge with a card fee, which require a determination that the notification does not fulfil the duty to notify that is set in law. The petitioner has estimated her personal financial damage at an amount of NIS 13.5 and her non-financial damage at an amount of NIS 100, however she has not denoted an amount of the damage for the group.

Note 22 - Contingent Liabilities and Commitments (Continued)

B. Pending claims (Continued)

(4) Petition for the approval of a class action on the subject of the termination of a card fee benefit

A preliminary hearing was held in the case on April 7, 2021. The Court recommended to the parties that they conduct negotiations with the objective of reaching an agreed arrangement. The negotiations did not mature into a compromise.

On June 6, 2021, the parties submitted a joint petition for the setting of the case for the hearing of evidence. An additional pre-trial hearing was held on April 7, 2022, at the end of which the Court recommended to the parties that they renew the talks between them directly or through a mediator, following which the parties announced that they had been able to reach understandings. The petitioner requested to submit the position of the Banking Supervision Department, which had been submitted in proceedings against another company, to the Court. After the review of the Banking Supervision Department's position, the Court recommended to the parties that they should once again try to reach an arrangement whilst suggesting that a common mediation process be conducted for both of the proceedings. The parties have begun a mediation process, pursuant to the Court's recommendation.

(5) Class action on the subject of the unacceptable use of databases

On December 8, 2020, a lawsuit and a petition for the approval of the lawsuit as a class action was submitted in the District Court in Tel-Aviv-Jaffa against Isracard Ltd., Europay (Eurocard) Israel Ltd., Premium Express Ltd., the Company and Diners Club Ltd. to which a petition for the approval of the lawsuit as a class action (the "Application for approval") was attached

The petitioner is alleging that the respondents make unacceptable and prohibited usage of the databases that they hold (both as issuers of credit cards and also in their role as acquirers), and this without receiving their customers' informed agreement.

Within this, it has been alleged that the respondents expose the customers personal data to third parties; "Targeted" advertising is conducted based on such specification for the purpose of the third parties' sales promotion; the customers are monitored; and use is made of the customers' data for statistical sales data.

In the petitioner's assessment, the amount of the collective remedy is NIS 150 million.

On June 27, 2021, the Company and diners submitted their responses to the petition for the approval of the lawsuit as a class action and the petitioner's response to the respondents' response was submitted on September 29, 2021. A first pre-trial hearing was held on September 6, 2022 at which the parties repeated their claims. On November 25, 2022, the parties notified the Court of their agreement for the transfer of the dispute to a mediation process and on April 4, 2023, the mediator announced that it would be reasonable to conclude that it is not possible to mediate between the parties at this stage. According the legal proceedings will continue to be conducted. A pre-trial hearing has been set for May 8, 2024.

(6) Lawsuit on the subject of a breach of privacy

On April 13, 2021, the Company received a petition for the approval of a class action. The petition was submitted against 15 financial bodies, including banks, credit card companies, insurance companies and investment houses.

The subject matter of the lawsuit is the petitioners' allegation that the respondents pass private, personal and confidential information on their customer who make use of the respondents' digital services to third parties and in particular to Google and its advertising services, or that they have done so in the seven years preceding the submission of the petition, without the said customers' agreement, whilst damaging their right to privacy, whilst breaching the duties that imposed on the respondents by law.

Note 22 - Contingent Liabilities and Commitments (Continued)

B. Pending claims (Continued)

(6) Lawsuit on the subject of a breach of privacy (Continued)

The damage that has been caused to the group that the petitioners are seeking to represent is estimated by the respondents at amounts of up to several million shekels and in any event, in excess of NIS 2.5 million.

The Company submitted its response to the petition on June 20, 2022. A pre-trial hearing was held on November 6, 2022, within the framework of which the Court recommended the parties to hold a mediation process. The parties gave their consent to a mediation process, which was unsuccessful and a pre-trial hearing was held on September 10, 2023. Evidentiary hearings were held on February 7 and 26, 2024. Additional evidentiary hearings have been set for April 2024.

(7) Lawsuit on the collection of a commission for the cancellation of transactions in which no factoring was performed

On January 23, 2022, a petition and an application for approval thereof as a class action was submitted against Yatzil in the central region District Court in Lod.

The group in whose name the class action is being requested to be conducted has been defined by the petitioner as "all of Yatzil's Finances Ltd.'s customers, who committed with it under a factoring services agreement, who were charged with a commission for transactions that were cancelled (whether partially or fully) before Yatzil transferred the consideration for the transaction to the merchant".

The petitioner has appealed asking for the Court to charge Yatzil to return the cancellation commissions that has been collected from the members of the group in contravention of the agreement to them, with the addition of interest and linkage differentials. The petitioner did not denote the amount of the collective claim, however she has estimated it at an amount of more than NIS 2.5 million. Yatzil's response was submitted on October 30, 2022. A pre-trial hearing was held on February 9, 2023. On June 1, 2023, the parties announced that they had agreed to refer to a mediation process.

(8) Petition for the revealing of documents in order to examine the submission of a derivative action regarding a breach of the provision of the cross acquiring exemption

On September 13, 2022, a petition was submitted in the Economic Division in the District Court in Haifa pursuant to Section 198A of the Companies Law – 1999, against the Company, against Discount Bank and against Diners. It is alleged in the petition that on September 12, 2022, it was published on the Companies Authority's website that the Company had signed on an agreed order, within the framework of which it undertook to pay an amount of NIS 10 million, as described in sub-section I of this note. The petitioner is alleging that CAL's preparedness to pay the amount of the agreed order breaches the provisions of the interchange exemption.

A hearing on the petition was held on September 27, 2023. Further to the Court's recommendation at the abovementioned hearing, the parties announced to the Court that they had not succeeded in reaching understandings. The Court set a hearing for March 20, 2024, within the framework of which the need to question the affidavits would be examined and if there is a need for this, it has set a hearing for their questioning for April 21, 2024.

Note 22 - Contingent Liabilities and Commitments (Continued)

B. Pending claims (Continued)

Legal proceedings that have ended prior to the time of the publication of the financial statements

(9) Petition for the approval of a class action on the subject of the raising of the acquiring commission

On May 2, 2018, a lawsuit and a petition for the approval thereof was submitted in the District Court in Tel-Aviv-Jaffa.

According to what has been alleged in the lawsuit, the Company unlawfully raised the tariff for the acquiring commission for merchants. The petition for approval relies, inter alia, on a ruling that was handed down in the District Court in Tel-Aviv, in which a petition for the approval of a class action was approved against another company on a similar issue. The petitioners have estimated their personal damage at NIS 4,036 and they have not denoted an amount for the collective damage, which they have estimated at "tens of millions of shekels". The Company has responded to the petition for approval and the petitioners have submitted a response to the Company's response.

A pre-trial hearing was held on January 15, 2020. In the meantime, the parties accepted the recommendation of the Court to conduct mediation proceedings. On October 28, 2020, the petitioners informed the Court that the mediation proceedings had been unsuccessful and accordingly they were requesting to continue the proceedings in the petition in the court. A pre-trial hearing was held on December 17, 2020. An additional pre-trial hearing was held on July 13, 2021. A ruling was handed down on July 27, 2021, which accepted the petitioner's petition for the revealing of documents partially and setting timings for the submission of summations on the parties' claims. A mediation process was conducted between the parties and on May 8, 2023, the parties made a commitment under a compromise agreement and submitted it to the Court, with a petition for the approval of the compromise agreement in the class action. The Court approved the compromise agreement on July 30, 2023.

(10) Petition for the approval of a class action on the subject of "Adif" transactions

On January 7, 2019, a lawsuit was submitted against the Company in the District Court in Tel-Aviv-Jaffa to which a petition for recognition as a class action ("The petition for approval") was attached.

The group in whose name the petition for approval against the Company is being requested has been defined by the petitioner as: "Every holder of credit cards issued by ICC". Alternatively: "all of the holders of credit cards issued by ICC for the "Shufersal club'" and alternatively to the alternative: " all of the holders of credit cards issued by ICC for the "Shufersal club" who executed a purchase within the framework of the 'preferred payment and plus 30' credit arrangement as from January 1, 2018 and up to the time of the submission of this lawsuit".

The petitioner alleges that where a customer who holds a credit card asks that a particular charge not be charged at the coming charge time for the execution of the transaction but rather that it be deferred by a month, the charge is attributed without the customer being informed to an "Adif payment" credit arrangement, which bears interest. The petitioner alleges that this arrangement is set on a card as the default choice and if the customer requests to change this arrangement they have to make an approach and demand this. The petitioner claims that the Company has hidden this information from its customers. The petitioner bases the grounds for his lawsuit on claims of a breach of the provisions of the Protection of the Consumer Law, a breach of a legislated duty, negligence, a breach of contract law, misleading, unlawful enrichment and fraud.

The petitioner has estimated their personal monetary damage at an amount of NIS 154.72 and the monetary damage for the group at an amount of approximately NIS 40 million. The petitioner has estimated their personal non-monetary damage at an amount of NIS 10 and the non-monetary damage for the group at an amount of approximately NIS 26 million.

Pursuant to the Court's recommendation, the parties began a mediation process, which was unsuccessful. Pursuant to an agreement between the parties, the handing down of a ruling on the petition for approval was deferred until July 15, 2023 in order to enable the parties to hold an additional mediation process.

Note 22 - Contingent Liabilities and Commitments (Continued)

B. Pending claims (Continued)

(10) Petition for the approval of a class action on the subject of "Adif" transactions

On July 16, 2023, the petitioner notified the Court that the mediation process had failed. A compromise hearing was held in the Court on September 7, 2023, in which the Court suggested to the parties that they renew the mediation process, based on the principles that had been outlined in the compromise hearing. A mediation meeting was held on November 22, 2023, after which the parties announced that they had not succeeded in reaching understandings and the case was returned to the court for the handing down of a ruling. A ruling was handed down by the Court on February 13, 2024, dismissing the lawsuit.

(11) Lawsuit on the subject of the sending of advertising material

On July 5, 2021, a lawsuit was submitted against the Company in the Central Region District Court, to which a petition for the recognition thereof as a class action was attached (the "Petition for approval").

The group in whose name the petition for approval against the Company is being requested is "all of the addressees who received advertising material from the respondent in the past seven years, without their having given their explicit agreement to this and/or who has given notification of refusal after this and/or without the advertising material having contained the possibility of giving notification of refusal, all of which is in contravention of the provisions of Section 30A of the Telecommunications Law (Bezeq and Broadcasting) – 1982, and to whom damage has been caused as a result of this".

The petitioner estimates the personal damage at an amount of NIS 3,200. The petitioner does not denote an amount for the collective claim, however it estimates that the group consists of approximately 100,000 customers, each of whom has personal damage of NIS 100 for all of the advertising material.

The Company submitted its response to the petition for approval on February 28, 2022. An evidential hearing was held on March 19, 2023 and a reminder meeting was held on April 4, 2023, within the context of which, at the Court's recommendation, the petitioner vacated the petition for approval and the personal lawsuit was dismissed.

C. Concessions from international organizations

The Company is engaged in the operation of the credit cards of brands that are registered in the name of the international organizations Visa International, the international MasterCard organization and Diners Club International and it is committed under an array of document with each of those international organizations. The license to operate the "Visa" and "MasterCard" the brands is not for a pre-determined period of time and is non-exclusive. The license is conditional upon compliance with directives from those organizations. The period of validity of the concession to operate the "Diners" brand exclusively in Israel, which has been given to it by Diners Club International is until December 31, 2029.

Note 22 - Contingent Liabilities and Commitments (Continued)

E. Special commitments

Long-term leases - building rental fees, computer agreements, operating leases in respect of vehicles and maintenance agreements.

	Consolidated and Company	
	December 31	December 31
	2023	2022
	In NIS millions	
First year	**51**	29
Second year	**23**	22
Third year	**37**	18
Fourth year and thereafter	**245**	17
Commitment for investment in buildings and equipment	**-**	72

(1) The Company has commitments under rental agreements for the leasing of buildings up to the years 2024 – 2034. The rental fees are linked primarily to the Consumer Prices Index, and amount to approximately NIS 20 – 26 million a year. The Company has an option to extend the lease period in some of the agreements.

(2) The Company has entered into operating lease agreements in respect of vehicles. The leasing fees are linked to the consumer price index and amount to approximately NIS 9 million a year. The agreements are for periods of 32 to 36 months.

F. Agreements with banking corporations, international organizations and business partners

1. Issuance agreement with co-brand banks

The Company has commitments with most of the banks in Israel under joint issuance and operation agreements for the issuance of charge cards. Pursuant to the agreements, the Company and/or the Bank issued a charge card to the bank's customers and the operation of the cards will be performed by the Company. Pursuant to the agreements, a mechanism has been set for the division of the revenues between the Company and the banks in respect of the operation of the cards (including: revenues deriving from transactions in Israel and abroad, the service commissions that are collected from the card holders) in addition to which the operating fees to which the Company will be entitled in respect of certain activities such as the making available of banking credit on cards, were determined. In certain agreements, the bank has enjoyed an increase in its share of the revenues that are derived from the volume of the joint activity and/or the quantity of the cards that are issued pursuant to the agreement. Furthermore, bonuses have been determined in some of the agreements, which are dependent on the meeting of targets.

The exercise of judgment in the issuance of the credit cards, the cancellation thereof, the suspension thereof, the number of cards that will be issued (without a commitment to a minimal number of cards), including the level of the credit facility and the interest rates that will be collected, have all been afforded exclusively to the banks. It is further determined in the agreements, inter alia, that the banks will be responsible for all matters connected to the credit risk and the Company, for its party will be responsible for the misuse of the credit cards by the customers risks. The agreements further arrange the manner of the use of information that derives from the use of the credit cards and the ownership of the said information and the manner of the management of the commercial connection opposite the credit organizations.

The agreements have been signed for a period of several years and provisions have been set in some of them in respect of the manner of their extension for an additional period.

On June 13, 2019, the Company and Bank Discount signed on an agreement for the joint issuance of debit cards bearing the "Visa" and the "MasterCard" brands, which will be operated by the Company. At the same time, Diners signed on a joint issuance agreement for debit cards bearing the "Diners" brand, which will be operated by it.

Note 22 - Contingent Liabilities and Commitments (Continued)

F. Agreements with banking corporations, international organizations and business partners (Continued)

1. Issuance agreement with co-brand banks (Continued)

The agreements with Discount Bank include, inter alia, mechanisms for dividing the income, which entered force retrospectively from January 1, 2019, as well as a remuneration mechanism for the Bank, in respect of the meeting of targets.

The agreements were in effect until December 31, 2022. The parties are conducting negotiations for the renewal of the issuing agreement. Pursuant to the Regulations promulgated under the "Strum Law", the division of income mechanisms between CAL and Discount and the division of the income has been performed in accordance with the issue operation agreement, which was in effect as at January 1, 2022 will be fixed until the end of the later of a period of three years from the time of the separation or until the end of five years from the time of the publication of the Regulations (January 30, 2023).

On December 29, 2020, the Company and the First International Bank of Israel Ltd. signed on a joint issuance agreement for credit cards for the bank's customers. The agreement anchors the parties' rights and duties in connection with the issuance of the credit cards and the consideration that the parties are entitled to from the joint issuance activity, including a remuneration mechanism, which is based on the number of cards issued. This agreement replaces the previous agreements that had been signed between the parties and it is in effect until December 31, 2024. The agreement will be renewed automatically for additional periods of two years each.

On February 24, 2019, the Company and Bank Mizrahi Tefahot Ltd. signed on an agreement for the extension of the period of the previous agreement between the parties, whilst updating the commercial terms. The agreement is effective until December 31, 2024.

In 2018, the Company entered into a commitment for the first time with Bank Hapoalim and with Bank Leumi under agreements for the issuance and the operation of the issuance, the main points of which are similar to what is described above, for a period of six years, where in relation to one of the agreements, an option has been determined for the bank to terminate the agreement after five years.

Discount Bank has notified the Company that in the wake of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Amendments to Legislation) – 2017, the Bank and Max (in its previous name – Leumi Card) had crystallized an agreement in relation to the joint issuance of credit cards. The agreement meets the requirements of the Law for the Improvement of Competition in the Banking System (the "Strum Law") and it is expected to result in a reduction in the Company's market share in cards issued through the bank.

On March 22, 2022, the Company and Bank Hapoalim signed on an agreement for the updating of certain terms that were set in the agreement. Furthermore, the period of the joint distribution agreement was extended for an additional year, until December 31, 2025.

2. Joint distribution agreement with Shufersal

On November 2, 2017, the Company and Diners (together – "The Company") and Shufersal Ltd. and Shufersal Finances Limited Partnership (together-("Shufersal") signed on a Memorandum of Understanding ("The Memorandum of Understanding") for the issuing and operation of non-banking credit cards to Shufersal's customers ("The Credit Club" and "The Cards", respectively). The parties launched the Credit Club on January 18, 2018, in accordance with the provisions of the Memorandum of Understanding.

The agreement will be in force from the time that it is signed and until December 31, 2027, where this period will be extended by additional periods of two years each, unless one of the parties has given notice of its desire not to extend the agreement for an additional period, which will be done by mean of notification that is given 12 months before the end of each period. Pursuant to the April 2022 agreement between the parties the agreement has been extended until December 31, 2030.

Note 22 - Contingent Liabilities and Commitments (Continued)

F. Agreements with banking corporations, international organizations and business partners (Continued)

2. Joint distribution agreement with Shufersal (Continued)

Inter alia, the Memorandum of Understanding arranges the benefits that will be provided to customers who will hold the Credit Club cards, by the parties to the agreement, provisions relating to the recruitment of customers to the Credit Club, the making available of marketing and advertising budgets by the parties, the allocation of costs, as well as provisions relating to commissions that will be collected from the card holders. All of the commitments that apply to an issuer under the law will apply to the Company.

The Company will be the sole issuer that will be authorized to issue charge cards and to offer loans to Shufersal's customers. The Memorandum of Understanding also arranges the possibility that the cards, insofar as Shufersal may request this and subject to the receipt of the relevant approvals and licenses, will be registered under Shufersal's Bank Identification Number (BIN). The Memorandum of Understanding determines the division of the income between the parties in respect of the interchange fees for transactions that will be executed on the cards, for interest-bearing credit balances from the Credit Club's operations, and for card fees that will be collected from the holders. Monthly membership fees will be collected by Shufersal from the holders for membership in the Credit Club, under the terms that have been set.

It is further determined within the framework of the Memorandum of Understanding that subject to the achievement of significant targets for the credit club that have been set, Shufersal will be entitled to two bonuses of NIS 35 million each at the end of the fourth year and the eighth year of the agreement.

Furthermore, the Memorandum of Understanding arranges the payments between the parties after the end of the agreement, where, as a rule, in the event that the Company will continue to operate the cards until the end of their period of validity the provision of the agreement will continue to apply in relation to the division of the income between the parties, whereas in the event that Company were to cease to operate the cards and they were to be operated by Shufersal, or by a third party the Company will be entitled to receive royalties that will be derived from the Company's share of the income from the cards in the year preceding the end of the agreement, all of which under the terms and at the rates that have been set in the agreement.

3. Cooperation agreement with Paz

On February 20, 2022, the Company signed on a cooperation agreement with Paz Oil Company Ltd. ("Paz") for the marketing of loans that will be made available by the Company and at its responsibility, by means of the Yellow App, for customers of the Yellow Club. The agreement is for a period of three years and Paz has an option to extend the agreement for additional periods of 12 months each, It will be possible to terminate the agreement earlier under certain conditions, relating to the volume of activity. The agreement arranged the consideration that the Company is to pay to Paz, which is derived from the Company's actual profit on loans that may be made available within the framework of the activity,

4. Agreement with El Al

On June 11, 2014, the Company and Diners signed on an agreement with El Al Israel Airlines Ltd. ("El Al"), for the issuance of branded credit cards to the members of El Al's Frequent Flyers Club, ("The branded credit cards"). On December 11, 2018, a memorandum of understanding was signed for a new commitment by the Company with El Al on the subject of the issuance and operation of the branded cards, for a period of ten years commencing on September 1, 2019, with each of the parties having a right to exit until December 2026 (the "period of the commitment").

Pursuant to the agreement, all of the credit cards that will be issued to the members of the club will be "FlyCard" type and will be attributed to the "Bronze" family of cards or to the "Premium" family of cards (as defined in the agreement).

Note 22 - Contingent Liabilities and Commitments (Continued)

F. Agreements with banking corporations, international organizations and business partners (Continued)

4. Agreement with El Al (Continued)

These cards will be offered as banking credit cards or as non-banking credit cards. The branded credit cards will afford their holders unique value offers by means of a range of benefits, in accordance with the type of card and the extent of the activity on it. El Al will be required to refund an insignificant amount Company if El Al exercises the right for an early existence after seven years, or in the event of the early termination of the period of the commitment following a fundamental breach by El Al.

Within the framework of the agreement, El Al has been awarded, inter alia, a "Phantom" type option, which affords it economic rights in Diners (equivalent to 8.75% of any increase in CAL's value in excess of NIS 1,800 million) or in Diners (equivalent to 35% of any increase in Diners' value in excess of n amount of NIS 335 million), or a combination of a relative part of the phantom rights in Diners and of the phantom rights in CAL. The option will be exercisable, but only on the occurrence of the sale or floatation of either of them, in accordance with the terms that were set in the agreement in connection with this, and it will be cleared in cash.

See Note 30 to the financial statements – The separation of the Company from Discount Bank for additional information regarding the phantom option.

In addition, El Al will be entitled to the payment of current royalties from the Company (and under certain conditions, it will be entitled to enlarged royalties, which are conditional upon the reaching of operating targets that have been set), for the use of the branded credit cards, which will be derived from the various revenues from the operation of the branded credit cards, which relate to the division of the revenues between the parties in respect of interchange fees on transactions that will be executed on the cards, in respect of revenues from credit that may be taken on the cards, in respect of card fees that may be collected from cardholders and in respect of revenues from the conversion of foreign currency. If certain conditions are met, El Al will be entitled to continue to receive current royalties even after the end of the period of the commitment, in respect of revenues from credit that has been taken up on the cards.

It was agreed that the Company would pay EL AL a non-recurring signing bonus in an overall amount of NIS 75 million, which was paid at the time that the memorandum of understanding entered force. An advance payment of NIS 60 million was paid to El Al when the memorandum of understanding entered force on account of part of the abovementioned current royalties, which will be repaid in full over the course of the first seven years of the commitment, by means of offsetting against the current royalties alone.

The memorandum of understanding also determines provisions in relation to marketing and sales promotion of the branded agreement, including marketing and advertising budgets from the Company over the length of the period of the commitment. The memorandum of understanding entered force upon the meeting of certain conditions, which were set in the agreement. It has been agreed that when the memorandum of understanding enters force, it will bind the parties for all intents and purposes.

On September 26, 2019, the Company and Diners signed on a tripartite agreement with MasterCard Europe SA ("MasterCard") and El Al ("The tripartite agreement"), which is concerned primarily with arranging cooperation with MasterCard in the implementation of the FlyCard agreement: the issuance of FlyCard cards (premium and bronze) under the MasterCard brand and the Diners brand.

In 2022, El Al transferred the activity in the frequent flyer program, including its assets, to its subsidiary company – Frequent Flyer Ltd.

Note 22 - Contingent Liabilities and Commitments (Continued)

F. Agreements with banking corporations, international organizations and business partners (Continued)

5. Extension of the agreement with H&O

On May 23, 2019, the Company and Diners signed on an Agreement with H and O Fashion Chains Ltd. The agreement constitutes an addition to the array of agreements that have been signed between the parties in the past, and it will be in effect until May 31, 2025.

It is determined in the agreement that the Carters' chain will join the parties' joint customers' club. The agreement arranged the considerations that will be paid by CAL and Diners in respect of the costs of launching the club, and in respect of the routine operation in the period of the updated agreement.

6. Cooperation agreement with Hamashbir 365 Ltd.

On May 22, 2022, the Company committed itself under a memorandum of understanding with Hamashbir 365 Ltd. (the "Memorandum of understanding") within the framework of which it was agreed that the parties will take action for the signing of a cooperation agreement, for the continuation of the operation of the credit customers club, jointly for the Company, for Hamashbir 365 Ltd. and for Electra retail Ltd., after it has been split off.

The agreement is for a period of 10 years. Hamashbir 365 Ltd. will be entitled to various payments from the Company, pursuant to a mechanism that has been set in the memorandum of understanding, inter alia, for the placement of active cards and profits from the provision of credit to the club's customers. Furthermore, the Company will pay additional payments to Hamashbir 365 Ltd. for the meeting of targets.

7. Agreement with High Biz on the expansion of cooperation

On November 6, 2022, the Company and High Biz Ltd., which operates the "HitechZone" club, signed on a cooperation agreements between the parties by means of the issuance of charge cards, which will be used by corporations, bodies and organizations in Israel, which are interested in providing their employees and/or service providers (the "Ultimate users") with various budgets, through non-banking credit cards with a user interface that is connected to a special app, which will be issued to the ultimate users and will enable them to use the employer's budget and an additional personal credit facility from the Company, if a choice is made to receive this.

8. Extension of the Powercard agreement

On July 17, 2023, the Company, Diners and Powercard (2000) Ltd. signed on an addition to the agreements that exist between them. Pursuant to the addition, the agreement between the parties will be extended, with certain adjustments being made, until December 31, 2026.

9. Extension of the Diners concession

In September 2019, Diners and Diners Club International signed on an agreement, pursuant to which the Diners concession will be extended until December 31, 2029. Additional incentives were also set, which are conditional upon honoring targets and the volume of activity, as well as additional marketing incentives.

10. Extension of CAL and Diners' acquiring license

On March 15, 2023, the Company's and Diner's temporary acquiring licenses were extended, with effect until the earlier of March 31, 2024 or the receipt of a permanent license.

11. Support agreement with Visa Europe

In December 2023, the Company and Visa Europe Limited ("Visa Europe") signed on an update to the support agreement. The financial extent of the support is dependent upon various conditions that have been set in the agreement, and primarily on the scale of the Company's activity and the launching of new activity. In the Company's assessment, the expected impact from the support agreement on the one hand and the increase in activity on the other hand, is not expected to be significant.

Note 22 - Contingent Liabilities and Commitments (Continued)

F. Agreements with banking corporations, international organizations and business partners (Continued)

This assessment may change, in the event that the extent of the activity on the "Visa" brand is significantly different from the current volumes.

12. The acquisition of a credit portfolio

On January 25, 2022, an agreement was signed ("the Agreement") with Direct Finance of Direct Group (2006) Ltd. ("Direct Finance"). Pursuant to the agreement that has been signed between the parties, Direct Finance endorsed a portfolio of loans amounting to approximately NIS 295 million, which has been made available to private customers by Direct Finance for the purchase of motor vehicles and all of the collateral that have been provided to secure them, to the Company by way of a complete, full and irrevocable endorsement and commitments by way of a sale. Furthermore, pursuant to the agreement, Direct Finance will provide the Company with collection and monitoring services for the portfolio of loans being transferred pursuant to what is determined in the endorsement agreement.

13. Cooperation agreement with Electra Consumer Products and Bank Hapoalim

On August 9, 2022, the Company signed on a tripartite agreement with Electra Consumer Products (1970) Ltd. ("ECP") and with Bank Hapoalim, for cooperation with the activity of a customers' club based on a non-banking credit card to be issued by CAL, to bit customers and to customers of ECP's retail chains, in which the customers in the BIT-Cal club and the customers in the 365 Family club (the "Club") will be included, for a period of 12 years from the time of the fulfillment of the crucial conditions pursuant to the agreement.

On April 30, 2023, approval was received from the Competition Authority for the merger of the BIT-CAL consumers club with Electra's club, in addition to which an exemption was granted from the compulsory terms for the receipt of the court's approval for the agreement (including a conditions that instructs the parties to verify that the main points of the arrangement do not reduce competition and that there is nothing in the agreement that restricts or impairs competition significantly). The exemption is given throughout the period of the agreement but the Competition Commissioner is entitled to terminate its validity at the time that was set. Further to discussions that have been held opposite the Competition Authority and to the terms that were set in the exemption, including in relation to credit, the parties have updated some of the commercial agreements in the agreement.

On August 6, 2023, the crucial terms for the completion of the transaction were fulfilled and the transaction was completed. The customers club was launched in a soft launch on August 15, 2023.

G. Arrangement between the credit card companies and between them and the banks

Conditions for an exemption from approval for a restrictive arrangement – interchange agreement

On April 25, 2018, the Competition Commissioner published his decision to exempt the cross acquiring arrangement between the credit card companies under conditions. The interchange arrangement between the credit card companies was approved by the Competition Tribunal in March 2012, within the framework of a petition for the approval of a restrictive arrangement. The Tribunal adopted the compromise arrangement that had been formulated then between the three credit card companies and the Commissioner ("The amended arrangement").

The current exemption has been given until December 31, 2023 and is subject to the conditions that are detailed in the decision. Taking note of the Swords of Iron war and the emergency that has been declared in the State, a joint approach by all of the acquirers was made to the Competition Authority on October 17, 2023, requesting that a temporary extension of the exemption be granted. Such an extension was granted until March 31, 2024. All of the acquires submitted a new request for the approval of the agreement to the Competition Authority on January 9, 2024.

Note 22 - Contingent Liabilities and Commitments (Continued)

G. Arrangement between the credit card companies and between them and the banks (Continued)

The terms of the clearing exemption

The provisions of the exemption apply to the memorandum of understanding, which was signed between the banks and credit card companies on May 9, 2007 and also to the appendices and the changes thereto. The provisions of the exemption also apply to an acquirer who is not an issuer (or vice versa) who may join the agreement, since they will then be viewed as a credit card company pursuant to the definition that is determined therein.

The attachment of new players to the memorandum of understanding

The credit card companies are to attach any issuer or clearer or body operating on their behalf, whose operations relate to the agreement and who wishes to join the agreement ("A new player), with equality and without cost. The credit card companies are to make all of the information that the new player requires in order to join the agreement and to operate pursuant to it available to it, and also to make reasonable adjustments, if necessary, that will enable the new player to join the agreement and to operate pursuant to its provisions.

Prohibition on the exploitation of market power on the part of the issuer or on the part of the acquirer in order to create difficulties for competitors.

An issuer with widespread activities may not discriminate between acquirers or between customers in accordance with the identity of the merchant's acquirer with which the transaction is executed, and they may not take action, the intention or the reasonable result of which is such discrimination. A credit card company with widespread activities may not discriminate between issuers and they may not take action, the intention or the reasonable result of which is discrimination between issuers.

The directive determines that differences between the terms of a commitment, which derive from differences in the payments that the acquirer is required to transfer to the issue pursuant to the law for different types of transactions, will not be viewed as discrimination.

A credit card company that is an acquirer with widespread activity may not enter a connection between acquiring charge card transaction in a merchant and a commitment with that merchant within the framework of its operations as an issuer.

Prohibition on the exploitation of power in the market opposite a merchant

It is forbidden for a credit card company to be a party to an agreement, the intention or the reasonable result of which is the making of a connection between the acquiring of charge cards that are issued by a party to the agreement and the acquiring of charge cards that are issued by an issuer that is not a party to the agreement. Furthermore, a credit card company may not make a connection between the types of charge card transactions that are acquired by it.

A credit card company that is an acquirer with widespread activity is forbidden to be party to agreements with a merchant that prevent the merchant or restrict the merchant from giving discounts to its customers, which is dependent upon the means of payment that the customer uses.

Daily accounting - It is prohibited to delay the transfer of payments from the issuer to the acquirer

As from July 1, 2021, the transfer of funds between an issuer and an acquirer for transactions that are executed in a single payment are required to be executed no later than the day following the time on which the transaction was transmitted from the merchant.

Note 22 - Contingent Liabilities and Commitments (Continued)

G. Arrangement between the credit card companies and between them and the banks (Continued)

The reduction of the rate of the interchange commission.

On February 25, 2018, the Bank of Israel published an outline for reduction the interchange fee in deferred charge transactions from the current rate of 0.7% to a rate of 0.5% in five tranches.

The level of the interchange fee in the new outline has been calculated based on the methodology that was approved in 2006 by the Competition Tribunal, as mentioned above.

The reduction of the issuer's commission on immediate charge cards to a level of 0.5% will be executed gradually, as follows:

- As from January 1, 2019, the time of the end of the previous arrangement, and until December 31, 2019, the issuer's commission stood at an average rate not exceeding 0.6%.
- As from January 1, 2020 and until December 31, 2020, the issuer's commission stood at an average rate not exceeding 0.575%.
- As from January 1, 2021 and until December 31, 2021, the issuer's commission stood at an average rate not exceeding 0.55%.
- As from January 1, 2022 and until December 31, 2022, the issuer's commission stood at an average rate not exceeding 0.525%.
- As from January 1, 2023, the issuer's commission is to stand at an average rate that may not exceed 0.5%.

In addition, an outline has been determined for the reduction of the interchange commission in respect of immediate charge cards from a rate of 0.3% to a rate of 0.25% in two tranches, over the course of the coming years/ this reduction is has been executed gradually, as follows:

- As from January 1, 2021 and until December 31, 2022, the issuer's commission stood at an average rate not exceeding 0.275%.
- As from January 1, 2023, the issuer's commission stands at an average rate that may not exceed 0.25%.

On November 25, 2018, these rates were anchored in the Banking Order (Service to a customer (Supervision of Interchange Acquiring of charge card transactions and immediate charge transactions) – 2018.

See Note 3 to the financial statements – Income from credit card transactions for details regarding the Group's income from interchange fees.

Exemption for a restrictive arrangement for the acquiring of Isracard cards.

On May 14, 2012, a licensing agreement was signed between Isracard Ltd. and the Company, pursuant to which a non-exclusive license was granted to the Company for the acquiring of transactions that have been executed on "Isracard" cards in Israel. On May 16, 2018, the Company received an exemption for a restrictive arrangement for the acquiring of Isracard cards

This exemption was given following the extension of the agreement between the Company and Isracard on the subject of the acquiring of credit cards bearing the "Isracard" brand for a period of two years, i.e. until May 15, 2020.

The exemption is given for the period of the agreement and it will be extended from time to time. The current exemption is until December 31, 2023. Taking note of the Swords of Iron war and the state of emergency that has been declared in the State, an approach was made to the Competition Authority requesting that a temporary extension of the exemption be granted. Such an extension was granted until March 31, 2024, and an appropriate request for the renewal of the extension has been submitted as requested,

Note 22 - Contingent Liabilities and Commitments (Continued)

H. Expiry of the period of benefit plans

In recent years, the Company has notified its customers that the validity of certain benefit plans, which had been offered to them in the past, would be restricted by time. The Company recorded a provision in respect of those benefits in its accounting records. The validity of certain benefit plans expired in the third quarter of 2021. The reduction in the expenses relating to special offers and gifts for cardholders, by comparison with 2021, derived primarily from a non-recurring reduction in the said provision.

I. The Competition Authority – Demand for data regarding acquiring commissions

On February 6, 2020 and at additional times thereafter, the Company received demands for data from the Competition Authority under the force of Section 46(B) of the Economic Competition Law, 1988, in relation to merchants receiving debit card acquiring services from CAL or from a related person.

On September 12, 2022, CAL notified the Competition Authority of its agreement to pay an amount of NIS 10 million to the State Treasury, within the framework of an agreed order, pursuant to Section 50B of the Law

On July 12, 2023, the Competition Court approved the agreed order between the Company and the Competition Commissioner.

Pursuant to the order, subject to the payment of the abovementioned amount, the Competition Commissioner will not institute any enforcement steps against CAL or anyone acting on its behalf in respect of cases that occurred between the years 2018 and 2020, in which, according to the allegations, preferential commercial terms were offered for acquiring services for charge cards bearing the "Diners" brand for a customer who might purchase or continue to purchase acquiring services from CAL for charge cards from other brands.

It should be clarified that there is nothing in the agreed order or in CAL's signing thereon that constitutes determination, admission or agreement on CAL's part or on the part of anyone acting on its behalf, that they have breached the Law, decisions by the Commissioner or any other law in any way whatsoever.

J. Interchange acquiring - Diners

On July 24, 2017, the Ministry of finance announced that, insofar as the maximum merchant’s discount fee, on local transactions, for a brand with exclusive acquiring and issuing, was to be reduced in four major steps over the years 2017-2020, such that it will stand at a rate of not more than 2.95% by the end of December 2017, not more than 2.45% by the end of December 2018, not more than 2.10% by the end of December 2019 and not more than 1.99% by the end of June 2020, at which time the Minister of Finance does not see a need at the present time to exercise his powers pursuant to Section 36M(a) of the Banking Licensing Law, 1981, or to support bills whose intention is the same as the exercise of such powers or directly interfere with the brand fee beyond that outlined in the aforementioned reduction. The Company has acted in accordance with the said outline.

On August 11, 2021, the Bank of Israel notified the Company that the possibility of interchange acquiring with the Diners brand and the significances of this was being examined and it requested that the Company furnish it with information, which in its opinion would be of assistance in the formulation of a position on this issue. On December 21, 2021, the Ministry of Finance updated the Company that it had begun the examination of the possibility requiring interchange acquiring for the Diners and American Express brands as well.

Subsequent to this, on August 1, 2022, the Ministry of Finance notified the Company regarding an outline within the framework of which the issuers of the closed brands ("Diners" and "American Express") are to enable every holder of an acquiring license to commit with them under a bundling agreement and to concentrate debits and credits of merchants for transactions that have been executed in the closed brands' charge cards. The Treasury's position is that if the said outline is operated within 120 days, there will be no need to exercise the Minister of Finance's authority pursuant to the law to determine that an issuer having a broad volume of activity (which includes the Company), may not refuse to commit with an acquirer for the purpose of executing cross acquiring of transactions on charge cards that have been issued for unreasonable grounds, also in respect of the closed brands.

Note 22 - Contingent Liabilities and Commitments (Continued)

J. Interchange acquiring - Diners

Pursuant to the outline, the Ministry of Finance intends to examine the state of affairs in the market and the parties' progress in the arrangement of the abovementioned outline, and accordingly to draw conclusions in relation to the need to exercise the Minister's authority. Pursuant to the outline, the Company may serve as a bundler for the "American Express" brand.

It should be mentioned that as of the reporting date, the Company's subsidiary company, Diners Club Israel Ltd., is committed under agreements with a number of bundlers, which afford them the ability to offer acquiring services to merchants for the "Diners" brand, under terms that have been agreed with each bundler.

In the Company's assessment, the implementation of the outline may increase competition in the acquiring segment in general, and in the closed "American Express" and "Diners" brands in particular, and accordingly, it may lead to a decrease in income in the acquiring segment. On the other hand, the outline may lead to the expansion of closed brands' cover in the acquiring market to additional businesses.

The Company has signed on an agreement with Tranzilla Ltd. and on an agreement with CardCom Ltd. for the latter to operate as a "bundler" for the Diners brand and it has signed on an agreement with Premium Express Ltd. for the arrangement of the Company's activity as a bundler for the "American Express" brand. Furthermore, the Company is conversing with representatives of the Treasury in relation to these commitments.

On July 23, 2023, the Company's subsidiary company, Diners Club Ltd. (which acquired and issued the "Diners" brand of credit cards in Israel) and Isracard Ltd. ("Isracard") signed on a detailed agreement in connection with a commitment under a bundler agreement, within the framework of which Isracard will be enabled to serve as a bundler for merchants in Israel on the "Diners" brand. In addition the Company and Premium Express Ltd. signed on a detailed agreement in connection with a commitment under a bundler agreement, within the framework of which the Company will be enabled to serve as a bundler for merchants in Israel on the "American Express" brand. The detailed agreements include conditions that are customary in bundler agreements and they are in effect for a period of 12 months and they will be renewed automatically for periods of 12 months each time, for up to a total of 5 years, unless either of the partis had announced its wish to cancel any of the agreements previously, as determined in the agreements.

Note 23 - Guarantees

A. In order to secure the Company's activities, Discount Bank has provided guarantees in an unlimited amount to the VISA International organization. The Company has signed a letter of indemnity in favor of Discount Bank, against this guarantee.

B. In order to secure the Company's activities, Discount Bank has provided guarantees totaling approximately $3 million to the MasterCard International organization.

C. The Company has granted an indemnification for all liabilities of the subsidiaries CAL Financing, CAL Deposits and Yatzil Finances. Diners has granted an indemnification for all liabilities of Diners Financing.

D. In May 2017, the general meeting of the Company and of Diners approved the grant of an undertaking of indemnification and exemption for directors and officers serving at the Company and at Diners, respectively, with effect from 2011 in CAL and with effect from 2015 in Diners. The aforesaid indemnification and exemption undertaking was granted in accordance with the Group principles and limits approved by Discount Bank's Board of Directors in May 2017.

Note 24 - Operating Segments

A. General

The issuing segment - this segment includes the Company's operations in its capacity as an issuer. In this capacity, the Company approves for acquirers the transactions made by means of customers' credit cards, which are submitted by merchants to the various acquirers. Once the acquiring has been executed, the Company - in its capacity as an issuer - transfers the transaction consideration to the acquirer (net of the interchange fee) and collects the consideration for the transaction from the customer's account. Furthermore, this segment includes the provision of credit to cardholders and the provision of credit without a card.

The acquiring segment - this segment includes the Company's operations in its capacity as an acquirer. In this capacity, the Company is obligated to credit the merchant for transactions that have been approved by it and checked vis-à-vis the issuer. This obligation is contingent on the merchant complying with the operating procedures prescribed in the agreement between the merchant and the Company. These operations also include the factoring of credit transaction vouchers under the various credit card brands, including brands that are not acquired by the Company.

B. Allocation of revenues and expenses

- Direct revenues and expenses from business operations have been attributed to the operating segments specifically.
- Indirect expenses, which are attributable to a specific segment have been attributed to the operating segment to which they belong.
- Indirect expenses, which are not attributable to a specific segment have been attributed to operating segments by means of various estimates and assessments (such as: a ratio of transactions, the ratio of turnovers and etcetera).
- Credit loss expenses have been attributed to the operating segments based on the identity of the customers in the operating segments.

Note 24 - Operating Segments (Continued)

B. Quantitative information regarding operating segments

	Consolidated			
	Year ended December 31, 2023			
	Acquiring segment	Issuing segment	Other(3)	Total consolidated
	In NIS millions			
Profit and loss information:				
Income:				
Fee income from external parties	699	1,052	–	1,751
Inter-segment fee income	(415)	415	–	–
Total	284	1,467	–	1,751
Net interest income	312	510	–	822
Non-interest financing income	9	5	296	310
Total income	605	1,982	296	2,883
Expenses:				
Expenses for credit losses	2	283	–	285
Operating expenses	283	536	–	819
Selling and marketing expenses	36	685	–	721
Administrative and general expenses	32	75	–	107
Payments to banks	–	354	–	354
Total expenses	353	1,933	–	2,286
Profit before taxes	252	49	296	597
Provision for taxes on income	74	9	65	148
Profit after taxes	178	40	231	449
Company's share of profits of an associated company, net of the tax effect	–	1	–	1
Net profit attributable to equity holders of the Company	178	41	231	450
Return on capital	60.3%	1.3%		19.5%
Average balance of assets (2)	1,959	17,388		19,347
Average balance of liabilities (2)	13,647	3,401		17,048
Average balance of risk assets (1)	2,460	15,971		18,431

(1) Risk assets - as calculated for capital adequacy purposes, pursuant to Proper Conduct of Banking Business Directives 201-210.

(2) Average balance calculated based on balances at the beginning of the month.

(3) Income from the transaction for the sale CAL House, see Note 15 – Buildings and equipment for additional details.

Note 24 - Operating Segments (Continued)

B. Quantitative information regarding operating segments (Continued)

	Consolidated			
	Year ended December 31, 2022			
	Acquiring segment	Issuing segment	Other(3)	Total consolidated
	In NIS millions			
Profit and loss information:				
Income:				
Fee income from external parties	672	979	–	1,651
Inter-segment fee income	(404)	404	–	–
Total	268	1,383	–	1,651
Net interest income	**100	**570	–	680
Non-interest financing income	4	68	30	102
Total income	382	2,021	30	2,433
Expenses:				
Expenses for credit losses	4	93	–	97
Operating expenses	262	553	–	815
Selling and marketing expenses	33	599	–	632
Administrative and general expenses	29	68	–	97
Payments to banks	–	351	–	351
Total expenses	328	1,664	–	1,992
Profit before taxes	54	357	30	441
Provision for taxes on income	**24	**103	7	134
Profit after taxes	30	254	23	307
Company's share of profits of an associated company, net of the tax effect	–	2	–	2
Net profit attributable to equity holders of the Company	30	256	23	309
Return on capital	14.5%	13.1%		14.3%
Average balance of assets (2)	1,608	15,732		17,340
Average balance of liabilities (2)	12,768	2,437		15,205
Average balance of risk assets (1)	1,975	15,072		17,047

** Reclassified

(1) Risk assets - as calculated for capital adequacy purposes, pursuant to Proper Conduct of Banking Business Directives 201-210.

(2) Average balance calculated based on balances at the beginning of the month.

(3) Income from the transaction for the sale of shares in Visa Inc.

Note 24 - Operating Segments (Continued)

B. Quantitative information regarding operating segments (Continued)

	Consolidated		
	Year ended December 31, 2021		
	Acquiring segment	Issuing segment	Total consolidated
	In NIS millions		
Profit and loss information:			
Income:			
Fee income from external parties	621	811	1,432
Inter-segment fee income	(379)	379	–
Total	242	1,190	1,432
Net interest income	51	497	548
Non-interest financing income (expenses)	6	(1)	5
Total income	299	1,686	1,985
Expenses:			
Income for credit losses	(6)	(3)	(9)
Operating expenses	227	457	684
Selling and Marketing expenses	31	502	533
Administrative and general expenses	25	60	85
Payments to banks	–	301	301
Total expenses	277	1,317	1,594
Profit before taxes	22	369	391
Provision for taxes on income	9	113	122
Profit after taxes	13	256	269
Company's share of profits of an associated company, net of the tax effect	–	2	2
Net profit attributable to equity holders of the Company	13	258	271
Return on capital	6.5%	13.9%	13.2%
Average balance of assets (2)	1,191	16,069	17,260
Average balance of liabilities (2)	11,975	3,255	15,230
Average balance of risk assets (1)	1,621	12,875	14,496

(1) Risk assets - as calculated for capital adequacy purposes, pursuant to Proper Conduct of Banking Business Directives 201-210.

(2) Average balance calculated based on balances at the beginning of the month.

Note 25 - Assets and Liabilities According to Linkage Basis

	Consolidated						
	December 31, 2023						
	Israeli currency		Foreign currency**			Non-monetary items	Total
	Unlinked	CPI-linked	Dollar	Euro	Other		
	In NIS millions						
Assets							
Cash and bank deposits	43	–	12	8	–	–	63
Amounts receivable from banks for credit card transactions, net	4,254	–	–	–	–	–	4,254
Receivables on credit card transactions, net	13,220	264	38	66	1	–	13,589
Securities	–	–	–	–	–	17	17
Investment in associate	–	–	–	–	–	7	7
Buildings and equipment	–	–	–	–	–	462	462
Other assets	123	74	*–	–	–	426	623
Asset held for sale	–	–	–	–	–	363	363
Total assets	17,640	338	50	74	1	1,275	19,378
Liabilities							
Credit from banks	3,781	–	(5)	(4)	(2)	–	3,770
Payables on credit card transactions	12,226	17	49	7	2	60	12,361
Other liabilities	748	45	7	*–	*–	–	800
Total liabilities	16,755	62	51	3	–	60	16,931
Difference	885	276	(1)	71	1	1,215	2,447
Effect of derivative instruments	280	(161)	–	(119)	–	–	–
Total	1,165	115	(1)	(48)	1	1,215	2,447

* Represents an amount of less than NIS 1 million.
** Includes balances linked to foreign currency.

Note 25 - Assets and Liabilities According to Linkage Basis (Continued)

	Consolidated						
	December 31, 2022						
	Israeli currency		Foreign currency**				
	Unlinked	CPI-linked	Dollar	Euro	Other	Non-monetary items	Total
	In NIS millions						
Assets							
Cash and bank deposits	44	–	3	6	1	–	54
Amounts receivable from banks for credit card transactions, net	4,348	–	–	–	–	–	4,348
Receivables on credit card transactions, net	12,341	392	46	45	–	–	12,824
Securities	–	–	–	–	–	17	17
Investment in associate	–	–	–	–	–	11	11
Buildings and equipment	–	–	–	–	–	705	705
Other assets	95	28	–	–	–	426	549
Asset held for sale	–	–	–	–	–	39	39
Total assets	16,828	420	49	51	1	1,198	18,547
Liabilities							
Credit from banks	3,222	–	(2)	2	–	–	3,222
Payables on credit card transactions	12,224	18	50	2	1	51	12,346
Other liabilities	802	48	9	*–	–	–	859
Total liabilities	16,248	66	57	4	1	51	16,427
Difference	580	354	(8)	47	*–	1,147	2,120
Effect of derivative instruments	316	(316)	–	–	–	–	–
Total	896	38	(8)	47	*–	1,147	2,120

* Represents an amount of less than NIS 1 million.
** Includes balances linked to foreign currency.

Note 26 - Assets and Liabilities According to Linkage Basis and Maturity Period

	Consolidated				
	December 31, 2023				
	Anticipated future contractual cash flows*				
	On demand to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 2 years	From 2 to 3 years
	In NIS millions				
Israeli currency (including linked to foreign currency)					
Assets[1]	5,961	3,057	4,536	2,429	1,546
Liabilities[2]	11,561	1,712	2,400	792	386
Difference	(5,600)	1,345	2,136	1,637	1,160
Foreign currency***					
Assets[1]	126	–	–	–	–
Liabilities[2]	55	–	–	–	–
Difference	71	–	–	–	–
Of which: dollar difference	(2)	–	–	–	–
Derivative instruments (excluding options)	–	–	–	–	–
Difference after effect of derivative instruments	71	–	–	–	–
Nonmonetary items					
Assets[1]	10	19	45	21	24
Liabilities[2]	–	–	–	–	–
Difference	10	19	45	21	24
Total					
Assets[1]	6,097	3,076	4,581	2,450	1,570
Liabilities[2]	11,616	1,712	2,400	792	386
Difference	(5,519)	1,364	2,181	1,658	1,184
[1] Of which: receivables on credit card transactions	5,827	3,057	4,536	2,429	1,546
[2] Of which: payables on credit card transactions	8,712	1,687	1,585	245	64

* Presented in this note are the anticipated future contractual cash flows in respect of asset and liability items according to currencies and according to the period remaining until the contractual maturity date of each cash flow. The data is presented net of the effect of accounting write-offs and allowances for credit losses.

** Assets with no fixed maturity date include assets in an amount of NIS 4 million whose maturity date has already passed.

*** Excludes Israel currency linked to foreign currency.

**** As included in Note 26, "Assets and Liabilities According to Linkage Basis", including inter-segment off-balance-sheet amounts that are not subject to netting arrangements.

***** The contractual rate of return is the interest rate used to discount the anticipated future contractual cash flows presented in this note in respect of a monetary item to its balance-sheet amount.

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Note 26 - Assets and Liabilities According to Linkage Basis and Maturity Period (Continued)

				Balance-sheet amount****		
From 3 to 4 years	From 4 to 5 years	From 5 to 10 years	Total cash flows	With no fixed maturity date**	Total	Contractual rate of return in percentages*****
949	1,091	582	20,151	4	17,978	11.27
19	3	31	16,904	–	16,817	5.85
930	**1,088**	**551**	**3,247**	**4**	**1,161**	
–	–	–	126	–	125	
–	–	–	55	–	54	
–	**–**	**–**	**71**	**–**	**71**	
–	–	–	(2)	–	(2)	
–	–	–	–	–	–	
–	**–**	**–**	**71**	**–**	**71**	
9	9	35	172	1,102	1,175	
–	–	–	–	60	60	
9	**9**	**35**	**172**	**1,042**	**1,215**	
958	1,100	617	20,449	1,106	19,378	11.11
19	3	31	16,959	60	16,931	5.83
939	**1,097**	**586**	**3,490**	**1,046**	**2,447**	
949	1,091	582	20,017	4	17,843	
8	–	–	12,301	60	12,361	

Note 26 - Assets and Liabilities According to Linkage Basis and Maturity Period (Continued)

	Consolidated				
	December 31, 2022				
	Anticipated future contractual cash flows*				
	On demand to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 2 years	From 2 to 3 years
	In NIS millions				
Israeli currency (including linked to foreign currency)					
Assets[1]	6,523	2,691	4,077	2,275	1,328
Liabilities[2]	12,201	1,322	1,602	521	594
Difference	(5,678)	1,369	2,475	1,754	734
Foreign currency***					
Assets[1]	104	(2)	(1)	–	–
Liabilities[2]	62	–	–	–	–
Difference	42	(2)	(1)	–	–
Of which: dollar difference	(7)	–	–	–	–
Derivative instruments (excluding options)	–	–	–	–	–
Difference after effect of derivative instruments	42	(2)	(1)	–	–
Nonmonetary items					
Assets[1]	9	16	33	15	15
Liabilities[2]	–	–	–	–	–
Difference	9	16	33	15	15
Total					
Assets[1]	6,636	2,705	4,109	2,290	1,343
Liabilities[2]	12,263	1,322	1,602	521	594
Difference	(5,627)	1,383	2,507	1,769	749
[1] Of which: receivables on credit card transactions	6,450	2,689	4,077	2,275	1,328
[2] Of which: payables on credit card transactions	9,405	1,296	1,292	227	63

* Presented in this note are the anticipated future contractual cash flows in respect of asset and liability items according to currencies and according to the period remaining until the contractual maturity date of each cash flow. The data is presented net of the effect of accounting write-offs and allowances for credit losses.

** Assets with no fixed maturity date include assets in an amount of NIS 9 million whose maturity date has already passed.

*** Excludes Israel currency linked to foreign currency.

**** As included in Note 26, "Assets and Liabilities According to Linkage Basis", including inter-segment off-balance-sheet amounts that are not subject to netting arrangements.

***** The contractual rate of return is the interest rate used to discount the anticipated future contractual cash flows presented in this note in respect of a monetary item to its balance-sheet amount.

Note 26 - Assets and Liabilities According to Linkage Basis and Maturity Period (Continued)

				Balance-sheet amount****		
From 3 to 4 years	From 4 to 5 years	From 5 to 10 years	Total cash flows	With no fixed maturity date**	Total	Contractual rate of return in percentages*****
786	796	336	18,812	9	17,248	8.55
93	11	34	16,378	–	16,314	3.66
693	785	302	2,434	9	934	
–	–	–	101	–	101	
–	–	–	62	–	62	
–	–	–	39	–	39	
–	–	–	(7)	–	(7)	
–	–	–	–	–	–	
–	–	–	39	–	39	
26	1	2	117	1,079	1,198	
–	–	–	–	51	51	
26	1	2	117	1,028	1,147	
812	797	338	19,030	1,088	18,547	8.49
93	11	34	16,440	51	16,427	3.65
719	786	304	2,590	1,037	2,120	
786	796	336	18,737	9	17,172	
12	–	–	12,295	51	12,346	

Note 27 - Balances and Fair Value Estimates of Financial Instruments

A. Fair value of financial instruments

This note includes information regarding the assessment of the fair value of financial instruments.

Most of the Company's financial instruments do not have a ready "market price" because there is no active market on which they are traded. Accordingly, the fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. The estimation of the fair value by means of evaluating future cash flows and the determination of the discount rate are subjective. Therefore, for most of the financial instruments, the attached fair value assessment does not necessarily serve as an indication of the realization value of the financial instrument on the reporting date. The fair value was assessed using discount rates in effect at the reporting date, without taking into account fluctuations in interest rates. Using different discount rate assumptions may result in significantly different fair value amounts. This is particularly the case regarding financial instruments that bear a fixed rate of interest or that are non-interest bearing. In addition, when determining the fair values, no account is taken of commissions receivable or payable as part of the business activity and nor do they include the tax effect. Moreover, the difference between the book value of the financial instrument and the value presented as its fair value may never be realized, as the Company usually holds the financial instrument to maturity. As a result of the above, it should be stressed that the data included in this note is no indication of the Company's value as a going concern. Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, care should be taken when comparing the fair value data of various banking corporations.

B. Methods and main assumptions used in estimating the fair value of the financial instruments

Cash and bank deposits - by discounting future cash flows using interest rates at which the Company transacted similar transactions at the reporting date.

Receivables on credit card transactions, net - the fair value of the balance of receivables on credit card transactions, net is determined according to the present value of future cash flows using an appropriate discount rate. The balance is segmented into homogeneous categories. The cash flows from future receipts (principal and interest) are calculated for each category. These receipts are discounted using an interest rate that reflects the risk level inherent in the credit in each such category.

This rate of interest is usually determined according to the interest rate at which the Company transacted similar transactions at the reporting date.

The fair value of non-accrual debts is calculated using discount rates that reflect the high credit risk inherent therein. In no event will such discount rates be less than the highest interest rate used by the Company in transactions at the reporting date.

The future cash flows for non-accrual debts and other debts are calculated net of the effects of accounting write-offs and allowances for credit losses in respect of the debts.

Credit from banking corporations – the method for discounting future cash flows in accordance with the interest rates at which the Company recruits similar credit at the reporting date.

Payables on credit card transactions–the discounted future cash flows method using the interest rates at which the Company recruits similar credit at the reporting date.

Note 27 - Balances and Fair Value Estimates of Financial Instruments (Continued)

C. The fair value hierarchy is presented in the following table:

	Consolidated				
	December 31, 2023				
	Fair value measurement using -				
	Quoted prices in an active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Balance-sheet amount
	In NIS millions				
Financial assets:					
Cash and bank deposits	63	–	–	63	63
Receivables on credit card transactions, net	–	–	17,539	17,539	17,843
Securities (1)	–	–	17	17	17
Other financial assets	–	–	197	197	197
Total financial assets	63	–	17,753	17,816	*18,120
Financial liabilities:					
Credit from banks	–	3,754	–	3,754	3,770
Payables on credit card transactions	–	–	12,188	12,188	12,301
Other financial liabilities	–	–	704	704	705
Total financial liabilities	–	3,754	12,892	16,646	*16,776

* Includes: assets totaling NIS 63 million, whose balance in the balance sheet is identical to their fair value (instruments that are presented in the balance sheet at fair value). The amount of the liabilities that are presented in the balance sheet at their fair value on a recurring basis is approximately NIS 10 million.

(1) Shares for which no fair value is available, which are presented at cost.

Note 28 - Balances and Fair Value Estimates of Financial Instruments (Continued)

B. The fair value hierarchy is presented in the following table: (Continued)

	Consolidated				
	December 31, 2022				
	Fair value measurement using -				
	Quoted prices in an active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Balance-sheet amount
	In NIS millions				
Financial assets:					
Cash and bank deposits	54	–	–	54	54
Receivables on credit card transactions, net	–	–	**17,111	17,111	17,172
Securities (1)	–	–	17	17	17
Other financial assets	–	–	123	123	123
Total financial assets	**54**	**–**	**17,251**	**17,305**	***17,366**
Financial liabilities:					
Credit from banks	–	**3,191	–	3,191	3,222
Payables on credit card transactions	–	–	12,241	12,241	12,295
Other financial liabilities	–	–	774	774	776
Total financial liabilities	**–**	**3,191**	**13,015**	**16,206**	***16,293**

* Includes: assets totaling NIS 54 million, whose balance in the balance sheet is identical to their fair value (instruments that are presented in the balance sheet at fair value). The amount of the liabilities that are presented in the balance sheet at their fair value on a recurring basis is approximately NIS 32 million.

** Reclassified

(1) Shares for which no fair value is available, which are presented at cost.

Note 28 – Activity in derivative instruments extent, credit risks and repayment times

A. The extent of the activity on a consolidated basis

1. The denoted amounts of the derivative instruments

	Consolidated	
	December 31 2023	December 31 2022
	Total derivatives that are not held for trading	
	In NIS millions	
Denoted amount of derivative instruments		
Interest contracts		
Forward and future contracts	**161**	**316**
Swaps (1)	**562**	**1,200**
Total **(2)**	**723**	**1,516**
Interest contracts	**116**	**–**
Total foreign currency contracts	**116**	**–**
Total denoted amount	**839**	**1,516**

(1) The Company pays interest at a fixed rate in all of the swap transactions.

(2) Of which: a shekel – Index swap in an amount of NIS 161 million (NIS 316 million in 2022).

(3) All of the transactions are opposite banks.

2. The fair value of the derivative instruments

	Consolidated			
	Assets in respect of derivatives that are not held for trading, gross		Liabilities in respect of derivatives that are not held for trading, gross	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	In NIS millions			
Interest contracts	**17**	**49**	**(10)**	**(17)**
Foreign currency contracts	**3**	**–**	**–**	**–**
Amounts offset in the balance sheet	**–**	****–**	**–**	****–**
Balance in the balance sheet	**20**	**49**	**(10)**	**(17)**
Of which: Not subject to a net accounting or similar arrangements	**–**	**–**	**–**	

(**) Reclassified.

Note 28 – Activity in derivative instruments extent, credit risks and repayment times (Continued)

B. Details of the repayment times – denoted amounts: balances at the end of the year on a consolidated basis

	Consolidated				
	December 31, 2023				
	Up to 3 months	More than 3 months and up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
	In NIS millions				
Interest contracts					
Shekel - index	28	51	79	3	161
Other	82	186	288	6	562
Forward and futures contracts	40	76	–	–	116
Total	150	313	367	9	839

	Consolidated				
	December 31, 2022				
	Up to 3 months	More than 3 months and up to 1 year	More than 1 year and up to 5 years	More than 5 years	Total
	In NIS millions				
Interest contracts					
Shekel - index	35	116	161	4	316
Other	130	339	689	42	1,200
Total	165	455	850	46	1,516

Note 29 - Interested and Related Parties of the Company and its Subsidiaries

A. Balances

	Consolidated					
	December 31, 2023					
	Interested parties (3)					
	Controlling shareholders(4)		Other shareholders (5)		Officers (6)	
	(1)	(2)	(1)	(2)	(1)	(2)
	In NIS millions					
Assets:						
Cash and bank deposits	44	64	9	11	–	–
Receivables on credit card transactions, net	1	1	1	1	3	3
Investment in associate	–	–	–	–	–	–
Other assets	2	2	*–	1	–	–
Liabilities:						
Credit from banks	912	1,984	1,129	1,129	–	–
Payables on credit card transactions	1	2	*–	*–	*–	*–
Other liabilities	15	15	10	10	10	10
Credit risk on off-balance sheet financial instruments	7	12	3	3	14	14

See the comments on page 216.

* Represents an amount of less than NIS 1 million.

Note 29 - Interested and Related Parties of the Company and its Subsidiaries (Continued)

A. Balances (Continued)

Consolidated					
December 31, 2023					
Interested parties		Related parties in which the Company has holdings (3)			
Others (7)		Associate (8)		Persons who were interested parties at time transaction was performed	
(1)	(2)	(1)	(2)	(1)	(2)
7	33	–	–	–	–
*–	*–	45	88	*–	*–
–	–	7	7	–	–
1	1	–	–	–	–
–	–	–	–	–	–
4,292	4,312	*–	*–	–	–
8	8	8	8	–	–
–	–	2	2	–	–

Note 29 - Interested and Related Parties of the Company and its Subsidiaries

A. Balances (Continued)

	Consolidated					
	December 31, 2022					
	Interested parties (3)					
	Controlling shareholders(4)		Other shareholders (5)		Officers (6)	
	(1)	(2)	(1)	(2)	(1)	(2)
	In NIS millions					
Assets:						
Cash and bank deposits	43	136	6	7	–	–
Receivables on credit card transactions, net	–	–	1	1	3	3
Investment in associate	–	–	–	–	–	–
Other assets	–	–	*–	–	–	–
Liabilities:						
Credit from banks	1,835	1,974	631	631	–	–
Payables on credit card transactions	1	1	–	–	*–	*–
Subordinated notes	–	–	–	–	–	–
Other liabilities	17	19	10	10	8	8
Credit risk on off-balance sheet financial instruments	17	17	3	3	16	18

See the comments on page 216.

* Represents an amount of less than NIS 1 million.

Note 29 - Interested and Related Parties of the Company and its Subsidiaries (Continued)

A. Balances (Continued)

Consolidated					
December 31, 2022					
Interested parties		Related parties in which the Company has holdings (3)			
Others (7)		Associate (8)		Persons who were interested parties at time transaction was performed	
(1)	(2)	(1)	(2)	(1)	(2)
1	5	–	–	–	–
–	–	108	162	–	–
–	–	11	11	–	–
1	1	–	–	–	–
–	–	–	–	–	–
4,234	4,253	*–	*–	–	–
–	–	–	–	–	–
6	8	13	13	–	–
–	–	1	1	–	–

(1) Balance at balance-sheet date.

(2) The highest balance during the year, based on the balance at the end of each quarter.

(3) An interested party, related party, related person - as defined in Section 80.D. of the Public Reporting Directives.

(4) Controlling shareholders and their relatives - as defined in Section 80.D.(1) of the Public Reporting Directives.

(5) Other shareholders - including any person holding 5% or more of the Company's means of control, and any person who may appoint one or more of the directors of the Company or its Chief Executive Officer - in accordance with Section 80.D.(2) of the Public Reporting Directives.

(6) Officers - in accordance with Section 80.D.(3) of the Public Reporting Directives.

(7) In accordance with Section 80.D.(4) of the Public Reporting Directives.

(8) Associate - in accordance with Section 80.D.(7) of the Public Reporting Directives.

* Represents an amount of less than NIS 1 million.

Note 29 - Interested and Related Parties of the Company and its Subsidiaries (Continued)

B. Condensed business results with interested and related parties

	Consolidated					
	Year ended December 31, 2022					
	Interested parties (1)					
	Shareholders					
	Controlling shareholders (2)	Others (3)	Officers (4)	Others (5)	Associate	Persons who were interested parties at time transaction was performed
	In NIS millions					
Income from credit card transactions	35	7	–	252	–	–
Net interest income (expenses)	(63)	(33)	–	*–	3	–
Non-interest financing income (expenses)	(3)	–	–	–	–	–
Operating expenses	(2)	–	–	(6)	–	–
Selling and marketing expenses	–	–	–	(*–)	–	–
Administrative and general expenses	(4)	–	(26)	1	–	–
Payments to banks	(122)	(43)	–	(37)	–	–
Company's equity in operating profits of investee companies, net of tax effect	–	–	–	–	1	–
Total	**(159)**	**(69)**	**(26)**	**210**	**4**	**–**

	Consolidated					
	Year ended December 31, 2022					
	Interested parties (1)					
	Shareholders					
	Controlling shareholders (2)	Others (3)	Officers (4)	Others (5)	Associate	Persons who were interested parties at time transaction was performed
	In NIS millions					
Income from credit card transactions	44	9	–	244	–	–
Net interest income (expenses)	(14)	(12)	–	*–	9	–
Non-interest financing income (expenses)	34	4	–	–	–	–
Operating expenses	(2)	–	–	(5)	–	–
Selling and marketing expenses	–	–	–	(*–)	–	–
Administrative and general expenses	(5)	–	(23)	–	–	–
Payments to banks	(129)	(45)	–	(36)	–	–
Company's equity in operating profits of investee companies, net of tax effect	–	–	–	–	2	–
Total	**(72)**	**(44)**	**(23)**	**203**	**11**	**–**

* Represents an amount of less than NIS 1 million.

** Restated

See the comments on the table on the following page.

Note 29 - Interested and Related Parties of the Company and its Subsidiaries (Continued)

C. Condensed business results with interested and related parties (Continued)

	Consolidated					
	Year ended December 31, 2021					
	Interested parties (1)					
	Shareholders					
	Controlling shareholders (2)	Others (3)	Officers (4)	Others (5)	Associate	Persons who were interested parties at time transaction was performed
	In NIS millions					
Income from credit card transactions	53	9	–	183	–	–
Net interest income (expenses)	(9)	(2)	–	*–	6	–
Non-interest financing income (expenses)	2	–	–	–	–	–
Operating expenses	(2)	–	–	(5)	–	–
Selling and marketing expenses	–	–	–	(*–)	–	–
Administrative and general expenses	(4)	–	(18)	–	–	–
Payments to banks	(115)	(38)	–	(30)	–	–
Company's equity in operating profits of investee companies, net of tax effect	–	–	–	–	2	–
Total	**(75)**	**(31)**	**(18)**	**148**	**8**	**–**

(1) An interested party, related party, related person - as defined in Section 80.D. of the Public Reporting Directives.

(2) Controlling shareholders and their relatives - in accordance with Section 80.D.(1) of the Public Reporting Directives.

(3) Other shareholders - including any person holding 5% or more of the Company's means of control, and any person who may appoint one or more of the directors of the Company or its Chief Executive Officer - in accordance with Section 80.D.(2) of the Public Reporting Directives.

(4) Officers - in accordance with Section 80.D.(3) of the Public Reporting Directives.

(5) In accordance with Section 80.D.(4) of the Public Reporting Directives.

* Represents an amount of less than NIS 1 million.

C. Remuneration and any other benefit to interested parties

	Year ended December 31					
	2023		2022		2021	
	Officers (1)					
	Total benefits	No. of benefit recipients	Total benefits	No. of benefit recipients	Total benefits	No. of benefit recipients
	In NIS millions					
Interested party employed by the Company or on its behalf*	23	12	**23	12	17	12
Directors not employed by the Company or on its behalf	1	5	3	5	1	5
Total	**24**	**17**	**26**	**17**	**18**	**17**

(1) An interested party, related party, related person - as defined in Section 80.D. of the Public Reporting Directives.

* Of which: short-term employee benefits - NIS 20 million; post-retirement benefits -an amount of than NIS 3 million; of which: dismissal benefits - an amount of NIS 1 million.

Note 29 - Interested and Related Parties of the Company and its Subsidiaries (Continued)

D. **Inter-company service agreement with CAL Financing Ltd.** Expenses are allocated between the Company and CAL Financing based on the ratio of the Company's revenues to CAL Financing's revenues.

Inter-company service agreement with Yatzil Finances Ltd. In accordance with an agreement between the Company and Yatzil Finances Ltd., pursuant to which the Company provided Yatzil Finances with management services, including software and computer services, legal services, and controllership services, Yatzil Finances pays the Company the cost of the services, including overheads and related expenses.

Inter-company service agreement with Diners Club Ltd. In March 2012, an agreement was signed between the Company and Diners Club, which has been amended from time to time, with the last amendment having been made in July 2020, within the context of which certain parameters were determined for calculating the payments that Diners makes to the Company in consideration for the services that the Company provides to Diners.

E. See Note 23 above, regarding indemnity in favor of Discount Bank and various guarantees provided by the Bank.

F. Undertaking to indemnify directors and officers - the Company has undertaken to exempt in advance the directors and officers of the Company (as defined in the resolution) from being held liable for damage caused to the Company or to an investee company, as a result of a breach of the duty of care by a director or officer.

In addition, the Company has undertaken to indemnify the directors and officers for a financial obligation that could be imposed upon them, and for reasonable litigation expenses in respect of certain types of events that are listed in the letter of indemnification and exemption. The exemption from liability and the indemnification undertaking, as referred to above, are subject, inter alia, to the following principles and stipulations:

(1) The exemption from liability and the indemnification undertaking will only apply to directors and officers who have held office from 2011 onwards and to anyone who may be an officer in the future.

(2) The exemption from liability and the indemnification undertaking is not to apply to the following acts of commission or omission:

- A breach of the duty of trust (except for exceptions that are set in the letter of indemnification).
- A breach of the duty of care committed intentionally and rashly (unless committed due to negligence alone).
- An act committed for personal, unlawful gain.
- A fine, a civil fine, a financial penalty or forfeit imposed on an officer.

The maximum amount of indemnification to be granted to all the Company's officers and directors is not to exceed 25% of the Company's capital, with the added proviso that use of the indemnification is not to result in the Group indemnification limits, as set by the parent company, being exceeded. This undertaking will also apply in respect of an action performed by the officer prior to the undertaking being given and will be available to the officer even subsequent to the termination of his service.

G. Among the agreements with banking corporations, as described in Note 22E above, the Company has entered into agreements with banking corporations that are interested parties of the Company, which are members of the Discount Group and the First International Group.

H. As set forth in Note 15B above, the Company has a commitment with Discount Leasing Ltd., a company that is wholly owned by Discount Bank, under an agreement for the establishment of the operations campus at the Elef site in Rishon Le'Zion. CAL, Discount and Discount Leasing are holding contacts for the sale of the Company's share in the operations campus to Discount and/or to Discount Leasing.

I. The Company has agreements with Discount Bank and the First International Bank for the allocation of credit lines for the financing of its operating activities.

Note 30 – Separation of the Company from Discount Bank

The Strengthening Competition and Reducing Concentration in the Israeli Banking Market Law – 2017 (the "Law") was published in the Official Gazette on January 31 2017. In the first stage, within the framework of the implementation of the Law, the Isracard and Max (formerly Leumicard) companies were separated from Bank Hapoalim and from Bank Leumi, respectively, since they held an assets value of more than 20% and accordingly they were defined as a "bank having a broad volume of activity). Accordingly, at that stage, no Duty applied to Discount to sell CAL.

In relation to CAL, on January 31, 2021, a period of two years, ending on January 31, 2023 started, within the course of which the Minister of Finance, with the consent of the Governor of the Bank of Israel and the approval of the Knesset's Finance Committee, would be entitled to instruct the separation of CAL from Discount. If certain conditions, which are determined in Section 11B(d) of the Banking Law (Licensing) – 1981 (the "Banking Law") are fulfilled.

A committee has been established pursuant to the provisions of Section 12(B)(3) of the Law, whose role included making a recommendation to the Minister regarding the operation of his authority to force such a requirement to sell on Cal. On December 21, 2022, the Committee published its recommendation to the Minister of Finance, as had been passed by the majority of its members, in which its position was that he should exercise his authority as aforesaid. The recommendation documents also includes the Supervisor of Banks' minority opinion, in which he does not share the opinion held by the other members of the Committee. On January 18, 2023, after the Governor of the Bank of Israel's consent had been received, the Minister of Finance referred to the Chairman of the Knesset's Finance Committee and asked for the Committee's approval for draft Banking Regulations (Licensing) (A bank having a broad volume of activity) – 2023.

On January 30, 2023, the Knesset's Finance Committee approved the Banking Regulations (Licensing) (A bank having a broad volume of activity) – 2023 (the "Regulations").

Pursuant to the Regulations, Discount is required to sell the means of control that it holds in the company by the end of a period of three years from the start of the period (the day on which the Regulations were published in the Official Gazette) up to the end of a period of four years, in certain circumstances, if it is decided to follow an outline of a public floatation. Furthermore, the provisions that were set in the Law will apply regarding the sale.

In addition, the following provisions apply, inter alia:

- In the period from the starting date and up to the later of 5 years or 3 years from the time of the separation, Discount is to perform the issuance of the charge cards that it issues through an operating company and to enable it to be a party to the charge card contract;
- At the end of a period of one year from the starting time and up to the later of 5 years or 3 years from the time of the separation, it is prohibited for a bank to perform the issuance of more than 52% of the number of new credit cards that it issued to its customers through one operating company;
- The setting of a mechanism for the division of the income deriving from the operation of the issuance of charge cards and from the customers' activity on charge cards between Discount and the charge card company, such that the division of such income will be in accordance with the agreement that was in effect in 2022;
- Restrictions on approaches to customers regarding the renewal of credit cards.

Bank Discount has informed the Company that it is making preparations for the separation and that inter alia, it has hired the services of various consultants, including a foreign investment bank, which will assist it in the process. Furthermore, Bank Discount has informed the Company that within the framework of the public comments state of the draft, on December 18, 2023 the Bank submitted its comments, which relate primarily to the fact that in light of the time that has passed since the time of the decision, which obligated the bank to sell CAL, including the present state of the Israeli economy, it is necessary to progress a draft law, which cancels the prohibition on a large institutional body with a broad volume of activity to hold the means of control in a credit card company (including an initial purchase), swiftly.

Note 30 – Separation of the Company from Discount Bank (Continued)

The practical significance of this recommendation, if it is implemented, is that the Bank can also sell CAL to another large institution. Furthermore, the Bank's comments raised the need to extend the deadlines for the sale. As at a time shortly before the publication of the report, such a draft law to amend the section has not been published yet.

Within the framework of the joint distribution agreement with El-Al, which, inter alia, afforded El-Ala a "phantom" type option, which afforded it economic rights in CAL (equivalent to 8.75% of the increase in CAL's value in excess of an amount of NIS 1,800 million) or in Diners (equivalent to 35% of the increase in Diners' value in excess of an amount of NIS 335 million). The option will be exercisable solely and exclusively in the event of the sale or floatation of either of them, in accordance with the terms that were set in the agreement in connection with this, and it will be settled in cash.

Pursuant to an appraisal, which the Company holds, the fair value of the phantom option (within the meaning of that term in generally accepted accounting principles), based, inter alia, on data regarding the equity multiples of financial corporations, which are listed for trading in Israel and on data regarding transactions for the acquisition of the credit card companies Isracard and Max (information in the public sphere alone, regarding the agreement, within the framework of which Harel Investments was to acquire all of the shares in Isracard and the agreement within the framework of which Clal Holdings Insurance Enterprises acquired all of the shares in Max, in accordance with their reports to the public) and on the assumption that the Company will exhaust the possibilities for distributing a dividend in the future in accordance with the option agreement prior to its sale, in an amount of approximately NIS 52 million. The Company has recognized non-recurring expenses in respect of the said option in 2023. Taking the impact of tax into account, the recording of the option has reduced the Company's net income by approximately NIS 37 million in 2023.

It should be emphasized that to the best of the Company's knowledge, at this stage Bank Discount is making initial preparations for separation from the Company but decisions have not been made as yet regarding the outline for the separation. This will be a transaction on what is expected to be a significant scale, where the purchase price may be affected by dynamics in the market, as these may be shortly before the time at which the transaction is executed, by the way in which CAL develops relative to its competitors by the outline under which the separation will be made, from possible competition between potential purchasers and from various macro-economic variables. In light of the aforesaid, the value of the option may be very significantly different from the appraisal of the value of the option as mentioned above.

It should be mentioned that it is not possible to estimate at this stage how long the Swords of Iron war will continue, its intensity and its economic implications on the economy and accordingly is it not possible to assess its impact, if any, on the sale process.

REPORT ON CORPORATE GOVERNANCE AUDIT AND OTHER DETAILS

Cal.

Corporate Governance and Audit

The Board of Directors and Management

Changes in the Company’s Management and Board of Directors

Changes in the Company's Board of Directors

On January 1, 2023, Mr. Barak Nardi was appointed as a director in the Company. Mr. Nardi serves as the Chairperson of CAL's Board of Directors since October 16, 2023. Mr. Nardi replaced Adv. Esther Deutsch, who ended her period of office in the Company.

On September 15, 2023, Adv. Nitzan Sandor was appointed as a director in the Company. Adv. Sandor has given notification of his intention to end his period of office as the Legal Counsel in Discount Bank, and accordingly he is expected to end his period of office on CAL's Board of Directors.

On September 19, 2023, Mr. Adi Kaplan was appointed as director in the Company.

On January 26, 2024, Mr. Nachman Nitzan was appointed as a director in the Company. Mr. Nitzan replaces Ms. Liliya Kaplan, who ended her period of office as a director in the Company on January 25, 2024.

Changes in the Company's management

On January 22, 2023, Mr. Matan Philosof was appointed as Head of the Technology and Operations Division.

On January 1, 2024, Adv. Vered Oren was appointed as the Chief Legal Counsel. Adv. Oren replaced Adv. Naomi Zandhaus, who ended her period of office in the Company.

The Board of Directors and Management thank the retiring members of the Board of Directors and Management for their work and contribution to the Company during their years of service, and wish the newly appointed members of the Board of Directors and Management success in their new positions.

Board of Directors

Barak Nardi

Serves as a Director since January 1, 2023 and as Chairperson of the Board of Directors since October 16, 2023.
Serves as a member of the Risks Management Committee and of the Remuneration and Human Resources Committee.
Possesses accounting and financial expertise, as well as professional qualifications.
Mr. Nardi is a CPA and has an academic education - MBA in Business Administration and BA in Economics and Accounting (Summa Cum Laude) from Tel Aviv University.
Serves as the V.P. and Head of the Holdings Division in Discount and serves also as Chairperson of the Board of Directors of Mercantile Discount Bank and as a director in Israel Discount Bank New York (IDBNY).
Served as Chief Financial Officer of the Discount Group and as Head of the Strategy, Finance and Holdings Division (2019 – 2023).
Served as Vice President and Head of the Finance and Strategy Department in the Company from September 2010 and as Vice President of the Company from March 2017 and as Head of the Strategy and Resources Division from August 2018 to September 2019.
Served as Deputy Chief Executive Manager of Diners Club Israel from February 2015 and as Chief Executive Officer of Diners from September 2018 to September 2019. Served as director and as Chairperson of the Board of Directors of Paybox Ltd. (2021 – 2023, Chairperson in 2023), as a Director of Shlomo CAL Ltd. (2010 – 2019), served as a Director of E.R.N. Israel Ltd. (2010-2013) and as Chief Financial Officer of Microsoft Israel Ltd. (2007 - 2010).

Ilan Biran	Serves as a Director in the Company since June 8, 2020. Serves as Chairman of the Information Technology and Technological Innovation Affairs Committee, as a member of the Risks Management Committee, the Audit Committee, the Remuneration and Human Resources Committee and the Committee for the Examination of Agreements with Banks. Possesses accounting and financial expertise, as well as professional qualifications. Mr. Biran has an academic background – a BA in Economics and Business Management from Bar Ilan University, a Certificate in Strategic Studies in the field of Strategy and Economics from Georgetown University and an Honorary Doctorate from the Technion for his contribution to industry and defense. He serves as Chairperson of Melodia Ltd. and as a director in Maman – Cargo Terminals & Handling Ltd.. He served as a Director in Israel Discount Bank Ltd. (2008 - 2017), as Chairman of Palsan Sasa Ltd. (2015 – 2022), as a Director in Itamar Medical (2013 - 2021) as Chairman of Rafael Advanced Defense Systems Ltd. (2007 – 2013), as Chairman of the Management Committee of Kinneret College in the Sea of Galilee (2008 – 2020, Chairman of D.B.S. – Yes Satellite Services (1998) Ltd. (2004 – 2005), Chairman of Bet Shemesh Engines Holdings Ltd. (2004 – 2007) and as a Director in Israel Aircraft Industries Ltd. (2005 – 2007), Netafim Ltd. (2004 – 2007) and in Bank Massad Ltd. (2005 – 2007). Served as Director General of the Ministry of Defense (1996 – 1999) and as CEO of Bezeq – The Israel Telecommunications Corporation Ltd. (1999 – 2003).
Ella Golan	Serves as a Director of the Company since October 31, 2021. Serves as a member of the Risks Management Committee. Possesses accounting and financial expertise, as well as professional qualifications. Ms. Golan has an academic education – an MBA from Tel-Aviv University and BA in Economics from Tel-Aviv University Serves as Head of the Resources and Financial Management Division in the First International Bank of Israel Ltd. (since January 2021), as Chairperson of the Board of Directors of Stockcoupon Ltd. (since September 2022) and as Chief Executive Officer of First International Issued Ltd. (since September 2022). Served as Head of the Banking Division in the First International Bank of Israel Ltd. (2013 – 2020), as Deputy Head of the Customers' Assets Division (2007 – 2013) and as an alternate director in the Tel-Aviv Stock Exchange (2009 – 2013).
Eli Eliezer Gonen	Serves as a Director of the Company since December 1, 2022. Serves as a member of the Audit Committee, the Risks Management Committee, the Remuneration and Human Resources Committee and the Examination of Agreements with Banks Committee. Serves as an External Director in accordance with the provisions of Proper Conduct of Banking Management Directive 301 and possesses accounting and financial expertise, as well as professional qualifications. Mr. Gonen has an academic education –of Jerusalem, an MBA from the Hebrew University of Jerusalem and a BA in Economics and Divisions from the Hebrew University. Serves as the Founder and a Director in Go Alpha Ltd., the owner and Joint Chief Executive Officer of Terra Holdings Ltd, as an External Director in Amir Marketing and Investments in Agriculture Ltd., and as a (voluntary) member of the Management Committee of the Beit Degan Veterinary Hospital, the Hebrew University. Served as External Director in Israel Discount Bank Ltd. (2009 – 2018), as Chairman of the Board of Directors of Co-op Israel Ltd. (2012 – 2018), a Member of the Granting Committee of the Company for the Location and Recovery of Assets (2018 – 2013) and a (voluntary) Member of the Management Committee of the Jerusalem Variety Center (2007 – 2018).
Eyal Hayardeny	Serves as a Director of the Company since February 7, 2021. Serves as a Chairman of the Risks Management Committee and as a member of the Audit Committee, the Information Technology and Technological Innovation Committee, the Remuneration and Human Resources Committee and the Committee for the Examination of Agreements with Banks.

Serves as an External Director pursuant to Directive 301 of the Proper Conduct of Banking Business Directives and possesses accounting and financial expertise, as well as professional qualifications.
Mr. Hayardeny is a qualified Certified Public Accountant and has an academic education – he holds an MBA in Business Administration and Finance from Bar Ilan University and a BA in Economics and Accountancy from Bar Ilan University.
He serves as the owner and CEO in the Lardan Group, as a Director in Hadar Hasharon Marketing and Distribution Ltd. (since September 2021) and in Maimonedes Ltd. (since February 2021).
Served as founder and Chairman of Reblaze Technologies Ltd. (2012 – 2024) a Director in Mercantile Discount Bank Ltd. (2009 – 2018), as Vice President and CEO of Shamir Optical Industries Ltd. (2004 – 2009) and as Manager and Director of Peamey Tikva Ltd. (2004 – 2019).

Eli Zahav

Serves as a Director of the Company since April 12, 2021.
Serves as Chairperson of the Committee for the Examination of Agreements with Banks, as Chairperson of the Remunerations and Human Resources Committee, as Chairperson of the Audit Committee and as a member of the Risks Management Committee and on the Information Technology and Technological Innovation Issues Committee.
Serves as an External Director pursuant to Directive 301 of the Proper Conduct of Banking Business Directives and possesses accounting and financial expertise, as well as professional qualifications.
Mr. Zahav has an academic education - a Master's degree in Law (LLM) from Bar Ilan University and a bachelor's degree in economics and Foreign Affairs (BA) from Bar Ilan University.
Served as a representative of the public on the Credit Committee in Migdal Insurance Company Ltd. (2018 – 2020) and as Vice President for Credit and Financing in Isracard Ltd. (2016 – 2018), and served in Bank Hapoalim Ltd. as Manager of the Business Branch in the Business Division (2013 – 2016), as Manager of the Commercial Department in the Business Division (2012 – 2013) and as Manager of the Retail Credit and Mortgages Department in the Retail Division (2009 – 2021).

Nachman Nitzan

Serves as a Director in the Company since January 26, 2024.
Serves as a member of the Audit Committee.
Possesses accounting and financial expertise, as well as professional qualifications.
Mr. Nitzan is a qualified accountant and has an academic education – an Executive MBA from Bar Ilan University and a Bachelor's Degree in economics specializing in accountancy, from Bar Ilan University.
Serves as Vice President, Chief Accountant and as a member of the management in the First International Bank of Israel Ltd. (since 2011), as Chairman of the Board of Directors of First International Issues Ltd., as a Director in Mataf – Computing and Financial Operations Ltd. (since 2022) and as a Director in Stockcoupon Israel Ltd. (since 2019).
Served as Director in Bank Masad Ltd. (2021 – 2023), in Ubank Investments and Holdings Ltd. (2019 – 2020), in the Assets Company of Bank Otzar Ha'Hayal Ltd. (2019 – 2020), in FIBI Switzerland Ltd. (in liquidation (2018 – 2020) and in Bank Otzar Ha'Hayal Ltd. (2011 – 2018) and as Acting and as Vice President and Manager of the Finance Division in the Bank of Jerusalem (2010 – 2011).

Nitzan Sandor

Serves as a Director of the Company since September 15, 2023.
Possesses professional qualifications.
Adv. Sandor has an academic education- An LLB from Tel-Aviv University.
Serves as Vice President and Head of the Legal Counsel Division in Israel Discount Bank Ltd.
Served as an attorney and as a partner in the Fischer & Co. firm (2004 – 2022).
Attorney Sandor has given notification of her intention to terminate her period of office as Legal Counsel in Bank Discount and accordingly she is expected to end her period of office as a Director in CAL.

Adi Kaplan

Serves as a Director in the Company since September 19, 2023.
Serves as a member of the Information Technology and Technological Innovation Committee.
Possesses accounting and financial expertise, as well as professional qualifications.

Mr. Kaplan has an academic education – holds an MBA from the Open University and a bachelor's degree in Computer Sciences from the Management College.
Serves as Vice President and as Head of the Technology Division in Israel Discount Bank Ltd. (since January 2021).
Served as Vice President and as CEO of Clalbit Systems (2019 – 2021), as a member of the Board of Directors in Masav (2015 – 2018) including as Chairman of the Board of Directors of Shva and Masav (2017 – 2018), served in Bank Hapoalim Ltd. as Manager of the Development Department (2016 – 2018), as Manager of the Information Set-up in the Development Department (2014) as Information Security Manager (2012- 2014) as Manager of the Capital and Trading Apps Department (2009 – 2012) and as Manager of the Foreign Currency Transactions Room Apps Unit (2007 – 2009).

Report on Directors Possessing Accounting and Financial Expertise

Pursuant to the amendment to Directive 301, which took effect from January 1, 2013, at least five of the total number of directors and at least two of the members of the Audit Committee have to possess accounting and financial expertise. These conditions are met both by the Company's Board of Directors and also by its Audit Committee.

The directors who possess accounting and financial expertise, and the factual background that leads to their being viewed as possessing such expertise, are as follows: Barak Nardi, Ilan Biran, Eyal Hayardeny, Eli Zahav, Liliya Kaplan, Ella Gold, Eli Eliezer Gonen and Nachman Nitzan.

See the section on the Company's Board of Directors, which appears above, for details regarding their professional backgrounds and education, as evidence of their said expertise:

Meetings of the Board of Directors

The Board of Directors held 25 meetings in 2023 and the committees of the Board of Directors held 53 meetings.

Senior Officers

Levy Halevy Serves as the Company's Chief Executive Officer since June 10, 2018.
Mr. Levy has an academic education - EMBA from Bar-Ilan University and LLB in Law from the School of Law of the Interdisciplinary Center, Herzliya.
Served as Executive Vice President and Head of the Technologies and Operations Division at Israel Discount Bank Ltd. (2014 -2018). Served as Chairman of the Board of Directors of Badal Computer and Management Services Ltd. (from 2014 to 2018), as a director of Discount Provident Ltd. (from 2014 to 2018) and in the Company (from 2016 to 2018)
Served as Vice President and Head of the IT and Technologies Division at Menora Mivtachim Ltd. (2011-2014), Head of the Development Division at Bank Hapoalim Ltd (2009-2011) and as Joint-CEO and Vice President of Malam-Team Ltd. (2004-2008)

Vered Oren Serves as Vice President and as Chief Legal Counsel as from January 2024.
Ms. Oren is an attorney and has an academic education- a bachelor's degree in Law and Economics from the Hebrew University of Jerusalem.
Serves as a partner in the Corporations and Capital Market Division of Fischer & Co. (2016 – 2023), previously to which she served as an attorney in the firm (2008 – 2015).

Sharon Ben Ezra Serves as Vice President and Head of the Credit Division since March 1, 2022.
Mr. Ben Ezra has an academic education – an MBA from Tel-Aviv University and a bachelor's degree in Accountancy and Economics from Tel-Aviv University.
Served as Vice President for Marketing, Economics and BI (2016 – 2020) and as Vice President for Marketing and Sales and Credit (2010 – 2016) in Direct Financing Ltd.

Lital Wexler	Serves as Vice President and Head of the Human Resources Division since July 2021 and ass Vice President since February 2022. Ms. Wexler has an academic education - a Master's Degree (MA) in Organizational Sociology from Bar Ilan University, a Bachelor's Degree (BA) in Psychology from Bar Ilan University. Served as Vice President for Human Resources in Shikun & Binui Solel Boneh (2018 – 2021) and as Vice President for Human Resources in the Tikshoov Group (2009 – 2018).
Lilach Zilber Tal	Serves as Chief Internal Auditor and as Head of the Internal Audit Division (since September 23, 2020). Ms. Zilber Tal has an academic Education, a Bachelor's Degree (BA) in Social Studies – Management and Sociology from the Open University and a Master's Degree (M.A.) in Public Administration and Internal and Public Auditing from Bar Ilan University. She served in the Company as Manageress of the Internal Audit Divisions, as an auditor in the department and as Head of the internal audit field (2012- 2020).
Shaul Mizrahi	Serves as Vice President, Chief Accountant and Head of the Accounting Division since January 2008. Mr. Mizrahi is a Certified Public Accountant and has an academic education - MBA in Business Administration from the College of Management, an MA in Accounting from Bar Ilan University and a BA in Accounting and Management from the College of Management. Serves as a Director in Shlomo CAL Ltd. since October 2019.
Matan Philosof	Serves as Vice President and as Head of the Technology and Operations Division since January 2023. Mr. Philosof has an academic education - MBA from The Open University, a Degree in Software Engineering and Industrial Management from Afeka Collage – The Academic Engineering College in Tel-Aviv and a Degree in Software Engineering from Hadassah College (Summa Cum Laude). Served as Deputy Head of the Technology and Operations Division and as Manager of the Development Department in CAL (2021 – 2023) and in senior managerial roles in the technology field in the Prime Minister's Office – Head of the Operational Systems Department (2016 – 2020) and as Head of the Applicative Infrastructures and Cyber Security Department (2011 – 2016).
Assaf Zimmerman	Serves as Vice President and Head of the Finance Division since March 2020. Mr. Zimmerman is a Certified Public Accountant and has an academic education – he has an MBA from Tel-Aviv University and a BA in Accountancy and Economics from Tel-Aviv University. He served in his previous positions in the Company (2008 – 2020) as Head of the Finance Unit, Manager of the Strategy and Business Development Department, Manager of the Economics and Analysis Department and Manager of the Finance and Economics Department.
Roi Katzir	Serves as Vice President and Head of the Strategy and Business Development Division since February 2022. Mr. Katzir has an academic education – he has an MBA in Business Administration, specializing in Financing from the Kiryat Ono Academic College and a bachelor's degree in Economics and Management from the Tel-Aviv Academic College. Served as Vice President for Marketing, Sales and Customers at One Zero, the Digital Bank (2020 – 2022), as Manager of the Trading and Marketing Head Office in Shufersal (2018 – 2020) and in various roles in Bank Hapoalim (2003 – 2018), including National Sales Manager in the Retail Division (2017 – 2018).
Amit Krauser	Serves as Vice President and Head of the Risks Management Division since August 2021. Mr. Krauser has an academic education – a Bachelor's Degree specializing in Accountancy, Computers and Information Systems from the Management College. Served in the Company as Manager of the Risks Management and Models Department (2015 – 2021) and as Vice President for Risks Management, Compliance Officer and Prohibition of Money Laundering Officer,

with responsibility for Enforcement and as a member of management in Migdal Capital Markets Ltd. (2007 – 2015).

Asaf Snear Serves as Vice President and Head of the Customers Divisions since June 2021 and as Vice President as from February 2022.
Serves as Chief Executive Officer in Diners since November 2021.
Mr. Snear has an academic education - a master's degree (MA) in Communications from the Hebrew University of Jerusalem and a Bachelor's Degree (BA) in Behavioral Sciences from the Management College.
Served as Vice President for Global Sales (2020 – 2021) at Soda Stream Ltd., as President for Europe of Juul Labs EMEA (2018 – 2020), as CEO of Luxottica Israel (2012 - 2018) and as Vice President for Global Marketing in Soda Stream Ltd. (2008 – 2012).

The Internal Auditor

Internal audit in 2023

Details of the internal auditor

The Internal Auditor of the Company and the subsidiaries is Ms. Lilach Zilber Tal.

The internal auditor is not an interested party of the Company or in the subsidiary companies. The Internal Auditor and the internal audit employees comply with Section 146(b) of the Companies Law and with Section No. 8 of the Banking (Internal Audit) Rules and do not serve in any position other than internal audit. Ms. Lilach Zilber Tal holds a bachelor's degree in Management and Sociology from the Open University and a Master's Degree in Internal and Public Auditing from Bar Ilan University and has more than 28 years of experience in internal auditing.

The manner of appointment

The appointment of the Internal Auditor was approved by the Audit Committee at its meeting on July 22, 2020 and by the Board of Directors at its meeting on July 26, 2020. Furthermore, the Bank of Israel approved the appointment on September 23, 2020. The appointment was approved in light of Ms. Lilach Zilber Tal's professional experience of many years in internal auditing and her role as Manageress of the Internal Audit Department in the Company.

Letter of appointment

The letter of appointment was presented for approval by the Audit Committee and the Board of Directors in August 2023.

Identity of the Internal Auditor's superior

The Chairperson of the Board of Directors is the Internal Auditor's superior.

The work program

The internal audit operates according to an annual work program derived from a multi-year work program (the multi-year work plan covers a four-year period). The annual and multi-year work plans (“the Work Program”) are prepared in accordance with the Internal Audit Law, 1992 and in accordance with the Proper Conduct of Banking Business Directive No. 307 on the subject of the internal audit function.

The Work Program is derived from assessment of risks that has been prepared for the audited entities. Prior to the Work Program being submitted for approval, it is forwarded to the Company’s independent auditors, to the Chairman of the Board of Directors, to the Chairman of the Audit Committee, to the Chief Executive Officer to the divisional managers and the gatekeepers in order to receive emphases for the program.

The Audit Committee discusses the Work Program and based on its recommendations, the Work Program is brought before the Board of Directors for approval. The Board of Directors and the Audit Committee, which has examined the internal audit Work

Program and the actual performance thereof, are of the opinion that the Company's internal audit fulfills the requirements determined by professional standards and by the directives of the Supervisor of Banks.

The annual and multi-year work programs 2023 was discussed and approved by the Board of Directors on December 29, 2022.

Scope of engagement

The internal auditor is engaged in a full time position. The internal audit inputs for the Company and for the subsidiaries in 2023 were at a scope of 6.3 positions (including outsourcing). The scope of positions is derived from the annual work plan that was approved by the Board of Directors.

Conducting of the audit

The internal audit is conducted in accordance with the provisions of the Internal Audit Law, 1981, Proper Conduct of Banking Business Directives and accepted internal auditing principles.

In the opinions of the Audit Committee and the Board of Directors, the Internal Auditor has complied with all of the requirements that are set in the aforesaid standards and in the directives.

Access to information

The Internal Audit has been furnished with all the documents and information that it required for the audit, and it was also given constant and unrestricted access to the Company's and the subsidiary companies' IT systems, including to financial data.

The Internal Auditor's reports

All the reports of the Internal Auditor are submitted in writing and are circulated to the Chairman of the Board of Directors, the Chairman of the Audit Committee, the Chief Executive Officer, the Chief Risk Officer, the external auditors and the relevant members of Management.

The internal auditor submits periodic activity reports, which are submitted to the Chairman of the Board of Directors, to the Chairman of the Audit Committee, to the Chief Executive Officer, to the external auditors and to the Company's management.

The following are the reports that are submitted: A quarterly summary report, detailing the significant findings in the audit reports that have been submitted in the quarter under review, a semi-annual activity report and an annual report summarizing the activity, in the format required pursuant to Proper Conduct of Banking Business Directive 307, *Internal Audit*.

The periodic reports are discussed by the Company's management and thereafter by the Audit Committee. The annual report summarizing the activity is also discussed at the Board of Directors.

The reports that are presented for discussion:

The Audit Committee conducts discussions on audit reports of Company units, if, in light of the findings included in the report or due to the material issues it addresses, as decided by the Chairman of the Audit Committee and as recommended by the Internal Auditor. The periodic reports have been submitted and discussed as follows:

- The report regarding the internal audit activities for the fourth quarter of 2022 was submitted on January 5, 2023 and was discussed by the Audit Committee on January 25, 2023.
- The report regarding internal audit activities for the year 2022 was submitted on February 28, 2023 and was discussed by the Audit Committee on March 15, 2023 and by the Company's Board of Directors on March 29, 2023.
- The report regarding internal audit activities for the first quarter of 2023 was submitted on April 4, 2023 and was discussed by the Audit Committee on June 14, 2023.
- The report regarding internal audit activities for the first half of 2023 was submitted on August 15, 2023 and was discussed by the Audit Committee on September 10, 2023.
- The report regarding internal audit activities for the third quarter of 2023 was submitted on October 10, 2023 and was discussed by the Audit Committee on November 8, 2023.

- The report regarding internal audit activities for the fourth quarter of 2023 was submitted on January 4, 2024 and was discussed by the Audit Committee on February 21, 2024.
- The report regarding internal audit activities for the year 2023 was submitted on February 28, 2024 and was discussed by the Audit Committee on March 3, 2024.

Board of Directors' assessment of the Internal Auditor's activity

In the opinion of the Board of Directors and the Audit Committee, the scope, nature, and consistency of the Internal Auditor's activity and his Work Program are reasonable given the circumstances of the situation, and suffice to realize the Company's internal audit goals.

Remuneration

Ms. Zilber Tal is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate by giving notice in advance in accordance with the Company's remuneration policy.

Remuneration of External Auditors (1) (2)

The Company's external auditors are Somekh Chaikin. The external auditors have served in their position since the establishment of the Company in 1979.

The external auditors' fees are as follows (in NIS thousands):

	Consolidated and the Company Year ended December 31	
	2023	2022
For audit services:		
For the external auditors (3)	1,749	1,749
For additional services:		
Audit-related services (4)	321	312
Tax services (5)	20	55
Other services	182	115
Total fees paid to the external auditors	**2,272**	**2,231**

(1) The Board of Directors' report to the annual general meeting, on the external auditor's fee for audit services and for additional services, in accordance with Sections 165 and 167 of the Companies Law, 1999.

(2) Comprising paid and accrued remuneration.

(3) Combined audit of the annual financial statements and review of the interim financial statements.

(4) Audit-related fees relate primarily to statutory reports that require the auditor's signature.

(5) Includes tax adjustment reports, assessment deliberations and tax consultancy.

Remuneration of Senior Officers

The following are details of all benefits and amounts that were paid or for which provisions were included, for the five highest paid officers of the Company (in NIS thousands):

		2022					
Name	Position	% of a full time position	Salary	Bonuses	Provisions for social benefits	Total salary and related expenses	Loans granted under regular terms (1)
Levy Halevy	Chief Executive Officer	100%	2,086	2,336	776	5,198	61
Asaf Snear	Head of the Customers Divisions	100%	1,140	786	489	2,415	221
Sharon Bar Ezra	Head of the Credit division	100%	1,126	767	518	2,411	13
Lital Wexler	Head of the Human Resources Division	100%	1,081	837	473	2,391	20
Roi Katzir	Head of the Strategy and Business Development Division	100%	1,117	648	526	2,291	112

		2022					
Name	Position	% of a full time position	Salary	Bonus	Provisions for social benefits	Total salary and related expenses	Loans granted under regular terms (1)
Levy Halevy	Chief Executive Officer	100%	2,075	1,405	799	4,279	29
Sharon Bar Ezra	Head of the Credit division	100%	1,012	870	540	2,422	45
Lital Wexler	Head of the Human Resources Division	100%	1,185	584	613	2,382	19
Asaf Snear	Head of the Customers Divisions	100%	1,232	618	332	2,182	84
Roi Katzir	Head of the Strategy and Business Development Division	100%	849	421	507	1,777	117

(1) The data represent credit card balances as at December 31 incurred during the normal course of business.

The employment agreement of the Company's Chief Executive Officer

Mr. Levy Halevy took up his position as the Company's CEO on June 10, 2018.

The Board of Directors has approved terms of employment, which include a fixed salary, contributions for social benefits, salary in lieu of an appropriate motor vehicle, variable remuneration in accordance with the Company's remuneration policy, mutual notice in advance, and an acclimatization grant, which will be given at the time of the conclusion of his employment, for the Company’s CEO. Furthermore, the CEO is committed to a period of non-competition.

See Note 20D to the financial statements on the subject of employee benefits for details regarding the bonus plan for the Chief Executive Officer.

The members of the Board of Directors

The external members of the Board of Directors are entitled to annual remuneration and remuneration for participation, which are paid in accordance with the Companies Regulations (Principles regarding remuneration for an external director) - 2000.

The Company bore the salary of the outgoing Chairperson of the Board of Directors, which was paid by Discount Bank. The outgoing Chairperson of the Board of Directors was not entitled to annual remuneration and remuneration for participation. The Company's Chairman does not receive a salary from the Company. The cost of the remuneration for all of the directors amounted to NIS 2,849 thousand in 2023 (2022: NIS 1,938 thousand).

Indemnification of directors and officers

For details of an undertaking to indemnify directors and officers, see Note 29F to the financial statements on the subject of interested parties and related parties of the Company and of its consolidated companies.

For additional information on remuneration that is presented in conformity with the Basel third pillar disclosure requirements, see the "Basel third pillar disclosure and additional information on risks" report on the Company’s Hebrew website:

Transactions with Controlling Shareholders and Related Parties

See Note 29 to the financial statements on the subject of interested parties and related parties of the Company and of its consolidated companies.

Additional Details Regarding the Company’s Business and its Management

For information on the Company’s holding structure, see page 17 of the Board of Directors and Management Report.

Control of the Company

Immediately before the publication of the financial statements, Israel Discount Bank Ltd. (“Discount Bank”) controls the Company and holds 788,561 ordinary shares of NIS 0.0001 par value each of the Company, which confer it rights to 71.83% of the Company's profits, 56 Management A shares of NIS 0.0001 par value each, which confer 28% of the rights to vote at the Company's General Meeting, and a Management B share of NIS 0.0102 par value, which confers it 51% of the rights to vote at the Company's General Meeting and the right to appoint the majority of the directors of the Company.

Furthermore, First International Bank of Israel Ltd. (“FIBI”) holds 309,239 ordinary shares of NIS 0.0001 par value each of the Company, which confer it to 28.17% of the Company's profits and 42 Management A shares of NIS 0.0001 par value each, which confer it 21% of the rights to vote at the Company's General Meeting.

Fixed assets and Facilities

IT and computer systems

General

The Company's IT and computer systems are at the heart of the operations and constitute the backbone for its operations.

The approval system is the most critical system in CAL and as such it has been constructed in a manner that ensures maximal availability and redundancy. The system is responsible for the management of online messaging that is exchanged between CAL and other parties inside the Payment Network (including Banks, (Shva and international organizations), as well as the management of logical business processes for the handling or requests for the approval of transactions and additional types of messaging.

The core (Legacy) system is based on the VMS platform and run on Itanium architecture and it is currently undergoing a conversion and modernization process (see below), and it is accompanied by a serios of computer infrastructures and business systems, which are based on advanced technology and modern, developed architecture.

Direct customer services are provided on a range of channels, including by means of: an interactive voice response (“IVR”) system, a visual voice response system, chat/ WhatsApp service, internet sites, marketing sites and activity sites, mobile device applications (apps) and CalSale sale points. These services interface with the Company's core systems for data input and update purposes and/or to the operational data store (ODS) infrastructure, which is a read only data base that is updated in real time, the objective of which is to reduce loads and dependency on the availability of the core system.

In order to support the achievement of the business targets and leadership, int the competitive and challenging environment in which the Company operates, the Technology and Operations Division provides "start to finish" solutions, in accordance with the business requirements and in alignment with the Company's strategy. This starts with the stage in which the business requirement is analyzed, the technological solution approach is defined and the significance of realization is ascertained, through the scheduling of the tasks for the relevant teams in accordance with eh business and project management order of priorities from start to finish, including embedding and accompaniment.

As part of the Division's activity, a significant investment is made in the R&D and innovation processes, the identification of trends in the market, the identification and embedding of relevant technological – business abilities (including from the fintech field), and accordingly there is frequent updating of the technological road map, in the light of which the solution approaches are defined for the business and technological projects.

CAL as a Service: the Technological and Operations Division has planned and developed the Company's new technological platforms for the provision of advanced services in the payments and credit field in accordance with the Company's strategy and the business road map, under a BaaS (Banking as a Service) approach.

The new platform enables, inter alia, the institution of a culture, pace and work method that goes across the organization, which will enable the launching of fast, slim implementations, which are adapted to a business partner or a customer, with a digital and innovative orientation, with the ability to connect new partners swiftly and easily to an application and the operation of financial products in various business segments, whilst creating value and with an optimal customer experience. The platform is based on advanced technology and it combines self-development and the embedding of fintech solutions and Saas services.

In 2023, the Company completed the adaptation and the interfacing for the technological platform the purposes of public bodies in the State, within the framework of the Company's winning of a tender held by the Accountant General in September 2022.

In addition, the business applications that have been developed, which are based on the abilities in the platform, (including virtual cards, the management of a payment account and etcetera) have been expanded.

In the past year, the Company's open API infrastructures have been expanded in order to leverage the business activity within the context of the market's transition to "open banking" – both as an "information provider" and also as an "information consumer" (and thus CA: was the first player in the market from among the credit card companies).

A wide range of local and overseas suppliers are assisting the Company with various matters associated with the IT systems and with their development. The Company has no material dependence on any of its suppliers in this sphere, except for four suppliers in the spheres of servers, storage, communications and the authorizations system.

Additional main focusses that are to be found in the Division's day to day engagements.

- The conversion of the core system, with the objective of establishing a new, modern infrastructure having a long-range technological horizon:
- On April 5, 2017, the Company and HPE Software Israel Ltd. ("HPE") signed on an agreement for the supply of computer services to the Company within the framework of a multi-year project for the replacement of the Company's core infrastructure system.

  The objective of the project is to improve the business continuity in the core activity, taking note of the timing of the end of the life cycle of the existing technological infrastructure, and its replacement with advanced infrastructure with a long-term horizon.

  The extent of the entire project, including the internal inputs that have been invested in it, is estimated at approximately NIS 250 million and it is planned to be completed by the end of 2024.

  The project is at advanced stages of the handing over checks and is transitioning to a focus on business checks, checks opposite the various external parties, and exercising the processes for going live.
- Business and technological agility, by means of the embedding of work methods across the organization, which will enable the launching of fast, slim apps, having a digital and innovative orientation, inter alia, in support of the expansion of CAL's new platform's capabilities, and the connection of partners in a range of business implementation scenarios swiftly and easily.
- Validation, embedding and execution of the layered defense approach in support of defenses of a high standard for information security and defenses against cyber threats.
- Development of advanced data and analysis infrastructures to ensure that the information is available and up to date, including advanced capabilities for the presentation, analysis, identification and forecasting of insights from the data that is maintained by CAL and the implementation of smart tools for the development of models in the credit worlds.
- Self-service digital and service channels for a customer – the development and thickening of advanced infrastructures in order to promote and leverage CAL's digital transformation and increasing the accessibility of advanced digital services for the Company's customers in a range of digital channels.

- The start of the process of the dismantling of the central core abilities for the special purpose systems by stripping layers from the central system with the objective of shortening TTM, enabling modernization and coping optimally with the increase in business activity.
- A significant expansion of the ODS infrastructure with the objective of enabling the terminal systems and especially the digital systems and the open API interfaces to consume diverse and up to date business data without the need for direct access to the core systems.
- The continuation of the expansion of robotic process automation (RPA) and the cumulative implementation of dozens of processes across the organization, in a manner that is leading to increased efficiency and to a significant increase in productivity in the performance of organic work processes, whilst improving the service to the customer and reducing the operating risks.
- The Company is embedding relevant open source technologies and is executing a gradual transition to private cloud and public cloud based work formats, with stringent risks management. This is being done in support of an improvement in the operational and business efficiency and the establishment of a supportive Eco-System, whilst adopting a fail-fast approach an reducing the time that is required for the adoption of new technologies.
- The Division is promoting a strategy for retaining and recruiting appropriate, high quality human resources, with a focus on the work channels for advanced, innovative recruitment processes, the promotion of the employee's personal, professional and managerial development, whilst strengthening the managers' skills and providing an upgraded welfare package.

Intangible Assets

Brands and trademarks

The Company has numerous trademarks that are registered in Israel in its name. Inter ali*a*, the Company owns trademarks that are registered in Israel under the brand names "CAL" (in both Hebrew and English), "ICC" and "Cal Choice”.

Licenses and franchises

The Company is a “Principal Member” of the international VISA organization, which has granted it a license to use the “Visa” trademark in Israel, as well as the right to issue and acquire credit cards under this brand in Israel. The Company is also a "Principal Member” of MasterCard International Inc., which has granted it licenses to use the “MasterCard”, “Cirrus” and “Maestro” trademarks in Israel, as well as the right to issue and acquire credit cards under these brands in Israel. In addition, the Company has a nonexclusive license, with conditions, to acquire transactions executed with “Isracard” brand cards in Israel.

Moreover, Diners Club International Ltd. has granted Diners the exclusive franchise in Israel to use the “Diners” brand and to operate issuing and acquiring services for Diners cards in Israel.

Databases

The Company has a number of registered customer databases of Visa, MasterCard and Diners cardholders (through Diners), as well as of merchants who honor these cards and Isracard cards.

Human Capital

Workforce status

The number of full-time positions [(1)] at the end of the year and at the end of the previous year, and the average on a monthly basis:

	December 2023	December 2022	1-12/2023
Total	1,446	1,418	1,438

(1) The number of positions includes translation of overtime positions, with the addition of the positions of the employees of software firms that provide labor services to the Company, less the positions of employees whose salaries have been capitalized to fixed assets.

Remuneration policy in a banking corporation

The Directive, Remuneration Policy at a Banking Corporation

On November 19, 2013, the Supervisor of Banks issued the Proper Conduct of Banking Business Directive, *Remuneration in a Banking Corporation* ("the Directive"). In accordance with the Directive, the Company's Board of Directors has to approve a Group remuneration policy, which is to be formulated by the Remuneration Committee and also to determine principles for remuneration in the Group, which are to meet the requirements that were set in the directive, at least once every three years.

The remuneration policy for officers in the Company. On March 12, 2023, following a decision by the Board of Directors' Remuneration Committee, the Company's Board of Directors approved a variable remuneration plan for the Company's employees and managers for the years 2023 - 2025. The remuneration plans adopt the principles of the group remuneration policy of the Discount Group, with the necessary changes, and these conform to the Supervisor of Banks' guideline, *Remuneration Policy in a Banking Corporation*.

The objectives at the heart of the plan include: supporting realization of the Company's strategy, objectives and goals; motivating the managers and employees to work toward creating long-term economic value for the Company; encouraging striving for excellence and professionalism and differential remuneration accordingly; supporting compliance with laws, regulatory directives and the Company's procedures; aligning remuneration with the risk appetite and the risk management framework; forming a link between the remuneration and the Company's performance and personal performance; creating a fair and proper balance between the variable (performance-dependent) remuneration components and the fixed remuneration components; and ensuring fair and proper remuneration for employees at the various grades, in accordance with their contribution, level of responsibility and relative impact on the Company's activity.

See Note 20 to the financial statements on the subject of employee benefits for further details regarding the terms of service and employment of the company's officers,

Material Agreements

Consortium Agreement with Gama

On July 6, 2017, CAL and the Company and Diners signed on an agreement with Gama Management and Clearing Ltd. and Gama Personal Direct Financing Ltd. ("Gama"), within the framework of which Gama serves as a "Concentrator", with the objective of enabling transactions to merchants who will be interested in acquiring credit cards through the Company's acquiring services.

The Company will be entitled to operating fees for the acquiring services, and also to a variable consideration, which will be dependent upon the merchants' turnover and which will be on a scale that has been determined by the parties. The provision of the acquiring services to the merchants is at the Company's discretion alone and is subject to the provisions of the law.

A process has also been set in the agreement for training Gama's employees for the purpose of the provision of the services, including for the purpose of the Company meeting its regulatory obligations in the work with the consortium. Furthermore, Gama has undertaken not to commit itself under a consortium agreement with another acquirer on the brands that are acquired by the company.

The agreement is effective for a period of 5 years, following which it will be renewed automatically for additional periods of 12 months each, unless either of the parties has announced its desire to terminate the agreement (subject to exceptions that have been set in the agreement, which afford the Company the right to terminate the agreement immediately). The signature of the agreement accords with the provisions of the Law for the Strengthening of Competition and the Reduction of Concentration in the Banking Market in Israel, which includes provisions, whose objective is to increase the competition in acquisition, and in the Company's management's assessment, the agreement is improving the offering of value to small and medium sized businesses. In 2020, the period of the agreement was extended until January 5, 2025.

Memorandum of understanding with Shufersal

On November 2, 2017, the Company and Diners (together – "The Company") and Shufersal Ltd. ("Shufersal") signed on a Memorandum of Understanding ("The Memorandum of Understanding") for the issuance and operation of non-banking credit cards to Shufersal's customers ("The Credit Club" and "The Cards", respectively). See Note 22F(2) to the financial statements on the subject of contingent liabilities and commitments for additional details.

Agreement with El Al

On June 11, 2014, the Company and Diners signed on an agreement with El Al Israel Airlines Ltd. ("El Al"), for the issuance of branded credit cards to the members of El Al's Frequent Flyers Club, ("The branded credit cards").

On December 11, 2018, a memorandum of understanding was signed for a new commitment by the Company with El Al on the subject of the issuance and operation of the branded cards, for a period of ten years commencing on September 1, 2019, with each of the parties having a right to exit after seven years. Furthermore, on September 26, 2019, additional agreements were signed between the Company, El Al and MasterCard, see Note 23F(4) to the financial statements on the subject of contingent liabilities and commitments for additional details.

Cooperations with customer clubs

The Company has commitments under agreements in connection with the Electra Consumer Products, 365 Family, Powercard and H&O clubs as well as with additional clubs. Pursuant to these agreements, the Company issues and operates non-banking credit cards for the members of the club, which afford benefits for customers in merchants that are connected to the club. The agreements define the mechanism for accounting between the Company and the clubs, which is a derivative of the revenues deriving from the club cards and/or the clubs marketing and advertising budgets in support of the joint activity and/or various bonuses, such as signing bonuses and/or bonuses for meeting targets. Furthermore, the agreements arrange additional commercial terms such as the bearing of customer recruitment costs.

The exercise of discretion in the issuance of the credit cards, the cancellation and suspension thereof, including the level of the credit facilities and the interest rates that will be collected is afforded to the Company exclusively.

It is further determined in the agreement, inter alia, that the Company will bear all of the responsibility for credit risks and risks associated with the misuse of the credit cards by the customers (except in relation to exceptions that were set in the agreement). The agreements further arranges the manner of the use of information deriving from the use of the credit cards and the ownership of such information as well as the manner of the management of the commercial connection opposite the credit organizations. In accordance with the agreements with the clubs, the clubs are responsible primarily for offering value to their customers in merchants that are connected to the clubs and also for enabling the acquisition of customers in the merchants. Exclusivity for the Company in the issuance of credit cards to the members of the clubs is set in the agreements.

The agreements have been signed for a period of several years, with provisions having been set in some of them regarding extension for an additional period.

In addition, the Company has commitments with business companies in various segments of the economy, directly and also through High Biz Ltd. (the "Hi-tech Zone" club), which affords benefits to employees of companies in using and holding charge cards that are issued within the framework of those commitments.

There are payments arrangements in some of these commitments, in which the Company bears amounts that are not material to the Company in respect of the cards that are issued to the companies' employees.

Cooperation agreement with Direct Finance

On October 18, 2015, the Company and Direct Finance of Direct Group (2006) Ltd. ("Direct Finance") signed on an agreement for cooperation in the making available of loans by the Company to Direct Finance's customers. Credit terms (amounts, interest rates and payments) were set in the agreement, which will be offered by the Company to Direct Finance's customers within the framework of the cooperation. Pursuant to the agreement, the decision on whether to make credit available is at Direct Finance's discretion, subject to the customer passing the tests that are performed by the Company prior to the provision of the credit. Furthermore, the credit risk (up to a particular ceiling, which is set in the agreement) lies with Direct Finance.

On March 15, 2020, Direct Finance decided to discontinue the marketing of loans in this joint venture with the Company in light of the Corona crisis.

Cooperation agreement with Shlomo CAL

Shlomo C.A.L. Ltd. ("Shlomo CAL") was established pursuant to an agreement between the Company the Shlomo Group Ltd. on October 9, 2005. Shlomo CAL is engaged in the purchase of fleets of vehicles for sale to individuals. As at the reporting date, the Company holds 20% of the Shlomo CAL's share capital.

It has been determined within the context of the agreement that Shlomo CAL. will be responsible for the purchase of the vehicles and their preparation for delivery to the customers, whereas the Company for its part will be committed to making credit available to private customers who are interested in purchasing a vehicle and for performing the discounting of the periodic payments that are paid by the private customers. The credit is actually made available for average periods of 30 months through CAL Finance.

In addition, the Company has undertaken to institute collection proceedings in connection with the credit that it has provided, subject to its right to endorse the debts to Shlomo CAL under the terms that have been set in the agreement and subject to the guarantee that has been provided by Shlomo CAL in respect of failures in the collection of debts from customers. The parties are entitled to give notice at any time regarding the discontinuation of the operations of Shlomo CAL and solely that they cause all of Shlomo CAL's commitments that have been given prior to the giving of notification of the discontinuation of the operations will be met.

Since the middle of 2021, the level of activity in the Company in the leasing field has been reduced and since the second quarter of 2022 it has not been recruiting new customers.

Service call centers and outsourcing

The Company has commitments with a main supplier for the operation of service and sales call centers for the Company's private customers. The agreement with this supplier is for a fixed period of 12 months and is renewed automatically for two additional periods of 12 months each, with the parties having the right to bring the agreement to an end by giving notification 6 months in advance. These service and sales call centers have interfaces to the Company's systems, which enable their operations. The Company has commitments with additional suppliers for the outsourced operation of customer service and sales call centers.

See Note 22 to the financial statements on the subject of contingent liabilities and commitments and well as Page 26 of the report of the Company's Board of Directors for details regarding additional significant agreements.

Material Legislative and Regulatory Restrictions and Special Constraints Applicable to the Company

Conditions for exemption for local acquiring

On April 25, 2018, the Competition Commissioner published the "Terms for an exemption from approval for a restrictive arrangement in relation to an interchange agreement. The current exemption was granted until December 31, 2023 subject to conditions that were set forth in the decision. The exemption that was given for the interchange agreement on "Isracard" cards is also expected to expire at that time. Taking note of the Swords of Iron war, and the state of emergency that has been declared in the State, a joint approach on behalf of all of the acquirers was made to the Competition Authority on October 17, 2023, requesting the granting of a temporary extension of the exemption. Such an extension was granted until March 31, 2024. All of the acquirers submitted a new request for the approval of the agreement to the Competition Authority on January 9, 2024.

Draft Amendment to the Banking Law (Service for a customer) (Notification of the termination of a banking benefit)

On January 24, 2024, the Draft Banking Law (Service for a customer) (Notification of the termination of a banking benefit) – 2023, was passed. Principles regarding the termination of banking benefits (a banking benefit – a benefit that is given to a customer relating to the interest rate, commission or the amount of a commission, for a period exceeding three months) were set within the framework of the Law. Pursuant to the draft law, the period for the giving of notification has been extended from two weeks to three weeks; furthermore, a duty has also been set to deliver the notification immediately and in an accessible manner, such as by SMS messages. The law relates specifically to benefits on charge card fees, and it has been determined that the way in which they can end the commitment is to be mentioned to the customer within the framework of that notification. The law will enter effect six months after the time of its publication.

The Arrangements Law – Law for the arrangement of engagement in payments and initiation of payments services – 2023 and additional amendments to legislation

Chapters were advanced within the framework of the Arrangements Law, which was passed and published in June 2023, which relate to the payments, credit and banking worlds. The main law that has been approved is the Law for the arrangement of engagement in payments and initiation of payments services, which seeks to arrange the activity of all of the different providers of payments services in Israel. The Law contains a number of changes, which may be material, such as: granting authority to the Minister of Finance for the transfer of the supervision over the three charge card companies from the Supervisor of Banks to another arrangement body; the expansion of the prohibition that applies to acquirers in relation to unreasonable refusal to commit with a bundler; the advancement of the initiation of basic and advanced payments (the transfer of monies between accounts), the changing of the criteria for determining a "significant financial body" in the Banking Law (Licensing) and etcetera. In addition, the Draft Credit and Banking Law, which deals, inter alia, with the cancellation that applies to a "Bank with a broad volume of activity" to reduce charge card facilities and with the prohibition on the setting of minimum commissions in a tariffs sheet was also advanced within the framework of the Arrangements Law. The Laws were approved, as aforesaid, within the framework of the Arrangements Law and were published on June 6, 2023.

Graduated outline for proportionate licensing and regulation for non-banking bodies in order to increase competition in the banking system

On February 14, 2024, the Banking Supervision Department published an appeal for comments from the public regarding a graduated outline for proportionate licensing and regulation for non-banking bodies in order to increase competition in the banking system, which will enable such bodies to receive a banking corporation license, by virtue of which they will be entitled to recruit deposits from the public and to provide credit therefrom. Comments on the appeal can be submitted until March 31, 2024.

Declaration of the local interchange agreement as a controlled payments system

In 2021, the Bank of Israel began the examination of the need to declare the local interchange agreement, on which the five acquirers as well as a number of banks are signed, as a controlled payments systems, pursuant to the Payments Systems Law. At the end of 2021, the Bank of Israel published its reasoning for the declaration, insofar as it may be executed. On February 7, 2024, the Company signed on a document recognizing Shva as operator of the system, from the procedural perspective alone, without voting rights in the decision making mechanism, which will be formulated in the future between the participants.

Law for Increasing Competition and the Reduction of Competition in the Banking System in Israel – 2017

See Note 22H(1) to the financial statements - contingent liabilities and commitments, for details regarding the abovementioned law.

Directives issued by the Banking Supervision Department

Proper Conduct of Banking Business Directives, which will enter effect in the future, or which have entered effect recently, which have an impact on the Company's operations:

Letter from the Supervisor of Banks on the subject of "The Supervision Department's emphases for the banking system in the wake of the "Swords of Iron" war and the comprehensive outline that has been adopted by the credit card companies for assisting customers to cope with the implications of the "Swords of Iron" war

On October 12, 2023, a letter from the Supervisor was published, which related to a range of issues, including: the provision of service to customers and a response to their approaches against the background of the war, the management of risks and frauds, cyber aspects and the defrauding of customers, discussions by the Board of Directors and etcetera. The Supervisor also related to relieving a burden and assisting customers to fulfill their commitments and it detailed the reliefs that the corporations are to implement at this time: to enable the deferral of payments of loans, whilst providing full disclosure of the various implications deriving from the deferral of the payments, including the costs that are ancillary to this; the freezing of collection processes at the present time; the avoidance of the collection of commissions in accordance with the circumstances; enabling the breaking of deposits before their due dates and the reduction of ancillary costs.

On October 22, 2023, the Supervisor of Banks published an outline for reliefs for the war. The outline distinguishes between customers who are counted among the first circle of those harmed by the war (whoever lives within a range of 30 kilometers from the Gaza Strip; citizens who have been evacuated from their homes by a state official; people serving in reserve duty who have been called up under an emergency call; the population of first degree relatives (spouses, parents, children) of people who have been killed in the war, have been kidnapped or who are missing) and other customers.

It is proposed that the first group of customers be provided with reliefs relating to the deferral of loan payments for a period of three months (in the following fields: consumer credit – cumulative balances in an amount of up to NIS 100,000: business credit – balances up to an amount of NIS 300,000 and only in relation to businesses with an annual turnover if up to NIS 2 million) without interest, and an all-inclusive exemption from commissions (except for certain commission) – all of which under the qualifications and the clarifications that are set forth in the outline.

It is proposed to provide the second group of customers with the possibility of deferring payments of loans (in the fields that are set forth above) for a period of three months, without commissions being charged for three months, where the payments that are deferred will bear interest not exceeding the interest rate in the agreement, with the payments being added at the end of the period. The outline entered effect by October 31, 2023.

On December 26, 2023, a press release was published regarding the extension of the outline for an additional three months, starting on January 1, 2024 (and no later than January 15, 2024), with certain changes, primarily the expansion of the population that is included in the outline. The Company has made preparations for the implementation of the provisions of the outline.

On March 4, 2024, the Banking Supervision Department published an extension and expansion of the outline for reliefs for coping with the implications of the war, for an additional three month period as from April 1, 2024. The Company is examining the implications of the extension and expansion.

See Page 24 of the Report of the Board of Directors and Management for details regarding the financial implications of the implementation of the outline.

Proper Conduct of Banking Business Directive 313 "Restrictions on the indebtedness of a borrower and of a group of borrowers"

On July 30, 2023, a revision to Proper Conduct of Banking Business Directive 313 "Restrictions on the indebtedness of a borrower and of a group of borrowers" was published. Pursuant to the revision, the transition provision that was in effect for a period of five years, ending shortly before the time of the publication of the revision, and which enables credit card companies to arrange the indebtedness of group of banking borrowers towards them, has been extended until December 31, 2024.

On November 26, 2023, the Company received a draft Proper Conduct of Banking Business Directive, which is intended to replace the existing directive. The restrictions relating to a "Group of credit card borrowers" and a "Group of controlled borrowers" have been cancelled in the draft, which does not relate to specific reliefs for the credit card companies.

Draft new Proper Conduct of Banking Business Directive - "Management of modelling risk"

On June 11, 2023, a draft was published for comments from the public. The draft describes the main aspects of the effective management of modelling risks, and it applies also to models that include artificial intelligence, or which are based thereon, which may expose the banking corporations to new risks or increase existing risks. The draft defines the term "model" and modelling risks, it determines provisions regarding corporate governance, policies and controls; and provisions and clarification regarding the development, implementation and use of models and the validation of models. The Directive will enter effect one year from the time of its publication (except for a number of exceptions).

Reform of the payments system in Israel

On July 5, 2023, the Bank of Israel updated the formulation of principles for a new service for transferring funds between accounts without the need to use the beneficiary's full account number.

The Bank of Israel has finished accompanying the process of the formulation of principles, which will enable immediate payment from an account by means of an identifier. The process have been completed within the framework of the Fast Payments Team, together with banking and non-banking players and Masav, which is the operator of the system. The objective of the uniform principles is to enable customers to transfer immediate credits and requests to pay by means of an identifier other than the beneficiary's account number, such as an e-mail address, a mobile telephone number, an identity number of a tax identification number.

The formulation of the principles is an additional step in the advancement of immediate payments in Israel, in accordance with the international standards and the ancillary services that are generally accepted globally. Payment services by means of an identifier is one of the most common services in the immediate payments systems globally and it assists in the prevention of typing errors by customers and it increases the efficiency of and simplifies the payment process for them.

The advanced digital payments world required adaptations to be made, which are required in order to support fast payments, which can be executed simply and with the minimum of effort on the part of the ultimate customers.

The principles include the types of identifiers using which it will be possible to execute transfers from accounts, with a distinction being made between a private account and a business account. Furthermore, they include the steps that participants in an immediate payments system are to execute in order to support the service and to make it accessible to their customers. The principles are to be implemented immediately by all of the providers of payment services, which operate in Masav's immediate payment system, by the end of June 2024.

Proper Conduct of Banking Business Directive 501 "Management of customer service and support arrangements"

On November 8, 2022, the Banking Supervision published a draft Proper Conduct of Banking Business Directive on the subject of the "Management of a customer service and support arrangements". Pursuant to the draft, the banking corporations are to adopt a proactive approach "to put themselves in the customers' shoes", and to consider whether the service and support arrangements provide the customers with the correct information (which includes the benefits, the risks and the costs) and at the correct timing, which will enable the customer to reach an optimal decision for themselves. The Directive itself comprises a number of principles, as part of the latitudinal supervisory process, the objective of which is to determine over-riding principles and standards in the consumer banking field for fair conduct opposite customers on the part of the banking corporations.

Legal Proceedings

Pending claims against the Company

Various claims are pending or are in process against the Company and its subsidiaries, including class actions and petitions to certify claims as class actions, which have been filed against them by customers of the Company and its subsidiaries, former customers and various third parties, who see themselves as having suffered harm or damage from the actions of the Company and its subsidiaries during the normal course of their business. Such proceedings include claims regarding unlawful charges and/or charges not in accordance with agreements and the illegal charging of accounts. In the opinion of the Company's Management, based inter alia on legal opinions, adequate provisions have been included in the financial statements, where necessary.

The material claims pending and in process against the Company and its subsidiaries are described in Note 22B to the financial statements.

Debt recovery procedures

As part of the Company's and its subsidiaries' debt collection policy, legal proceedings are instituted in the ordinary course of business for the recovery of debts from the debtors or from the guarantors for such debts, including the realization of collateral provided by the debtors or by any third parties. Included in such proceedings are proceedings for receiverships, liquidations, the foreclosure of pledged assets, etc.

Material legal proceedings that ended in 2023

See Note 22B on the subject of contingent liabilities and commitments regarding legal proceedings that ended in 2023.

Appendices to the Annual Report

Rates of Interest Income and Expenses of the Company and its Subsidiary and Analysis of Changes in Interest Income and Expenses

	Year ended December 31, 2023			Year ended December 31, 2022			Year ended December 31, 2021		
	Average balance (1)	Financing income (expenses)	Income (expense) rate	Average balance (1)	Financing income (expenses)	Income (expense) rate	Average balance (1)	Financing income (expenses)	Income (expense) rate
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets									
Cash and bank deposits	85	-	-	86	–	–	57	–	–
Credit									
Credit to private individuals	7,455	908	12.17	6,392	676	10.58	5,283	523	9.90
Commercial credit	3,181	145	4.57	3,000	72	2.39	2,581	47	1.83
Total	10,636	1,053	9.90	9,392	748	7.96	7,864	570	7.25
Other assets	1	*–	–	1	*–	–	1	*–	–
Total interest bearing assets	10,722	1,053	9.82	9,479	748	7.89	7,922	570	7.19
Receivables on credit card transactions - non-interest bearing	3,324	–	–	2,898	–	–	2,200	–	–
Amounts receivable from banks for activity on credit cards	4,355	–	–	4,162	–	–		–	–
Other non-interest bearing assets (3)	964	–	–	827	–	–	574	–	
Total assets	19,365	1,053		17,366	748	4	17,287	570	
Interest bearing liabilities									
Credit from banks	(5,188)	(231)	4.46	(3,942)	(68)	1.73	(2,838)	(22)	0.77
Subordinated notes	–	–	–	(1)	–	–	(8)	–	–
Other liabilities	(86)	–	–	(*–)	–	–	1	–	–
Total interest bearing liabilities	(5,274)	(231)	4.38	(3,943)	(68)	1.73	(2,845)	(22)	0.77
Payables on credit card transactions	(11,052)	–	–	(10,526)	–	–	(11,834)	–	–
Other non-interest bearing liabilities	(721)	–	–	(737)	–	–	(550)	–	–
Total liabilities	(17,047)	(231)		(15,206)	(68)		(15,229)	(22)	
Total capital resources	2,318			2,160			2,057		
Total liabilities and capital resources	19,365			17,366			17,287		
Interest margin						6.16			6.42

* Represents an amount of less than NIS 1 million.

See the comments on the table on page 240.

	Year ended December 31, 2023			Year ended December 31, 2022			Year ended December 31, 2021		
	Average balance (1)	Financing income (expenses)	Income (expense) rate	Average balance (1)	Financing income (expenses)	Income (expense) rate	Average balance (1)	Financing income (expenses)	Income (expense) rate
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Unlinked Israeli currency									
Total interest bearing assets (2)	10,377	1,026	9.88	9,059	696	7.68	7,562	570	7.54
Total interest bearing liabilities	(5,284)	(231)	4.38	(3,935)	(68)	1.73	(2,823)	(22)	0.78
Interest margin			5.50			5.95			6.76
CPI-linked Israeli currency									
Total interest bearing assets (2)	300	27	9.12	393	52	13.21	353	15	4.33
Total interest bearing liabilities	–	–	–	–	–	–	–	–	–
Interest margin						13.21			4.33
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest bearing assets (2)	45	*–	–	27	*–	–	8	*–	–
Total interest bearing liabilities	10	(*–)	–	(8)	(*–)	–	(22)	(*–)	–
Interest margin			–			–			–
Total interest bearing assets (2)	10,722	1,053	9.82	9,479	748	7.89	7,922	570	7.19
Total interest bearing liabilities	(5,274)	(231)	4.38	(3,493)	(68)	1.73	(2,845)	(22)	0.77
Interest margin			5.44			6.16			6.42
Net yield on interest-bearing assets (4)			7.66			7.17			6.92

See the comments on the table on page 240.

	2023 compared with 2022			2022 compared with 2021		
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	Amount	Price	Net change	Amount	Price	Net change
Analysis of changes in interest income						
Interest bearing assets						
Cash and bank deposits	–	–	–	–	–	–
Credit	130	102	232	117	36	153
Credit to private individuals	8	65	73	10	15	25
Total credit	138	167	305	127	51	178
Other assets	*–	(*–)	(*–)	(*–)	*–	*–
Total interest income	138	167	305	127	51	178
Analysis of changes in interest expenses						
Interest bearing liabilities						
Credit from banks	(56)	(107)	(163)	(20)	(26)	(46)
Subordinated notes	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	–
Total interest expenses	(56)	(107)	(163)	(20)	(26)	(46)
Total interest income, net	82	60	142	107	25	132

1. Based on monthly opening balances (in the unlinked Israeli currency segment - based on daily balances).
2. Before deduction of the average book balance of allowances for credit losses. Includes balances in respect of transactions on credit cards issued by the Company for which factoring has been performed; also include debts that do not accrue interest income.
3. Including other non-interest bearing assets and net of allowance for credit losses.
4. Net return - net interest income divided by total interest bearing assets.

* Represents an amount of less than NIS 1 million.

Consolidated Balance Sheet - Multi-Quarter Information

Year		2023				2022			
Quarter	Comments	4	3	2	1	4	3	2	1
		In NIS millions							
Assets:									
Cash and bank deposits	1	63	92	83	63	54	67	151	107
Amounts receivable from banks for credit card transactions, net	1	4,254	4,573	4,471	4,410	4,348	4,341	4,169	4,027
Receivables for activity on credit cards, net	2	13,589	14,348	13,694	13,645	12,824	12,944	12,187	11,548
Securities	3	17	17	17	17	17	17	30	30
Investment in an associate	4	7	7	7	6	11	11	10	9
Buildings and equipment		462	445	797	721	705	631	584	589
Other assets		623	609	564	573	549	514	528	557
Asset held for sale	5	363	363	–	–	39	39	39	–
Total assets		19,378	20,454	19,633	19,435	18,547	18,564	17,698	16,867
Liabilities:									
Credit from banks	6	3,770	4,459	3,658	2,906	3,222	2,788	2,981	1,830
Payables on credit card transactions		12,361	12,841	12,854	13,491	12,346	12,951	11,917	11,885
Other liabilities		800	710	763	760	859	734	743	847
Total liabilities		16,931	18,010	17,275	17,157	16,427	16,473	15,641	14,562
Total equity	7	2,447	2,444	2,358	2,278	2,120	2,091	2,057	2,305
Total liabilities and equity		19,378	20,454	19,633	19,435	18,547	18,564	17,698	16,867

1. The decrease in the balance of receivables in the fourth quarter of 2023 derives primarily from the impacts of the Swords of Iron war. See the chapter entitled "Business targets and strategy and expected developments in the coming year" and "Significant developments in revenues, expenses and other comprehensive income" in the Report of the Board of Directors and Management for additional details. See the chapter entitled "Structure and developments in assets, liabilities, equity and capital adequacy" in the Report of the Board of Directors and Management for details regarding the increase in the balance in 2022.
2. The decrease in the balance of securities in the third quarter of 2022 derives from a transaction for the sale of shares in Visa Inc. See Note 13 to the financial statements – Securities, for additional details.
3. The decrease in the balance of the investment in an associate in 2023 derives from the distribution of a dividend in the year.
4. The increase in 2022 derives primarily from the capitalization of software costs and investment in the Discount Campus. The increase in 2023 derives primarily from the capitalization of software costs, which was countered by the reclassification of an amount of NIS 363 million to 'Asset held for sale" in respect of the Discount Camput. See Note 15 to the financial statements – buildings and equipment for additional details.
5. See Note 15 to the financial statements – buildings and equipment for details regarding the sale of the CAL building.
6. The increase in the balance of credit from banking corporations in 2022 derived primarily from an increase in the volume of the Company's activity in general and in the provision of credit in particular, and also in light of the dividends that were distributed in that year.

7. The decrease in equity in the first and third quarters of 2022 derived from the distribution of a dividend. See Note 21 to the financial statements – Capital adequacy and gearing pursuant to the directives issued by the Supervisor of Banks for additional details.

Consolidated Statement of Profit and Loss - Multi-Quarter Information

Year		2023				2022			
Quarter	Comment	4	3	2	1	4	3	2	1
		In NIS millions							
Income									
Credit card transactions		401	480	447	423	428	434	412	377
Net interest income		213	212	203	194	178	170	172	160
Non-interest income (expenses)	1	*–	9	*–	301	(7)	61	31	17
Total income		614	701	650	918	599	665	615	554
Expenses (income)									
For credit losses		98	93	53	41	43	28	27	(1)
Operating		197	201	202	219	206	205	212	192
Selling and marketing		165	178	169	209	174	156	153	149
Administrative and general		30	25	26	26	28	24	24	21
Payments to banks		82	98	86	88	90	97	86	78
Total expenses		572	595	536	583	541	510	502	439
Profit before taxes		42	106	114	335	58	155	113	115
Provision for taxes on profit		16	27	33	72	19	47	33	35
Profit after taxes		26	79	81	263	39	108	80	80
Company's equity in profits of associate, net of tax effect		*–	–	1	*–	–	1	1	*–
Net earnings attributable to equity holders of the Company		26	79	82	263	39	109	81	80
Basic and diluted earnings per ordinary share (in NIS):									
Net profit attributable to equity holders of the Company		23.2	71.8	74.4	240.0	35.6	99.3	73.6	72.9
Par value of weighted share capital (in NIS)		109.8	109.8	109.8	109.8	109.8	109.8	109.8	109.8

* Represents an amount of less than NIS 1 million.

1. The non-interest income in the first quarter of 2023 derived primarily from the sale of CAL House in Givatayim. See Note 15 to the financial statements for additional details. The non-interest income in the third quarter of 2022 derived primarily from non-recurring income on the sale of shares in Visa Inc. See Note 13 to the financial statements – securities, for additional details.

Consolidated Statement of Profit and Loss - Multi-Period Information

	For the year ended December 31				
	2023	2022	2021	2020	2019
	In NIS millions				
Income					
Credit card transactions	1,751	1,651	1,432	1,254	1,356
Net interest income	822	680	548	530	505
Non-interest financing income	310	102	5	73	2
Total income	2,883	2,433	1,985	1,857	1,863
Expenses (income)					
For credit losses	285	97	(9)	223	147
Operating	819	815	684	657	617
Selling and marketing	721	632	533	508	485
Administrative and general	107	97	85	78	78
Payments to banks	354	351	301	250	260
Total expenses	2,286	1,992	1,594	1,716	1,587
Profit before taxes	597	441	391	141	276
Provision for taxes on profit	148	134	122	27	75
Profit after taxes	449	307	269	114	201
Company's equity in profits of associate, net of tax effect	1	2	2	1	*–
Net earnings attributable to equity holders of the Company	450	309	271	115	201
Basic and diluted earnings per ordinary share (in NIS):					
Net profit attributable to equity holders of the Company	409.9	281.5	246.9	104.8	183.1
Par value of weighted share capital (in NIS)	109.8	109.8	109.8	109.8	109.8

* Represents an amount of less than NIS 1 million.

Consolidated Balance Sheet - Multi-Period Information

	December 31				
	2023	2022	2021	2020	2019
	In NIS millions				
Assets:					
Cash and bank deposits	63	54	57	52	67
Amounts	4,254	4,348	4,141	8,335	8,321
Receivables for credit card transactions, net	14,068	13,171	11,232	9,653	10,297
Allowance for credit losses	(479)	(347)	(349)	(390)	(294)
Receivables on credit card transactions, net	13,589	17,172	15,024	17,598	18,324
Securities	17	17	30	27	53
Investment in an associate	7	11	9	13	12
Buildings and equipment	462	705	567	460	375
Other assets	623	549	389	385	328
Asset held for sale	363	39	-	-	-
Total assets	19,378	**18,547**	**16,076**	**18,535**	**19,159**
Liabilities:					
Credit from banks	3,770	3,222	1,502	5,156	6,594
Payables on credit card transactions	12,361	12,346	11,633	10,918	10,272
Subordinated notes	-	-	7	14	28
Other liabilities	800	859	718	517	444
Total liabilities	16,931	**16,427**	**13,860**	**16,605**	**17,338**
Equity attributed to equity holders in the Company	2,447	2,120	2,216	1,930	1,821
Total liabilities and equity	19,378	**18,547**	**16,076**	**18,535**	**19,159**

Glossary

Acquiring - Part of the process of conducting a credit card transaction, within the framework of which the acquirer is required to credit the payment recipient in respect of transactions approved by it after these have been checked by the payee's credit card issuer.

Acquiring Margin - The difference between the merchant discount fee received from the merchant and the interchange fee paid to the issuing company.

Allowance for Credit Losses - Management's most accurate estimate of the future credit losses, as at the reporting date.

Anticipated Return - Reflects interest, dividends and other income derived from plan assets, together with losses/ realized and unrealized gains in respect of plan assets less plan management costs and taxes payable by the plan.

Auxiliary Banking Corporation - A corporation that is not itself a banking corporation whose business is solely in the sphere of operations permitted to the banking corporation that controls it, other than business that is unique to banking corporations pursuant to the law.

Bank Credit Card - A card issued by the bank (through a credit card company), where the credit facility on the card is subject to the credit facility on the customer's current account.

Basel II/Basel III Instructions - The instructions for the management of bank risks that have been prescribed by the Basel Committee on Banking Supervision that deals with the supervision and the setting of standards for the supervision of the world's banks. The instructions of the Basel Committee constitute a benchmark for leading standards intended to ensure the stability of financial institutions.

Bundler – A merchant that bundles a number of merchants under it and makes a commitment with an acquirer for the purpose of receiving acquiring services in the name of the merchants that are consolidated under it.

Capital Adequacy - The ratio between the Company's total risk assets and the Company's equity in accordance with the directives of the Supervisor of Banks.

Capital Adequacy Ratio - The ratio between the regulatory capital at the Company's disposal and the risk-weighted assets in respect of credit risk, market risk and operational risk, calculated according to the directives of the Bank of Israel and expressing the risk reflected in the exposures assumed by the Company in the course of its activities.

Capital to Risk Components Ratio - The ratio between the capital and the risk assets, calculated according to the recommendations of the Basel Committee.

Collective Allowance - An allowance in respect of debts examined on a specific basis and found not to be non-accrual, as well as an allowance in respect of large groups of small homogenous debts. A group allowance will be calculated for each group of debts with similar risk characteristics, based on the rate of credit losses recognized in the past for such group, with this being adjusted for the latest economic circumstances as at the reporting date.

Commercial Credit - Loans to merchants, balances of factored merchants' vouchers for merchants that did not comply with liability extinguishment terms and balances in respect of regular transactions and/or payments with credit cards of customers classified as corporations in accordance with the provisions of Proper Conduct of Banking Business Directives Nos. 201-210.

Common Equity Tier 1 - The accounting equity, viz., the issued and paid-up share capital, with the addition of retained earnings and net capital reserves, as well as deferred "perpetual" bonds issued by the corporation.

Compliance Risk - The risk of the Group failing to interpret and implement directives, laws, rules and the regulatory standards applicable to its operations and, as a consequence, incurring fines and penalties that will cause it business harm.

Counterparty Credit Risk - A credit risk in respect of a counterparty is a risk that the counterparty to a transaction might become insolvent before final settlement of the cash flows relating to the transaction.

Credit Card - A reusable card or other object intended for the purchase of goods and services from a supplier without the immediate payment of the consideration.

Credit Guaranteed by Banks - Balances in respect of regular transactions and/or payments with cards issued by the Company to customers of banks with which the Company has entered into a joint issuing arrangement. Such banks bear the credit risk of the aforementioned balances.

Credit Risk - The risk of harm to the value of the Company and its profits due to deterioration in borrowers' ability to meet their obligations or due to deterioration in the quality of the borrowers and the value of the collateral provided by them to the Company.

Credit Risk Mitigation - A technique for mitigating the credit risk associated with the exposure by implementing risk reduction instruments, such as, guarantees, charges, collateral and credit protection.

Credit to Individuals - Credit to individuals who are not corporations (registered or unregistered) and are not engaged in business activity.

Debt - A contractual right to receive money on demand or at set or determinable dates, which is recognized as an asset in the balance sheet of the banking corporation.

Debt in Arrears - The total debt if part of it has not been settled within 90 days of the date set for the repayment of such part, other than a debt temporarily in arrears.

Debt Restructuring - An arrangement pursuant to which a banking corporation, due to economic or legal considerations relating to the financial position of the borrower, grants the borrower, either through an agreement or under the law, special terms that would not be granted in other circumstances and which are intended to enable the customer to meet the debt repayment under the new terms, apart from an arrangement to alter the terms of a debt that largely reflects changes in the credit terms in Israel.

Debt Write-off - At the time of writing off or writing down a financial asset, the debt recorded on the customer's account is also wholly or partly eliminated, when it is assessed that there is no real possibility of collecting the debt.

Deferred Charge Card - A card on which all the transactions conducted by the customers are deferred to a date chosen by him.

Defined Contribution - A defined contribution plan includes contributions for benefits. In addition, part of the severance payments is subject to the provisions of Section 14 to the Severance Pay Law, 1963 ("Section 14"), pursuant to which the regular deposits of the Group in pension funds and/or insurance policies exempt it from any additional liability to the employees for which such amounts are deposited.

Duration - The average time span until the maturity of assets and liabilities, measured in years.

EMV Standard - An assemblage of specifications developed by the international credit card organizations with the objective of providing a uniform and secure format for transactions paid for with charge cards with a chip (smart cards), made by means of an ATM or by means of a terminal at the point of sale (POS) that support the standard.

Exchange Rate Risk - The risk of loss as a result of changes in foreign currency exchange rates or in the consumer price index.

Exposure - A demand, ongoing claim or position that carries with it a risk of financial loss.

Immediate Charge Card - A bank card as defined in the Charge Cards Law, 1986, where the amount of a transaction conducted using it is charged immediately.

Immediate Charge Transaction - A transaction on an immediate charge card or on a prepaid card, other than a payment in respect of a cash withdrawal from ATMs.

Interchange Fee - A fee paid to the issuer by the acquirer as part of the merchant discount fee.

Interest Cost - Reflects the increase during the period in the present value of the liability for defined benefit, which arises because the benefits are one period closer to settlement.

Interest Risk - The risk to profits or capital arising from interest rate movements.

Internal Capital Adequacy Assessment Process (ICAAP) - A capital adequacy assessment process used in order to examine the scope of the capital required to support the various risks to which the Group is exposed, so as to ensure that the Group's actual capital is sufficient to meet the aforesaid capital requirements at any time.

Internal Rate of Return (IRR) - The interest rate used to discount the anticipated cash flows from a financial instrument to the fair value presented in relation thereto

Issuing - Part of the process of conducting a credit card transaction, within the framework of which the card issuer undertakes to credit the acquirer for transactions approved by it.

Legal Proceedings - Civil court, arbitration or tribunal proceedings being conducted against the Group or a civil dispute which, in the event of no settlement being reached, might result in court, arbitration or tribunal proceedings.

Legal Risk - Legal risk is part of the operational risk, which is defined as the risk of loss as a result of improper or faulty internal processes and systems or human errors, or as a result of external events, while legal risk is defined as including, but not limited to, exposure to fines or penalties as a result of supervisory activities, as well as from individual arrangements.

Leverage - Use of external financing for the Company's operations.

Leverage Ratio - The ratio between the capital measurement and the exposure measurement. The capital for the purpose of measuring the leverage ratio is common equity Tier 1, as defined in Proper Conduct of Banking Business Directive No. 202, taking into account the prescribed transition arrangements. The amount of the exposure measurement is equal to the total of the balance sheet exposures, derivative exposures and off-balance-sheet items.

Liability for Defined Benefits- The present value of the anticipated future payments required to settle the liabilities arising from the defined benefits plan in respect of employee services.

Liquidity Risk - The risk to the Company's profits and capital as a result of the inability to satisfy liquidity needs. This risk includes: the risk that the Company will not meet its payment obligations on their due date (funding risk) and a risk that a crisis of some kind could cause the banks to refuse to provide the parent company with exceptional credit.

Market Risk - The risk that movements in market risk factors, including foreign currency exchange rates, the rate of inflation, interest rates, credit allocation and costs of capital will reduce the Company's income or the value of its assets.

Merchant Discount Fee - The fee charged by the acquirer for providing acquiring services.

Net Interest/Financing Income - Net interest received or receivable on asset, after deducting interest paid or payable on liabilities.

Non-accrual Debt - A debt, in respect of which the Company expects, based on the latest information and events, to be unable to collect the amounts due to it under the debt agreement.

Non-bank Credit Card - A card issued by a credit card company that does not have an agreement with the bank, where the credit facility is separate from that on the customer's current account and the charges are collected from the current account by means of an authorization to charge the account.

Non-performing Assets – Debts that do not accrue interest income.

Operational Risk - The risk of loss as a result of improper or faulty internal processes and systems or human errors, or as a result of external events.

Phantom Option – A liability instrument, which awards cash remuneration based on the value of the share, without entitlement to the actual receipt of the share and the rights attaching thereto.

Prepaid Card - A card on which an amount has been prepaid up to which transactions can be conducted using the card.

Regulatory Matters - Investigations, audits and other measures carried out following actions of regulators and law enforcement organs in connection with unlawful transactions.

Reputational Risk - The risk of harm to the Company's business position, resulting from damage to its image due to the publication of various matters, whether true or false, as perceived by its customers, banks, investors, supervisory authorities and others.

Return on Equity - The ratio of earnings attributed to the ordinary equity holders to the average equity attributed to the ordinary equity holders.

Revolving Credit Card - A card that allows the customer to choose the monthly amount that he wishes to be charged, with the debit balance being deferred to the following month and accruing interest.

Risk appetite - The total of all the types of the various risks that the Company is prepared to assume in order to attain its strategic goals and to realize the business plan.

Service Cost - Reflects the increase in the present value of a defined benefit obligation resulting from employee service in the reporting period.

Smart Card - A card containing a chip that meets the EMV standard.

Special Supervision Debt - A debt that has potential weaknesses for which Management’s special attention is required, and which, if not attended to, might adversely affect the prospects of repayment, the balance-sheet credit risk or the position of the banking corporation as a creditor.

Specific Allowance - An allowance that is required to cover anticipated credit losses in respect of debts examined on a specific basis and found to be non-accrual. This allowance is assessed based on the future anticipated cash flows from the debt, capitalized at the original effective interest rate of the debt, or in accordance with the fair value, net of selling costs of the collateral charged to secure said credit, when collection of the debt is contingent on the collateral.

Substandard Debt - A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and in respect of which there is a distinct possibility That the banking corporation will sustain a loss, if the deficiencies are not rectified.

Troubled Debt - A debt under special supervision, a debt temporarily in arrears, a debt that has not yet been restructured, a debt that does not bear income, or a debt that has been determined to be wholly or partly doubtful.

Initials

ALM	Asset Liability Management
ASU	Accounting standards update
ATM	Automated teller machine
BIN	Bank identification number
COSO	Committee of sponsoring organizations
CRO	Chief risk officer
CVA	Credit valuation adjustment
EMV	Europay MasterCard Visa
FAS	Financial accounting standards
GAAP	Generally accepted accounting principles
IAS	International accounting standards
IASB	International accounting standards board
ICAAP	Internal capital adequacy assessment process
IFRIC	International financial reporting interpretations committee
IFRS	International financial reporting standards
LGD	Loss given default
NIS	New Israeli shekels
PD	Probability of default
POS	Point of sale
SEC	Securities and exchange commission
SIC	Standard interpretations committee
SOX	Sarbanes Oxley