

**Part of the Financial  
Statements  
translated from the  
Hebrew original**

**ZUR SHAMIR HOLDINGS LTD.**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2017**

Please find attached an extract English translation of the Hebrew version of the consolidated financial statements of Zur Shamir Holdings Ltd. which were approved on March 14, 2018.

The full set of financial statements in Hebrew can be viewed on the website of the Israeli Securities Authority (<http://www.magna.isa.gov.il>).

**ZUR SHAMIR HOLDINGS LTD.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2017**

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Kost Forer Gabbay & Kasierer  
144 Menachem Begin Road, Building A  
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525  
Fax: +972-3-5622555  
ey.com

**Independent Auditors' Report  
to the Shareholders of  
Zur Shamir Holdings Ltd.**

**Review of the components of internal control over financial reporting**

**Pursuant to Section 9b(c) to the Israeli Securities Regulations  
(Periodic and Immediate Reports), 1970**

We have audited the components of internal control over financial reporting of Zur Shamir Holdings Ltd. and its subsidiaries (hereunder collectively - the Company) as at December 31, 2017. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of internal control over financial reporting included in the accompanying periodic report for the said date. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were prescribed in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", as amended (hereunder – Auditing Standard 104). These components are entity-level controls, including financial statements closing and preparation process controls and information technology general controls (hereunder - "the audited control components") and controls over processes that are very significant to the financial reporting and disclosure in the Company and its subsidiaries.

We conducted our audit in accordance with Auditing Standard 104. The Standard requires that we plan and perform the audit to identify the control components that are auditable in accordance with the provisions of the Regulations and 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, identifying the control components that are auditable in accordance with the provisions of the Regulations, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. According to the Regulations, our audit only addressed the audited control components, as opposed to internal control over the corporation's overall significant processes relating to financial reporting. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and specifically the components therein, 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 with respect to the audited control components as at December 31, 2017.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 and our report dated March 14, 2018 expressed an unqualified opinion of those financial statements. We also drew attention to Note 42a and Note 42b to the annual consolidated financial statements regarding the exposure to requests to approve claims as class actions in subsidiaries.

Tel-Aviv, Israel  
March 14, 2018

KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global



**Kost Forer Gabbay & Kasierer**  
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Tel-Aviv 6492102, Israel

Tel: +972-3-6232525  
Fax: +972-3-5622555  
ey.com

## **AUDITORS' REPORT**

**To the Shareholders of**

**ZUR SHAMIR HOLDINGS LTD.**

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

We did not review the financial statements of certain subsidiaries, whose assets constitute about 22.1% and about 22.4% of total consolidated assets as at December 31, 2017 and 2016, respectively, and whose revenues constitute about 4.8%, about 5.6% and about 6.2% of total consolidated revenues for the years ended as at December 31, 2017, 2016 and 2015, respectively. The financial statements of those companies were audited by other auditors whose reports were furnished to us and our opinion, insofar as it relates to the amounts included for those companies, is based on the reports of the other auditors.

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

In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2017 and 2016 and the results of their activities, the changes in equity and cash flows, for each of the three years in the period ended as at December 31, 2017, in conformity with the International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements as prescribed by the Regulator of Insurance according to the Supervision of Financial Services (Insurance) Law, 1981. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the directives of the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010, insofar as these Regulations apply to insurance companies.

Without qualifying our opinion, we draw attention to Note 42a and Note 42b to the annual consolidated financial statements regarding exposure to class actions and the approval of claims as class actions of subsidiaries.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2017, and our report dated March 14, 2018 expressed an unqualified opinion on the effective existence of those components.

Tel-Aviv,  
March 14, 2018

**KOST FORER GABBAY & KASIERER**  
A Member of Ernst & Young Global

**CONDENSED CONSOLIDATED STATEMENTS OF THE FINANCIAL POSITION**

|  | <b>December 31</b>      |                   |
|--|-------------------------|-------------------|
|  | <b>2017</b>             | <b>2016</b>       |
|  | <b>NIS in thousands</b> |                   |
| <b>CURRENT ASSETS</b>  |                         |                   |
| Cash and cash equivalents                                      | 916,362                 | 1,167,823         |
| Cash and cash equivalents for yield dependent contracts        | 8,279                   | 10,740            |
| Financial assets   | 579,471                 | 1,009,750         |
| Derivatives  | 2,198                   | 3,204             |
| Outstanding insurance premiums                                 | 540,705                 | 454,819           |
| Debtors and receivables  | 499,240                 | 143,112           |
| Deposits   | 78,512                  | 320,978           |
| Current taxes receivable                                       | 75,357                  | 53,626            |
| Reinsurance assets   | 55,214                  | 49,118            |
| Deferred acquisition costs                                     | 98,515                  | 84,530            |
|  | <u>2,853,853</u>        | <u>3,297,700</u>  |
| Assets designated for sale                                     | <u>844,634</u>          | <u>791,809</u>    |
|  | <u>3,698,487</u>        | <u>4,089,509</u>  |
| <b>NON-CURRENT ASSETS</b>                                      |                         |                   |
| Financial assets   | 2,557,583               | 1,745,676         |
| Derivatives  | 6,485                   | 7,781             |
| Investment property and investment property under construction | 3,887,801               | 3,638,398         |
| Reinsurance assets   | 138,995                 | 123,437           |
| Fixed assets   | 184,883                 | 132,050           |
| Deferred acquisition costs                                     | 199,426                 | 178,298           |
| Debtors and receivables  | 88,458                  | 59,523            |
| Deposits   | 107,835                 | 59,328            |
| Goodwill and intangible assets                                 | 304,127                 | 265,493           |
| Deferred taxes   | 9,498                   | 2,458             |
|  | <u>7,485,091</u>        | <u>6,212,442</u>  |
|  | <u>11,183,578</u>       | <u>10,301,951</u> |

**CONDENSED CONSOLIDATED STATEMENTS OF THE FINANCIAL POSITION**

|   | <b>December 31</b>      |                   |
|---|-------------------------|-------------------|
|   | <b>2017</b>             | <b>2016</b>       |
|   | <b>NIS in thousands</b> |                   |
| <b>CURRENT LIABILITIES</b>  |                         |                   |
| Financial liabilities   | 1,419,818               | 1,278,040         |
| Creditors and payables  | 539,170                 | 435,086           |
| Current taxes payable   | 1,107                   | 12,840            |
| Derivatives   | 13,340                  | 24,420            |
| Liabilities for borrowing of securities                                   | -                       | 183,126           |
| Liabilities for insurance contracts<br>and investment contracts           | <u>1,186,408</u>        | <u>1,017,491</u>  |
|   | <u>3,159,843</u>        | <u>2,951,003</u>  |
| <b>NON-CURRENT LIABILITIES</b>  |                         |                   |
| Financial liabilities   | 4,285,904               | 4,066,815         |
| Creditors and payables  | 37,509                  | 25,424            |
| Liabilities in respect of insurance contracts<br>and investment contracts | 2,045,495               | (* 1,900,766      |
| Liabilities for employee benefits   | 31,260                  | (* 22,547         |
| Derivatives   | 20,436                  | 27,035            |
| Deferred taxes  | <u>208,981</u>          | <u>221,263</u>    |
|   | <u>6,629,585</u>        | <u>6,263,850</u>  |
| <b>EQUITY</b>   |                         |                   |
| Share capital   | 143,085                 | 217,531           |
| Share premium   | 45,427                  | 38,469            |
| Reserves  | (142,402)               | (178,390)         |
| Retained earnings   | 336,831                 | 285,787           |
| Treasury shares   | -                       | (67,599)          |
|   | <u>382,941</u>          | <u>295,798</u>    |
| Total equity attributed to the<br>Company's shareholders                  | <u>382,941</u>          | <u>295,798</u>    |
| Non-controlling interests   | <u>1,011,209</u>        | <u>791,300</u>    |
| Total equity  | <u>1,394,150</u>        | <u>1,087,098</u>  |
|   | <u>11,183,578</u>       | <u>10,301,951</u> |

\*) Reclassified



**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**

|  | <b>Year ended December 31</b>                                    |                  |                  |
|--|--|------------------|------------------|
|  | <b>2017</b>  | <b>2016</b>      | <b>2015</b>      |
|  | <b>NIS in thousands (except for net earnings per share data)</b> |                  |                  |
| <b>INCOME</b>  |  |                  |                  |
| Premiums earned on retention   | 2,182,752  | 1,924,712        | 1,642,030        |
| Income from lease of properties  | 219,189  | 215,928          | 196,200          |
| Increase in value of investment property and properties under construction, net                            | 17,462   | 22,276           | 43,529           |
| Net gains on investments and other finance income  | 110,479  | 88,306           | 84,330           |
| Income from management fees  | 6,222  | 6,513            | 7,119            |
| Income from grant of consumer credit   | 422,680  | 294,613          | 228,018          |
| Income from commissions  | 17,960   | 17,604           | 15,115           |
| Group's share in losses of an affiliate  | (578)  | (1,333)          | (2,000)          |
| Other income   | 399  | 211              | 145              |
| <b>Total income</b>  | <b>2,976,565</b>   | <b>2,568,830</b> | <b>2,214,486</b> |
| <b>EXPENSES</b>  |  |                  |                  |
| Payments and change in liabilities in respect of insurance contracts and investment contracts on retention | 1,539,327  | 1,467,224        | 1,059,636        |
| Marketing expenses and other acquisition expenses  | 449,780  | 383,582          | 334,736          |
| Maintenance, administrative and general expenses   | 348,562  | 276,114          | 253,559          |
| Finance expenses   | 218,555  | 221,741          | 217,932          |
| Other expenses   | 921  | 937              | 498              |
| <b>Total expenses</b>  | <b>2,557,145</b>   | <b>2,349,598</b> | <b>1,866,361</b> |
| Income before taxes on income  | 419,420  | 219,232          | 348,125          |
| Taxes on income  | 112,885  | 118,614          | 161,991          |
| Net income   | <u>306,535</u>   | <u>100,618</u>   | <u>186,134</u>   |
| Attributed to:   |  |                  |                  |
| Company shareholders   | 103,911  | 2,745            | 45,395           |
| Non-controlling interest   | 202,624  | 97,873           | 140,739          |
|  | <u>306,535</u>   | <u>100,618</u>   | <u>186,134</u>   |
| <b>Net earnings per share attributed to shareholders of the Company (in NIS)</b>                           |  |                  |                  |
| Basic earnings, net  | <u>1.63</u>  | <u>0.04</u>      | <u>0.71</u>      |
| Diluted earnings, net  | <u>1.61</u>  | <u>0.03</u>      | <u>0.69</u>      |

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|   | <b>Year ended December 31</b> |             |             |
|---|-------------------------------|-------------|-------------|
|   | <b>2017</b>                   | <b>2016</b> | <b>2015</b> |
|   | <b>NIS in thousands</b>       |             |             |
| Net income  | 306,535                       | 100,618     | 186,134     |
| <b>Other comprehensive income (loss)<br/>(after the tax effect):</b>                              |                               |             |             |
| <b>Amounts that will be reclassified<br/>subsequently to profit or loss:</b>                      |                               |             |             |
| Profit (loss) in respect of<br>cash flow hedging transactions                                     | 7,458                         | (7,705)     | 9,536       |
| Adjustments resulting from the<br>translation of the financial statements<br>of activities abroad | (2,594)                       | (14,538)    | (137,384)   |
| <b>Amounts that will not be reclassified<br/>subsequently to profit or loss:</b>                  |                               |             |             |
| Revaluation in respect of fixed assets  | 29,102                        | -           | -           |
| Loss from remeasurement<br>in respect of defined benefit plans                                    | (4,612)                       | (737)       | (343)       |
| Total other comprehensive income (loss)   | 29,354                        | (22,980)    | (128,191)   |
| Total comprehensive income  | 335,889                       | 77,638      | 57,943      |
| <b>Total comprehensive income (loss)<br/>attributed to:</b>                                       |                               |             |             |
| Company shareholders  | 118,297                       | (8,139)     | (26,260)    |
| Non-controlling interests   | 217,592                       | 85,777      | 84,203      |
|   | 335,889                       | 77,638      | 57,943      |

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

|   | Attributable to equity holders of the Company |               |                   |           |                 |          | Non-controlling interests | Total equity |
|---|---|---------------|-------------------|-----------|-----------------|----------|---------------------------|--------------|
|   | Share capital                                 | Share premium | Retained earnings | Reserves  | Treasury shares | Total    |                           |              |
|   | NIS in thousands                              |               |                   |           |                 |          |                           |              |
| <b>Balance as at January 1, 2015</b>  | 217,374                                       | 38,319        | 272,893           | (96,329)  | (67,599)        | 364,658  | 709,885                   | 1,074,543    |
| Net income  | -   | -             | 45,395            | -         | -               | 45,395   | 140,739                   | 186,134      |
| Total other comprehensive loss  | -   | -             | -                 | (71,655)  | -               | (71,655) | (56,536)                  | (128,191)    |
| Total comprehensive income (loss)   | -   | -             | 45,395            | (71,655)  | -               | (26,260) | 84,203                    | 57,943       |
| Issue of shares, net of subsidiaries to non-controlling interests   | -   | -             | 9,983             | -         | -               | 9,983    | 60,727                    | 70,710       |
| Share based payment cost  | -   | -             | -                 | -         | -               | -        | 5,098                     | 5,098        |
| Realization of option warrants into Company shares  | 157   | 150           | -                 | (150)     | -               | 157      | -                         | 157          |
| Realization of option warrants into subsidiary shares by non-controlling interests  | -   | -             | 138               | -         | -               | 138      | 1,763                     | 1,901        |
| Net cumulative effect as of December 31, 2015 of changes in insurance reserves in general insurance                                 | -   | -             | 11,092            | -         | -               | 11,092   | 18,275                    | 29,367       |
| Dividend to the Company's shareholders  | -   | -             | (40,000)          | -         | -               | (40,000) | -                         | (40,000)     |
| Dividend to non-controlling interest holders  | -   | -             | -                 | -         | -               | -        | (96,138)                  | (96,138)     |
| <b>Balance as at December 31, 2015</b>  | 217,531                                       | 38,469        | 299,501           | (168,134) | (67,599)        | 319,768  | 783,813                   | 1,103,581    |
| Net income  | -   | -             | 2,745             | -         | -               | 2,745    | 97,873                    | 100,618      |
| Total other comprehensive loss  | -   | -             | -                 | (10,884)  | -               | (10,884) | (12,096)                  | (22,980)     |
| Total comprehensive income (loss)   | -   | -             | 2,745             | (10,884)  | -               | (8,139)  | 85,777                    | 77,638       |
| Share based payment cost  | -   | -             | -                 | 628       | -               | 628      | 4,785                     | 5,413        |
| Realization of option warrants into subsidiaries' shares by non-controlling interests and the acquisition of shares by a subsidiary | -   | -             | (1,459)           | -         | -               | (1,459)  | (254)                     | (1,713)      |
| Dividend to the Company's shareholders  | -   | -             | (15,000)          | -         | -               | (15,000) | -                         | (15,000)     |
| Dividend to non-controlling interest holders  | -   | -             | -                 | -         | -               | -        | (82,821)                  | (82,821)     |
| <b>Balance as at December 31, 2016</b>  | 217,531                                       | 38,469        | 285,787           | (178,390) | (67,599)        | 295,798  | 791,300                   | 1,087,098    |
| Net income  | -   | -             | 103,911           | -         | -               | 103,911  | 202,624                   | 306,535      |
| Total other comprehensive income  | -   | -             | -                 | 14,386    | -               | 14,386   | 14,968                    | 29,354       |
| Total comprehensive income  | -   | -             | 103,911           | 14,386    | -               | 118,297  | 217,592                   | 335,889      |
| Share based payment cost  | -   | -             | -                 | 320       | -               | 320      | 8,153                     | 8,473        |
| Issue of shares, net of subsidiary to non-controlling interests   | -   | -             | (28,867)          | 21,376    | -               | (7,491)  | 115,663                   | 108,172      |
| Realization of option warrants into Company shares  | 17  | 94            | -                 | (94)      | -               | 17       | -                         | 17           |
| Cancellation of treasury shares   | (74,463)                                      | 6,864         | -                 | -         | 67,599          | -        | -                         | -            |
| Dividend to the Company's shareholders  | -   | -             | (24,000)          | -         | -               | (24,000) | -                         | (24,000)     |
| Dividend to non-controlling interest holders  | -   | -             | -                 | -         | -               | -        | (121,499)                 | (121,499)    |
| <b>Balance as at December 31, 2017</b>  | 143,085                                       | 45,427        | 336,831           | (142,402) | -               | 382,941  | 1,011,209                 | 1,394,150    |

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | App. | Year ended December 31 |           |           |
|--|------|------------------------|-----------|-----------|
|  |      | 2017                   | 2016      | 2015      |
|  |      | NIS in thousands       |           |           |
| Cash flows provided by (used in)<br>current activities                                 | a    | 25,486                 | 327,526   | (46,579)  |
| <b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>   |      |                        |           |           |
| Settlement (grant) of deposits, net  |      | 9,000                  | (66,300)  | (29,646)  |
| Acquisition of fixed assets and investment property<br>and property under construction |      | (267,555)              | (163,725) | (401,473) |
| Interest paid and capitalized to cost of investment<br>property under construction     |      | (4,062)                | (985)     | (1,525)   |
| Investment in an affiliate, net  |      | (578)                  | (1,333)   | (2,000)   |
| Proceeds from the sale of fixed assets<br>and investment property                      |      | 4,754                  | 31,797    | 3,078     |
| Proceeds in respect of settlement of hedging transactions                              |      | 4,528                  | 4,851     | 47,634    |
| Payment in respect of hedging transactions   |      | (4,346)                | (2,291)   | (16,110)  |
| Investment in intangible assets  |      | (59,552)               | (57,712)  | (47,366)  |
| Cash deducted due to acquisitions in the framework of<br>business combination          |      | (6,000)                | -         | -         |
| Net cash used in investment activities   |      | (323,811)              | (255,698) | (447,408) |

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | App. | Year ended December 31 |           |           |
|---|------|------------------------|-----------|-----------|
|   |      | 2017                   | 2016      | 2015      |
|   |      | NIS in thousands       |           |           |
| <b>CASH FLOWS FROM FINANCE ACTIVITIES</b>   |      |                        |           |           |
| Settlement of CPI hedging transactions  |      | (15,529)               | (15,042)  | (22,704)  |
| Proceeds from the issue of bonds and subordinated deeds in a subsidiary, net              |      | 517,799                | 1,199,057 | 251,977   |
| Proceeds from realization of options to subsidiary shares                                 |      | -                      | 304       | 1,901     |
| Proceeds from the realization of options to Company's shares                              |      | 17                     | -         | 157       |
| Issue of Company bonds, net tax   |      | -                      | 116,925   | -         |
| Buy back of shares in subsidiary  |      | -                      | (2,142)   | -         |
| Sale, net and issue of a subsidiary's shares to non-controlling interest holders, net tax |      | 108,172                | -         | 70,710    |
| Settlement of bonds and subordinated deeds in a subsidiary                                |      | (235,022)              | (648,656) | (389,506) |
| Settlement of Company bonds   |      | (51,067)               | (79,785)  | (80,195)  |
| Change in short-term credit from banking institutions, net                                |      | (764)                  | 764       | (1)       |
| Receipt of long term loans from banking institutions and others, net                      |      | 168,631                | 80,918    | 520,166   |
| Settlement of long term loans from banking institutions and others, net                   |      | (353,480)              | (216,690) | (161,196) |
| Dividend paid to shareholders of the Company  |      | (24,000)               | (15,000)  | (40,000)  |
| Dividend paid to non-controlling interest holders   |      | (74,523)               | (78,269)  | (96,138)  |
| Net cash provided by finance activities   |      | 40,234                 | 342,384   | 55,171    |
| <b>Exchange rate differences in respect of balances of cash and cash equivalents</b>      |      | 4,169                  | (1,184)   | (15,949)  |
| <b>Increase (decrease) in cash and cash equivalents</b>                                   |      | (253,922)              | 413,028   | (454,765) |
| <b>Balance of cash and cash equivalents as at the beginning of the year</b>               | b    | 1,178,563              | 765,535   | 1,220,300 |
| <b>Balance of cash and cash equivalents as at the end of the year</b>                     | c    | 924,641                | 1,178,563 | 765,535   |

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2017                    | 2016             | 2015             |
|   | NIS in thousands        |                  |                  |
| <b>(a) CASH FLOWS FROM CURRENT ACTIVITIES</b>   |                         |                  |                  |
| Net income  | 306,535                 | 100,618          | 186,134          |
| <b>Adjustments to the profit or loss items:</b>   |                         |                  |                  |
| Depreciation and amortization   | 58,551                  | 50,235           | 47,927           |
| Loss from the sale of fixed assets  | 903                     | 836              | 518              |
| Share based payment cost  | 8,473                   | 5,413            | 5,098            |
| Company's share in losses of affiliate  | 578                     | 1,333            | 2,000            |
| Finance expenses, net   | 218,555                 | 221,741          | 217,932          |
| Net investment income and other finance income  | (1,764)                 | (14,405)         | (14,049)         |
| Increase in value of investment property  | (17,462)                | (22,276)         | (43,529)         |
| Taxes on income   | 112,885                 | 118,614          | 161,991          |
|   | <u>380,719</u>          | <u>361,491</u>   | <u>377,888</u>   |
| <b>Other financial investments:</b>   |                         |                  |                  |
| Net sales (acquisitions) of financial investments   | (562,808)               | (147,026)        | 65,301           |
| Acquisition and investments in investment property<br>in consolidated insurance company                     | (821)                   | (474)            | (214,740)        |
|   | <u>(563,629)</u>        | <u>(147,500)</u> | <u>(149,439)</u> |
| <b>Changes in assets and liabilities items:</b>   |                         |                  |                  |
| Profits from financial investments<br>for yield dependent contracts   | (14,421)                | (8,882)          | (6,334)          |
| Profits from other financial investments  | (317,036)               | (210,607)        | (200,942)        |
| Change in liabilities in respect of non-yield-dependent<br>insurance contracts                              | 322,319                 | 347,649          | 128,565          |
| Change in liabilities in respect of yield-dependent<br>insurance contracts                                  | (8,673)                 | (2,620)          | (2,311)          |
| Change in deferred acquisition costs  | (35,113)                | (33,548)         | (21,240)         |
| Change in reinsurance assets  | (21,654)                | (8,208)          | (16,171)         |
| Change in employee benefits liabilities, net  | 1,769                   | (252)            | 4,454            |
| Short-term credit from banking institutions and others<br>in respect of grant of consumer credit activities | 295,821                 | 323,476          | (67,348)         |
| Change in liability in respect of borrowing securities  | (183,126)               | 183,126          | -                |
| Change in deposits to secure<br>securities borrowing transactions, net                                      | 187,511                 | (187,738)        | -                |
| Buy back of shares in subsidiary  | -                       | (6,600)          | -                |
| Change in outstanding premium   | (85,886)                | (90,354)         | (103,674)        |
| Change in debtors and receivables   | (138,949)               | (98,700)         | (30,786)         |
| Change in creditors and payables  | 66,430                  | 49,861           | 53,890           |
|   | <u>68,992</u>           | <u>256,603</u>   | <u>(261,897)</u> |
| <b>Cash paid and received during the year for:</b>  |                         |                  |                  |
| Interest paid   | (210,115)               | (200,182)        | (194,098)        |
| Interest received   | 206,655                 | 134,929          | 113,861          |
| Taxes paid  | (173,465)               | (190,266)        | (130,258)        |
| Taxes received  | 1,856                   | 6,666            | 4,077            |
| Dividend received   | 7,938                   | 5,167            | 7,153            |
|   | <u>(167,131)</u>        | <u>(243,686)</u> | <u>(199,265)</u> |
| Total cash flows provided by (used in)<br>current activities  | <u>25,486</u>           | <u>327,526</u>   | <u>(46,579)</u>  |

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | <b>Year ended December 31,</b> |                         |                         |
|---|--------------------------------|-------------------------|-------------------------|
|   | <b>2017</b>                    | <b>2016</b>             | <b>2015</b>             |
|   | <b>NIS in thousands</b>        |                         |                         |
| <b>(b) CASH AND CASH EQUIVALENTS AS AT THE BEGINNING OF THE YEAR</b>  |                                |                         |                         |
| Cash and cash equivalents for yield dependent contracts   | 10,740                         | 15,519                  | 27,222                  |
| Other cash and cash equivalents   | <u>1,167,823</u>               | <u>750,016</u>          | <u>1,193,078</u>        |
| Balance of cash and cash equivalents as at the beginning of the year  | <u><u>1,178,563</u></u>        | <u><u>765,535</u></u>   | <u><u>1,220,300</u></u> |
| <b>(c) CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR</b>  |                                |                         |                         |
| Cash and cash equivalents for yield dependent contracts   | 8,279                          | 10,740                  | 15,519                  |
| Other cash and cash equivalents   | <u>916,362</u>                 | <u>1,167,823</u>        | <u>750,016</u>          |
| Balance of cash and cash equivalents at the end of the year   | <u><u>924,641</u></u>          | <u><u>1,178,563</u></u> | <u><u>765,535</u></u>   |
| <b>(d) SIGNIFICANT NON-CASH TRANSACTIONS</b>  |                                |                         |                         |
| Acquisition of fixed assets, investment property and property under construction against creditors and payables | <u>38,118</u>                  | <u>40,337</u>           | <u>29,934</u>           |
| Securitization of loan property against debtors   | <u>314,748</u>                 | <u>-</u>                | <u>-</u>                |
| Dividend declared and not yet paid to non-controlling interests   | <u>51,528</u>                  | <u>4,552</u>            | <u>-</u>                |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5:- SEGMENTS OF ACTIVITY**

a. The Company operates in the following segments of activity:

1. The segment of life assurance and long term savings

The segment of life assurance and long term savings includes the lines of life assurance and it focuses mainly, on insurance coverage for various risks such as: death, disability, disability income insurance, etc. and on long term savings (in the framework of various types of life insurance policies).

2. Health insurance segment

The segment of health insurance includes medical expenses, personal accident, dread disease, travel abroad and more.

3. General insurance segment

The segment of general insurance includes the liability and property branches. Pursuant to the Regulator of Insurance's directives, the general insurance segment is detailed according to the lines of motor act, motor casco, property and others and other liabilities.

a. The motor act insurance line of business

The motor act insurance line of business focuses on coverage that their acquisition by the owner of the vehicle or the driver is compulsory by law and it provides a coverage for bodily injuries (to the driver of the vehicle, the passengers in the vehicle or to the pedestrians), as a result of the use of the motor vehicle.

b. The motor casco line of business

The motor casco line of business focuses on the property damage coverage for the insured vehicle and property damages that the insured vehicle will cause to a third party.

c. Property and other branches

The rest of the insurance lines of business that are not vehicle and liabilities mainly residential line.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5:- SEGMENTS OF ACTIVITY (Cont.)**

a. The Company operates in the following segments of activity: (Cont.)

3. General insurance segment (Cont.)

d. Other liabilities branches

Liabilities lines are designated for coverage of the policyholder liabilities in respect of damage he causes to a third party including: third party liability, employers' liability and professional liability.

4. Granting of consumer credit segment

Includes granting of consumer credit activity for the acquisition of vehicles (mainly second hand), granting of credit for loans for any purpose and granting loans for special purposes in different businesses.

5. Investment property

Includes mainly the lease of office buildings in Israel, Canada, Poland and Belgium.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5:- SEGMENTS OF ACTIVITY (Cont.)

b. Hereunder are the results of the segments of activity:

|  | Year ended as at December 31, 2017 |  |                     |                   |                  |                |                      |                               |   |               |                  |
|--|------------------------------------|--|---------------------|-------------------|------------------|----------------|----------------------|-------------------------------|---|---------------|------------------|
|  | Investment<br>property             | Life<br>assurance<br>and<br>long term<br>savings | Health<br>insurance | General insurance |                  |                |                      | Consumer<br>credit<br>granted | Unallocated<br>and offset<br>in activities<br>between<br>segments | Total         |                  |
|  |                                    |  |                     | Motor<br>act      | Motor<br>casco   | Property       |                      |                               |   |               |                  |
|  |                                    |  |                     |                   |                  | and<br>others  | Other<br>liabilities |                               |   |               |                  |
| NIS in thousands   |                                    |  |                     |                   |                  |                |                      |                               |   |               |                  |
| <b>INCOME</b>  |                                    |  |                     |                   |                  |                |                      |                               |   |               |                  |
| Premiums earned on retention   | -                                  | 241,323  | 208,819             | 471,157           | 1,098,833        | 147,181        | 15,439               | 1,732,610                     | -   | -             | 2,182,752        |
| Income from lease of properties  | 225,931                            | -  | -                   | -                 | -                | -              | -                    | -                             | -   | (6,742)       | 219,189          |
| Increase in value of investment property<br>and properties under construction, net                               | 17,462                             | -  | -                   | -                 | -                | -              | -                    | -                             | -   | -             | 17,462           |
| Net gains on investments and other finance income  | 2,080                              | 15,684   | 1,196               | 33,145            | 12,692           | 2,209          | 946                  | 48,992                        | 98  | 42,429        | 110,479          |
| Income from management fees  | -                                  | 6,222  | -                   | -                 | -                | -              | -                    | -                             | -   | -             | 6,222            |
| Income from grant of consumer credit   | -                                  | -  | -                   | -                 | -                | -              | -                    | -                             | 423,395   | (715)         | 422,680          |
| Income from commissions  | -                                  | 10,858   | 1,776               | -                 | 531              | 4,795          | -                    | 5,326                         | -   | -             | 17,960           |
| Group's share in losses of an affiliate  | -                                  | -  | -                   | -                 | -                | -              | -                    | -                             | -   | (578)         | (578)            |
| Other income   | 31                                 | -  | -                   | -                 | -                | -              | -                    | -                             | 177   | 191           | 399              |
| <b>Total income</b>  | <b>245,504</b>                     | <b>274,087</b>                                   | <b>211,791</b>      | <b>504,302</b>    | <b>1,112,056</b> | <b>154,185</b> | <b>16,385</b>        | <b>1,786,928</b>              | <b>423,670</b>  | <b>34,585</b> | <b>2,976,565</b> |
| <b>EXPENSES</b>  |                                    |  |                     |                   |                  |                |                      |                               |   |               |                  |
| Payments and change in liabilities<br>in respect of insurance contracts and<br>investment contracts on retention | -                                  | 128,199  | 81,485              | 434,031           | 811,894          | 75,532         | 9,399                | 1,330,856                     | -   | (1,213)       | 1,539,327        |
| Marketing expenses and other acquisition expenses  | -                                  | 45,503   | 51,761              | 59,577            | 125,543          | 23,677         | 2,134                | 210,931                       | 144,596   | (3,011)       | 449,780          |
| Maintenance, administrative and general expenses   | 62,936                             | 25,543   | 23,494              | 20,980            | 47,387           | 6,826          | 663                  | 75,856                        | 142,718   | 18,015        | 348,562          |
| Finance expenses   | 110,330                            | 81   | -                   | -                 | (525)            | 58             | -                    | (467)                         | 31,602  | 77,009        | 218,555          |
| Other expenses   | 107                                | -  | -                   | -                 | -                | -              | -                    | -                             | -   | 814           | 921              |
| <b>Total expenses</b>  | <b>173,373</b>                     | <b>199,326</b>                                   | <b>156,740</b>      | <b>514,588</b>    | <b>984,299</b>   | <b>106,093</b> | <b>12,196</b>        | <b>1,617,176</b>              | <b>318,916</b>  | <b>91,614</b> | <b>2,557,145</b> |
| Income (loss) before taxes on income   | 72,131                             | 74,761   | 55,051              | (10,286)          | 127,757          | 48,092         | 4,189                | 169,752                       | 104,754   | (57,029)      | 419,420          |
| Segment assets as at December 31, 2017   | 4,211,148                          | 734,115  | 172,854             |                   |                  |                |                      | 2,902,201                     | 1,845,391   | 1,317,869     | 11,183,578       |
| Segment liabilities as at December 31, 2017  | 3,150,197                          | 635,427  | 76,262              |                   |                  |                |                      | 2,824,166                     | 1,493,501   | 1,609,875     | 9,789,428        |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5:- SEGMENTS OF ACTIVITY (Cont.)

b. Hereunder are the results of the segments of activity: (Cont.)

|  | Year ended as at December 31, 2016 |  |                     |                   |                |                |               |                      |                               |   |                  |
|--|------------------------------------|--|---------------------|-------------------|----------------|----------------|---------------|----------------------|-------------------------------|---|------------------|
|  | Investment<br>property             | Life<br>assurance<br>and<br>long term<br>savings | Health<br>insurance | General insurance |                |                |               |                      | Consumer<br>credit<br>granted | Unallocated<br>and offset<br>in activities<br>between<br>segments | Total            |
|  |                                    |  |                     | Motor<br>act      | Motor<br>casco | Property       |               | Other<br>liabilities |                               |   |                  |
|  |                                    |  |                     |                   |                | and<br>others  | Total         |                      |                               |   |                  |
| NIS in thousands   |                                    |  |                     |                   |                |                |               |                      |                               |   |                  |
| <b>INCOME</b>  |                                    |  |                     |                   |                |                |               |                      |                               |   |                  |
| Premiums earned on retention   | -                                  | 225,324  | 172,621             | 429,461           | 948,074        | 133,850        | 15,382        | 1,526,767            | -                             | -   | 1,924,712        |
| Income from lease of properties  | 222,313                            | -  | -                   | -                 | -              | -              | -             | -                    | -                             | (6,385)   | 215,928          |
| Increase in value of investment property<br>and properties under construction, net                               | 22,276                             | -  | -                   | -                 | -              | -              | -             | -                    | -                             | -   | 22,276           |
| Net gains on investments and other finance income  | 1,779                              | 10,132   | 1,089               | 32,553            | 10,952         | 2,249          | 865           | 46,619               | 530                           | 28,157  | 88,306           |
| Income from management fees  | -                                  | 6,513  | -                   | -                 | -              | -              | -             | -                    | -                             | -   | 6,513            |
| Income from grant of consumer credit   | -                                  | -  | -                   | -                 | -              | -              | -             | -                    | 294,684                       | (71)  | 294,613          |
| Income from commissions  | -                                  | 12,192   | 1,758               | -                 | -              | 3,654          | -             | 3,654                | -                             | -   | 17,604           |
| Group's share in losses of an affiliate  | -                                  | -  | -                   | -                 | -              | -              | -             | -                    | -                             | (1,333)   | (1,333)          |
| Other income   | 79                                 | -  | -                   | -                 | -              | -              | -             | -                    | 129                           | 3   | 211              |
| <b>Total income</b>  | <b>246,447</b>                     | <b>254,161</b>                                   | <b>175,468</b>      | <b>462,014</b>    | <b>959,026</b> | <b>139,753</b> | <b>16,247</b> | <b>1,577,040</b>     | <b>295,343</b>                | <b>20,371</b>   | <b>2,568,830</b> |
| <b>EXPENSES</b>  |                                    |  |                     |                   |                |                |               |                      |                               |   |                  |
| Payments and change in liabilities<br>in respect of insurance contracts and<br>investment contracts on retention | -                                  | 119,804  | 69,570              | 443,367           | 764,817        | 61,380         | 9,492         | 1,279,056            | -                             | (1,206)   | 1,467,224        |
| Marketing expenses and other acquisition expenses  | -                                  | 39,941   | 38,670              | 55,874            | 113,693        | 23,173         | 2,020         | 194,760              | 113,204                       | (2,993)   | 383,582          |
| Maintenance, administrative and general expenses   | 59,208                             | 23,057   | 21,006              | 22,668            | 44,376         | 6,905          | 831           | 74,780               | 83,069                        | 14,994  | 276,114          |
| Finance expenses   | 113,814                            | 89   | -                   | -                 | -              | 46             | -             | 46                   | 13,636                        | 94,156  | 221,741          |
| Other expenses   | 138                                | -  | -                   | -                 | -              | -              | -             | -                    | 1                             | 798   | 937              |
| <b>Total expenses</b>  | <b>173,160</b>                     | <b>182,891</b>                                   | <b>129,246</b>      | <b>521,909</b>    | <b>922,886</b> | <b>91,504</b>  | <b>12,343</b> | <b>1,548,642</b>     | <b>209,910</b>                | <b>105,749</b>  | <b>2,349,598</b> |
| Income (loss) before taxes on income   | 73,287                             | 71,270   | 46,222              | (59,895)          | 36,140         | 48,249         | 3,904         | 28,398               | 85,433                        | (85,378)  | 219,232          |
| Segment assets as at December 31, 2016   | 3,895,085                          | 731,920  | 160,233             |                   |                |                |               | 2,481,084            | 1,571,029                     | 1,462,600   | 10,301,951       |
| Segment liabilities as at December 31, 2016  | 3,072,957                          | 628,120  | 66,840              |                   |                |                |               | 2,498,197            | 1,278,802                     | 1,669,937   | 9,214,853        |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5:- SEGMENTS OF ACTIVITY (Cont.)

b. Hereunder are the results of the segments of activity: (Cont.)

|  | Year ended as at December 31, 2015 |  |                     |                   |                |                           |                      |                               |   |                |                  |
|--|------------------------------------|--|---------------------|-------------------|----------------|---------------------------|----------------------|-------------------------------|---|----------------|------------------|
|  | Investment<br>property             | Life<br>assurance<br>and<br>long term<br>savings | Health<br>insurance | General insurance |                |                           |                      | Consumer<br>credit<br>granted | Unallocated<br>and offset<br>in activities<br>between<br>segments | Total          |                  |
|  |                                    |  |                     | Motor<br>act      | Motor<br>casco | Property<br>and<br>others | Other<br>liabilities |                               |   |                | Total            |
|  |                                    |  |                     |                   |                |                           |                      |                               |   |                |                  |
| <b>INCOME</b>  |                                    |  |                     |                   |                |                           |                      |                               |   |                |                  |
| Premiums earned on retention   | -                                  | 204,748  | 144,043             | 376,276           | 783,998        | 124,692                   | 8,273                | 1,293,239                     | -   | -              | 1,642,030        |
| Income from lease of properties  | 202,732                            | -  | -                   | -                 | -              | -                         | -                    | -                             | -   | (6,532)        | 196,200          |
| Increase in value of investment property<br>and properties under construction, net                               | 43,529                             | -  | -                   | -                 | -              | -                         | -                    | -                             | -   | -              | 43,529           |
| Net gains on investments and other finance income  | 28,354                             | 10,259   | 3,141               | 24,793            | 9,774          | 3,232                     | 445                  | 38,244                        | 304   | 4,028          | 84,330           |
| Income from management fees  | -                                  | 7,119  | -                   | -                 | -              | -                         | -                    | -                             | -   | -              | 7,119            |
| Income from grant of consumer credit   | -                                  | -  | -                   | -                 | -              | -                         | -                    | -                             | 228,254   | (236)          | 228,018          |
| Income from commissions  | -                                  | 9,692  | 2,004               | -                 | -              | 3,419                     | -                    | 3,419                         | -   | -              | 15,115           |
| Group's share in losses of an affiliate  | -                                  | -  | -                   | -                 | -              | -                         | -                    | -                             | -   | (2,000)        | (2,000)          |
| Other income   | -                                  | -  | -                   | -                 | -              | -                         | -                    | -                             | 145   | -              | 145              |
| <b>Total income</b>  | <b>274,615</b>                     | <b>231,818</b>                                   | <b>149,188</b>      | <b>401,069</b>    | <b>793,772</b> | <b>131,343</b>            | <b>8,718</b>         | <b>1,334,902</b>              | <b>228,703</b>  | <b>(4,740)</b> | <b>2,214,486</b> |
| <b>EXPENSES</b>  |                                    |  |                     |                   |                |                           |                      |                               |   |                |                  |
| Payments and change in liabilities<br>in respect of insurance contracts and<br>investment contracts on retention | -                                  | 105,364  | 49,616              | 265,817           | 571,405        | 63,805                    | 4,815                | 905,842                       | -   | (1,186)        | 1,059,636        |
| Marketing expenses and other acquisition expenses  | -                                  | 35,940   | 30,378              | 52,560            | 105,922        | 23,077                    | 1,296                | 182,855                       | 88,508  | (2,945)        | 334,736          |
| Maintenance, administrative and general expenses   | 52,574                             | 20,636   | 17,137              | 21,552            | 45,366         | 8,841                     | 698                  | 76,457                        | 62,899  | 23,856         | 253,559          |
| Finance expenses   | 129,494                            | -  | -                   | -                 | -              | 95                        | -                    | 95                            | 8,483   | 79,860         | 217,932          |
| Other expenses   | 52                                 | -  | -                   | -                 | -              | -                         | -                    | -                             | -   | 446            | 498              |
| <b>Total expenses</b>  | <b>182,120</b>                     | <b>161,940</b>                                   | <b>97,131</b>       | <b>339,929</b>    | <b>722,693</b> | <b>95,818</b>             | <b>6,809</b>         | <b>1,165,249</b>              | <b>159,890</b>  | <b>100,031</b> | <b>1,866,361</b> |
| Income (loss) before taxes on income   | 92,495                             | 69,878   | 52,057              | 61,140            | 71,079         | 35,525                    | 1,909                | 169,653                       | 68,813  | (104,771)      | 348,125          |
| Segment assets as at December 31, 2015   | 3,844,478                          | 713,914  | 122,138             |                   |                |                           |                      | 2,158,483                     | 734,397   | 1,377,978      | 8,951,388        |
| Segment liabilities as at December 31, 2015  | 3,028,729                          | 621,756  | 59,852              |                   |                |                           |                      | 2,159,103                     | 473,855   | 1,504,512      | 7,847,807        |