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Board of Directors' Report on the State of the Company's Affairs as of September 30, 2019

The Directors' Report of Phoenix Holdings Ltd. (hereinafter, "Phoenix Holdings" or "the Company") as of September 30, 2019 reviews the principal changes in the Company's operations in the period January through September 2019 (hereinafter, "the Reporting Period").

The Report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970. As concerns the insurance, pension and provident fund operations of the Company and its investees ("the Group"), the Report was prepared pursuant to the Supervision of Insurance Business Regulations (Reporting Details), 1998, and in accordance with the circulars issued by the Commissioner of the Capital Market, Insurance and Savings ("the Supervisor" or "the Commissioner"). The Report was prepared on the assumption that the reader is also in possession of the Company's complete Periodic Report for 2018 ("the Periodic Report").

1. The Group's Structure, Operating Segments and Developments

1.1 The Group's Structure

1.1.1 As of the date of the report, the controlling shareholder of the Company is Delek Group Ltd. ("the Delek Group"), which held about 32.57% of the Company's issued and paid-up share capital. On November 3, 2019, control of the Company was transferred as described in Section 1.2 below.

1.1.2 The consolidated financial statements include the statements of Company-controlled investees. In determining whether control exists, the effect of potential voting rights, exercisable on the statement of financial position date, is taken into account. For additional information concerning the Group's holding structure and stakes in its various investees, see Section 1.2 to the Report on the Company's Business as of December 31, 2018 ("**Report on the Company's Business**"). Company names in the Board of Directors' Report as of September 30, 2019 match the definitions in the Report on the Company's Business.

1.2 Sale of Control of the Company and Sale of Shares by the Controlling Shareholder

Further to the Company's Immediate Reports dated February 19, 2019 (Ref. No. 2019-01-015876) and February 27, 2019 (Ref. No. 2019-01-017676), on May 23, 2019 (Ref. No. 2019-01-043719) the Delek Group announced that on November 4, 2019, the conditions of the closing of of the sale of the control nucleus in the Company (about 32.5% of the Company's share capital) to companies controlled by Centerbridge Partners Ltd and Gallatin Point Capital LLC (hereinafter, "**the Buyers**") for the total amount of about NIS 1.57 billion, had been met, including a control permit in the Company, which was issued by the Commissioner of the Capital Market Authority, and the transaction was completed.

The Sale Agreement defined price adjustments that refer to future profits generated from an increase in the value of Phoenix shares and the Buyer's returns during the period of the Buyers' investment, which may cause an addition of about NIS 860 million to the total consideration that the Delek Group will receive, or to a deduction of the total consideration in the amount of up to about NIS 200 million.
For additional information on the closing of the transaction, see the Company's immediate report dated November 4, 2019 (Ref No. 2019-01-107566).

1. The Group's Structure, Areas of Activity and Developments (cont'd)

1.3 Mehadrin Ltd.

Following the Company's report dated May 5, 2019 (Ref No. 2019-01-0389769) On September 18. 2019, the Company distributed all the shares it held in Mehadrin as a dividend in kind to the Company's shareholders, after having reviewed the various options available to it for complying with the provisions of the Anti-Concentration Law with respect to the Company's holding of Mehadrin shares, and after it concluded that this was the best alternative for the Company. It should be noted that prior to the board of directors' decision on the distribution, the board of directors of Phoenix Investments adopted a resolution to distribute Mehadrin shares as a dividend in kind from Phoenix Investments to the owners. For additional information, including the directors' reasoning for the distribution, see Immediate Reports dated August 15, 2019 (Ref. Nos. 2019-01-070854 and 2019-01-070863) and additional reported dated August 19, 2019, August 28, 2019, August 29, 2019, and September 18, 2019 (Ref. Nos. 2019-01-071709, 2019-01-074613, 2019-01-075573, and 2019-01-081090, respectively). Furthermore, for additional information see Note 8 to the financial statements as of September 30, 2019 ("**the Financial Statements**").

1.4 Completion of the merger process for management companies

On June 30, 2019, the merger of The Phoenix Pension Ltd. with and into Excellence Provident and Advanced Education Ltd. was completed. After the merger, the pension funds managed by The Phoenix Pension Ltd. were transferred to management by Excellence Provident and Advanced Education Ltd. and, thus, Excellence Provident and Advanced Education Ltd. will manage all the provident and pension funds of the Phoenix Group. After the merger, the name of Excellence Provident and Advanced Education Ltd. was changed to The Phoenix Excellence Pension and Provident Ltd. For additional details – see Section 2.1.1.3.3 of the Report on the Company's Business and Note 7(4) to the Financial Statements.

2. Developments during the Period of the Report

2.1 Officers

2.1.1 On April 16, 2019, Mr. Eyal Lapidot, the Company's CEO and the CEO of The Phoenix Insurance Company Ltd. ("**Phoenix Insurance**") gave notice that he wishes to conclude his position as the Company's CEO and the CEO of The Phoenix Insurance. On April 18, 2019, an agreement was reached with Mr. Eyal Lapidot with respect to conclusion of his duties on April 30, 2019.

Following the Company's reports dated April 16, 2019 (Ref. No. 2019-01-034587), April 18, 2019 (Ref. No. 2019-01-036006), May 7, 2019 (Ref. No. 2019-01-039822), June 11, 2019 (Ref. No. 2019-01-049599 and Ref. No. 2019-01-04599), July 1, 2019 (Ref. No. 2019-01-056148) and report about results of the Company's general meeting dated August 6, 2019 (Ref. No. 2019-01-067938)("**the General Meeting**") regarding the appointment of Mr. Eyal Ben Simon as Acting CEO of the Company and Phoenix Insurance, and approval of his salary by the competent organs, including the general meetings of the Company and Phoenix Insurance, on November 7, 2019 the board of directors of the Company and the board of directors of Phoenix Insurance decided on the permanent appointment of Mr. Eyal Ben Simon as CEO of the Company and CEO of Phoenix Insurance.

2. Developments during the Period of the Report (cont'd)

2.1.2 The following topics were also approved the General Meeting: (1) revision of the salary of Mr. Roy Yakir, the Company's Chief Investment Officer (hereinafter, "**the Chief Investment Officer**"). see also paragraph 2.1.4 below; (2) Revision of the Company's remuneration policy; (3) Re-appointment of Kost Forer Gabbay & Kasierer, Certified Public Accountants (Isr.) as the Company's auditing CPAs up to the end of the Company's next Annual General Meeting and authorization of the Company's Board of Directors to determine their fee; and (4) Appointment of Mr. Uri Rosenberg as a Company director commencing from the convention of this General Meeting and up to the end of the second Annual General Meeting that will be held after the appointment. For additional details, see the Company's Immediate Reports dated July 1, 2019 (Ref. No. 2019-01-056148) and August 6, 2019 (Ref. No. 2019-01-067938).

2.1.3 In April 2019, the Company's Remuneration Committee and Board of Directors approved increasing the officers' liability insurance coverage in The Phoenix Group to a coverage scope of USD 120 million – pursuant to the Company's remuneration policy that was approved by the General Meeting. For additional details, see the Company's Immediate Reports dated December 27, 2018 (Ref. No. 2018-01-119899) and February 4, 2019 (Ref. No. 2019-01-009985).

2.1.4 On October 3, 2019, the Chief Investment Officer gave notice of his desire to conclude his position in the Company. As of the date of this report, the date and terms have not yet been agreed with him. Furthermore, this employment contract includes an obligation to provide four months' advance notice.

2.1.5 On November 3, 2019, the acquisition of the control nucleus in the Company was completed, and as part of the closing the following directors submitted a letter of resignation: COB Mr. Assi Bertfeld, Mr. Barak Masharky, Ms. Liora Prate Levine, Mr. Avi Harel, and Mr. Uri Rosenberg. In lieu of the directors who submitted their resignation, the following directors were appointed in a corresponding mechanism (that is to say, one new director was appointed against each resigning director) in the directors' meeting that took place on November 3, 2019: Mr. Benny Gabbay, Mr. Luigi Sbrozzi, Mr. Roger Abarbanel, Ms. Marlene Hirsch, and Mr. Yitzhak Cohen. Furthermore, Mr. Gabbay was appointed COB of Phoenix Insurance. For additional details, see the Company's reported dated November 4. 2019.

2.1.6 On November 3, 2019, the Company's Remuneration Committee and its directors approved the issuance of a run-off policy for a period of 7 years from the closing date of the acquisition of the control nucleus of the Company, to cover insurance events that occurred prior to the acquisition closing date, and the issuance of an officers' liability policy to replace the policy that expired on the acquisition closing date. The terms of these policies are consistent with the Company's remuneration policy that was approved by the General Meeting.

2.1.7 On November 7, 2019, the Company's board of directors decided to appoint Mr. Ehud Shapira as an independent director. Mr. Shapira replaced Dr. Rivi Cohen who concluded her service as an external director in the Company, pursuant to the provisions of the Circular "Board of Directors Institutional Organ," which prohibits service as independent director in the insurance company and in the Company concurrently. On November 21, 2019, after concluding three years of service, Dr. Rivi Cohen concluded her service in the Company and will continue to serve as an external director in Phoenix Insurance.

2. **<u>Developments during the Period of the Report</u> (cont'd)**

2.1.8 On November 20, 2019 the Company's board of directors approved the appointment of Mr. Haggai Schreiber OPM other people money at the subsidiary of the company, to the chief investment officer of the Phoenix Group. The appointment is subject to approval by the Capital Market Authority, Insurance and Savings Authority. The date of entry of Mr. Hagai Schreiber and the date of departure of Mr. Roy Yakir has not yet been set. For additional details – see the Company's Immediate Report dated November 20, 2019 (Ref. No. 2019-01-113134).

2.2 Issuance of securities, publication of prospectuses and distribution of dividends

Raising of debt

2.2.1 On April 15, 2019, The Phoenix Capital Raising (2009) Ltd., a subsidiary of The Phoenix Insurance (hereinafter – "The Phoenix Capital Raising") issued NIS 100 million NIS 1 par value debentures (Series J) to classified investors included with the investors detailed in the First Addendum to the Securities Law, 1968, by means of an expansion of the debenture series (Series J). The debentures were recognized as a Tier 2 debt instrument of The Phoenix Insurance Company in accordance with the approval of the Supervisor of the Capital Market, Insurance and Savings dated October 28, 2018. For additional details – see the Immediate Reports of The Phoenix Capital Raising dated April 7, 2019 (Ref. No. 2019-01-031671) and April 10, 2019 (Ref. No. 2019-01-032577).

2.2.2 On May 12, 2019, the Company issued NIS 300 million NIS 1 par value each registered debentures (Series 4), which were issued pursuant to a shelf offer prospectus of the Company dated May 7, 2019 (Ref. No. 2019-01-039576). For additional details – see the Company's Immediate Report dated May 12, 2019 (Ref. No. 2019-01-040101).

2.2.3 On July 23, 2019, The Phoenix Capital Raising issued NIS 300 million NIS 1 par value each registered debentures (Series K), which were issued pursuant to a shelf offer prospectus of The Phoenix Capital Raising dated July 21, 2019. The debentures (Series K) were recognized by the Supervisor of the Capital Market, Insurance and Savings in the Ministry of Finance as a Layer 2 debt instrument of The Phoenix Insurance. For additional details – see the Immediate Reports dated July 21, 2019 (Ref. No. 2019-01-063018) and July 23, 2019 (Ref. No. 2019-01-063444).

Publication of prospectuses

2.2.4 On August 15, 2019, the Company published a shelf prospectus by force of which it will be able to issue various securities, such as: ordinary shares of NIS 1 par value each (hereinafter in this Section – "the Company's Shares"), preferred shares, non-convertible debentures (including by means of expansion of the Company's existing debenture series, as they will be from time to time), debentures convertible into the Company's Shares (including by means of expansion of existing series of debentures convertible into the Company's Shares, as they will be from time to time), options exercisable for the Company's Shares, options exercisable for debentures, options exercisable for debentures convertible into the Company's Shares, marketable securities and every security that in accordance with law may be issued by force of the shelf prospectus on the relevant date. For additional details – see the Company's Immediate Report dated August 15, 2019 (Ref. No. 2019-01-070590).

2.2.5 On August 15, 2019, The Phoenix Capital Raising published a shelf prospectus by force of which it will be able to issue various types securities in accordance with the provisions of law – non-convertible liability certificates (including by means of expansion of an existing series of liability certificates of The Phoenix Capital Raising as they will be from time to time) and options exercisable for liability certificates of The Phoenix Capital Raising. The issuance proceeds in respect of the securities, as stated, will be deposited in The Phoenix Insurance for its use based on its discretion and on its responsibility. For additional details – see the Company's Immediate Report dated August 15, 2019 (Ref. No. 2019-01-070584).

2. **<u>Developments during the Period of the Report</u> (cont'd)**

2.2.6 On October 6, 2019, Maalot ratified a credit rating of ilAA+ with a positive outlook for Phoenix Insurance and increased the rating for Phoenix Holdings from ilA+ to ilAA- with a steady outlook. For additional information, see the Company's Immediate Report dated October 6, 2019 (Ref. No. 2019-15-101569).

Dividend distributions

2.2.7 On March 31, 2019, the Company's Board of Directors approved distribution of a dividend, in the amount of NIS 250 million. For additional details – see the Company's Immediate Report dated March 31, 2019 (Ref. No. 2019-01-027696).

2.2.8 On March 31, 2019, the Board of Directors of The Phoenix Insurance approved distribution of a dividend, in the amount of NIS 250 million. For additional details – see the Immediate Report of The Phoenix Capital Raising dated March 31, 2019 (Ref. No. 2019-01-027762).

2.2.9 On April 18, 2019, the Board of Directors of The Phoenix Insurance approved distribution of shares of The Phoenix Insurance Agencies 1988 Ltd. (hereinafter – "The Phoenix Agencies"), constituting about 100% of the issued and paid-up share capital of The Phoenix Agencies as a dividend in-kind. The balance of the investment in The Phoenix Agencies in the books of The Phoenix on the date of the distribution is about NIS 371 million. For additional details – see the Immediate Report of The Phoenix Capital Raising dated April 18, 2019 (Ref. No. 2019-01-036039).

2.2.10 On September 18, 2019, the Company distributed Mehdrin Ltd shares as a dividend in kind to the Company's shareholders. For additional information, including the board of directors' reasoning for the distribution, see the Company's Immediate Reports dated August 15, 2019 (Ref. Nos. 2019-01-070854 and 2019-01-070863) and Section 1.3 hereinabove.

2.3 **Options to employees**

2.3.1 On April 30, 2019, the Company's Board of Directors approved granting of up to 556,000 options to employees and officers ("the Options") exercisable for up to 556,000 of the Company's ordinary shares of NIS 1.00 par value each, subject to adjustments, for no cash consideration, pursuant to the outline in accordance with the Securities Regulations (Outline Details of an Offer of Securities to Employees), 2000, and the Securities Regulations (Private Offer of Securities in a Registered Company), 2000 ("the Private Offer Regulations"), which was published on December 27, 2018 (Ref. Nos. 2018-01-119905). For additional details – see the Immediate Reports dated May 1, 2019 (Ref. No. 2019-01-037938) and .May 6, 2019 (Ref. No. 2019-01-039360).

2.3.2 On October 31, 2019, the Company's board of directors approved the issue of 200,000 warrants to an officer in the Company and an officer in Phoenix Insurance, which may be exercised and converted into up to 200,000 ordinary shares of the Company of NIS 1.00 par value each, subject to adjustments, for no cash consideration, based on an outline according to Securities Regulations (Details of Outline of Securities Offerings to Employees, 2000, and Securities Regulations (Private Placement of Securities in a Registered Company), 2000 ("the Private Placement Regulations"), published on December 27, 2019 (Ref. No. 2018-01-119905). For additional details, see immediate reports dated October 31, 2018 (Ref. No. 2019-01-107011) and May 6, 2019 (Ref. No. 2019-01-039360) and November 6, 2019 (Ref. No. 2019-01-2019-01-039360).

2. Developments during the Period of the Report (cont'd)

2.4 Collective agreement

On May 6, 2019, The Phoenix Insurance and The Phoenix Pensions (hereinafter together – "The Phoenix") signed a new collective agreement for the period from January 1, 2019 through December 31, 2021 between The Phoenix and the New General Workers Union (Histadrut) and the Employees' Committee at The Phoenix (hereinafter – "the New Agreement"). Pursuant to the New Agreement", the provisions of the collective agreement signed on July 5, 2016 for 2016 through 2018 will continue to apply in the period of the New Agreement, except for changes expressly defined in the New Agreement. For additional details – see Note 7(12) to the financial statements as of June 30, 2019 and the Immediate Report dated May 6, 2019 (Ref. No. 2019-01-039201).

2.5 Organization of employees – AD 120 Residence Centers for Senior Citizens Ltd.

In June 2019, the AD 120 Residence Centers for Senior Citizens Ltd., a second-tier subsidiary of the Company (hereinafter – "AD 120"), gave notice that it had obtained the required majority for purposes of organization of its employees, and on July 17, 2019, AD 120 recognized the representatives of its employees in the framework of the General Workers Union (Histadrut). At the present time, negotiations between the management of AD 120 and the representatives have commenced.

2.6 Interest

2.6.1 On August 8, 2019, the Supreme Court, in Civil Appeal 3751/17, The Israeli Database for Vehicle Insurance (the Pool) v. Ploni (anonymous defendant) accepted the recommendations of the Inter-Ministerial Committee for Examination of the Issue of the Capitalization Rate in Compensation for Damages and the Consequences Thereof and provided that the capitalization interest rate will be 3% (hereinafter – "the Court Decision"). In addition, it was provided in the Court Decision that until the future amendment of the legislation, the determined capitalization interest rate may be revised based on an examination mechanism that will be executed once every two years; the examination will be performed with reference to the rate of return on an investment on AA-rated corporate debentures for a period of 25 years. To the extent there is a variance of more than one percent in any certain direction, the interest rate will be revised, except in unusual circumstances. On the basis of the ruling in the Court Decision, a change in the capitalization rate to a rate of 3% has a positive impact on the Company's financial results for the second quarter in the amount of NIS 155 million, after taxes, in light of the fact that the Company will be able to release reserves that were calculated on the basis of a lower capitalization interest rate. It is noted that the Company did not release the amount of about NIS 70 million out of the reserve that was designated to cover subrogation events of the National Insurance Institute that may possibly be paid based on a capitalization rate of 2%. For additional details – see Section 5.2.2.5(A) of Note 40 to the Company's financial statements as of December 31, 2018, Note 7(1) to the financial statements and the Immediate Report dated August 12, 2019 (Ref. No. 2019-01-068766). As of the date of this report, a request for an additional hearing is pending before the Supreme Court and, accordingly, if the request is granted it is possible that rulings under the Court Decision will be revised.

2. <u>Developments during the Period of the Report</u> (cont'd)

2.6.2 In the period subsequent to the date of the report and up to the publication date thereof, there was a decline in the risk-free interest rate curve, which is expected to trigger an additional increase in the liabilities in respect of insurance contracts (policies). For details regarding the sensitivity analyses deriving from market risks – see Note 40 Section 3.2 to the financial statements for 2018. It is noted that the information described above is impacted to a significant extent by the capital market and it is possible that there will be changes therein and, therefore, it does not constitute an estimate with respect to the Company's anticipated financial results. This information is incomplete, and does not include other components of income (loss) from investment or the impact of the Group's other activities on the Company's financial results.

3. Description of the Business Environment

3.1. Application of the provisions of Solvency II applicable to The Phoenix Insurance Company Ltd.

3.1.1. In May 2018, **Insurance Circular 2018-1-5 – Amendment to the Consolidated Circular Concerning Reports to the Commissioner - Solvency** went into effect. Under this Circular, insurers must calculate their solvency position according to the Solvency Circular, at least as of the date of their annual report and as of the date of the second quarter report. In case of material changes, insurers will also be required to calculate their solvency position as of the date of the quarterly financial statement near the time of such change.

3. Description of the Business Environment (cont'd)

3.1.2. Capital requirements under the Economic Solvency Policy Implementation provisions (NIS thousands):

Solvency ratio and MCR – The Phoenix Insurance

	As of December 31	
	2018	**2017**
	Audited(*)	
Excluding roll-out provisions and share scenario adjustments:		
Shareholders' equity required for purposes of Solvency Capital Requirements (SCR)	9,139,354	7,299,722
Equity required for Solvency Capital Requirements (SCR)	7,042,367	6,932,278
Surplus	2,096,987	367,444
Solvency ratio (%)	**130%**	**(**)105%**
Material equity events that occurred in the period between the date of the statement of financial position and the date of the report and the impact thereof on the Company's solvency ratio		
Issuance of additional Tier 1 equity	300,000	330,000
Issuance of Tier 2 equity	–	338,442
Other	–	379,753
Total material equity events that occurred in the period between the date of the statement of financial position and the date of the report and the impact thereof on the Company's solvency ratio	300,000	1,048,195
Surplus excluding roll-our provisions and share scenario adjustments:	**2,396,987**	**1,415,639**
Solvency ratio (excluding roll-our provisions and share scenario adjustments)	**134%**	**120%**
Target of the Board of Directors (***)	**111%**	**110%**
Surplus equity (including material equity events that occurred up to the date of the report compared to the target of the Board of Directors	**1,642,448**	**722,412**

(*) The audit was performed in accordance with ISAE3400 – Examination of Prospective Financial Information. This Standard applies to audits of solvency calculations and is not part of the auditing standards applicable to financial statements.

(**) Included in the solvency ratio calculated as of December 31, 2017 are actuarial studies compiled after publication of the financial statements as of December 31, 2017. Had the Company not updated these studies as aforesaid, the Company's solvency ratio would have been higher than that shown.

(***) In December 2019, the Board of Directors of The Phoenix Insurance set a Solvency II-based economic solvency ratio target ("the Capital Target"). The Capital Target was set as 110% of the capital requirement (reflecting a starting 'buffer' of 10% above SCR), which will increase in a straight line to 115% at the end of the roll-out period (i.e., 2024). It is hereby clarified that determination of the said target does not ensure that The Phoenix Insurance will comply with it at all times.

3. **Description of the Business Environment (cont'd)**

The above-mentioned ratio includes distribution of cash dividends, in the amount of NIS 250 million, and distribution of shares of The Phoenix Agencies as a dividend in-kind to the Company, in the amount of NIS 371 million. For details regarding the distributions – see Note 5 to the financial statements.

On July 16, 2019, a draft Circular was published "Amendment of the Provisions of the Special Circular regarding Measurement of Liabilities – Update of the Set of Demographic Assumptions in Life Insurance and Update of Improvement of the Life Expectancy Model for Insurance Companies and Pension Funds". Based on a preliminary estimate made by The Phoenix Insurance, the expected impact of implementation of the Draft Circular, as stated above, on the solvency compared with the solvency published as of December 31, 2018, is a decrease in the rate of about 7%. For additional details – see Note 7(1) to the financial statements.

The above data concerning surplus solvency considering such capital movements as aforesaid, do not include the effects of The Phoenix Insurance's operations and results after December 31, 2018, changes in the mix and volume of insurance liabilities and investments, exogenous effects, such as changes in the risk-free interest curve, and regulatory changes affecting the market. Under regulatory provisions, the Company must meet 100% of its SCR on December 31, 2024. For additional details regarding application of the Solvency II provisions – see the Solvency Ratio Report published in the Company's Internet site.

3. Description of the Business Environment (cont'd)

3.2. Arrangements in effect

3.2.1. In July 2019, an amendment to **Institutional Entities Circular 2019-9-7 "Customer Service for Institutional Entities"** was published, wherein specific timetables were determined for provision of telephone service, documentation of conversations, details of sending of messages to customers, information required in letters, and provision of responses through the various means of communications.

3.2.2. In July 2019, **Institutional Entities Circular 2019-9-6 "Provisions of the Consolidated Circular – Part 1, Title 5, Paragraph 5", entitled Remuneration** was published, wherein Circulars addressing the remuneration policy for officers in institutional entities were integrated into the provisions of the Consolidated Circular, and several requirements of legislation of the Law for Remuneration of Officers in Financial Corporations (Special Approval and Disallowance of an Expense for Tax Purposes due to Unusual Remuneration), 2016 were relaxed.

3.2.3. In October **Pension Circular 2019-3-1 "Payments to Recipients of Annuities who left Israel for an Extended Period of Time" and Pension Circular 2019-3-2 "Provisions regarding Rights and Obligations of Members in Pension Funds – Update"** were published. These circulars impose an obligation on pension managing companies to contact the Population Authority to receive information on annuity recipients who have been outside Israel for a continuous period of over 6 months, in order to verify that the recipient of the annuity is alive. Directives were also determined in the matters of a procedure for the managing companies to contact annuity recipients and demand a "confirmation of life" in order to continue to receive their annuity, suspension of annuity payments in the absence of such confirmation, and the renewal thereof after such confirmation is furnished. Concurrently, the format of pension fund articles of association was amended to include the annuity recipients' obligation to notify the managing company of a continuous stay outside Israel for a period exceeding 6 months and to furnish a "confirmation of life" accordingly.

3.2.4. In November 2019, **Insurance Circular 2019-1-10 on an amendment to the provisions of the Consolidated Circular in the Matter of Measuring Liabilities – Revision to the Set of Demographic Assumptions in Life Insurance and Revision of Improved Morality Model for Insurance Companies and Pension Funds was published**, including a position paper on the same matter. The Circular revised the demographic assumptions on the basis of which insurance companies must calculate annuity coefficients and liabilities in respect of life insurance policies, and also revised the demographic assumptions on the basis of which the pension fund managing companies must calculate their actuarial balance and the coefficients included in their articles of association. For details on the potential effects of this Circular, see Section 3.1.3 above and Note 7(1) to the Financial Statements.

3. Description of the Business Environment (cont'd)

3.3. Drafts and proposals for legislative arrangements

3.3.1. In July 2019, **Insurance Circular 2018-147 "Amendment of the Provisions of the Consolidated Circular – Title 6, Part 3, Paragraphs 2, 3, 4 – "Insurance of Personal Accidents"** was published, proposing a reform in the area of personal accidents, with reference to the manner of the sale process and it is proposed to determine provisions for drafting a personal accident insurance plan.

3.3.2. In September 2019, the Capital Market Authority published a public consultation document, including a proposed action plan designed to establish special treatment of retirees, among other things, with respect to joining insurance policies, ongoing service, exercise of rights, and handling public inquiries.

3.3.3. In September 2019, Draft Circular **"Joining an Insurance Policy – Update"** was published, in which it was proposed to impose an obligation on any new insurance company that a policyholder joins, to pay the policyholder any "duplicate" premiums that the policyholder had paid to the previous insurance company if the latter failed to properly cancel the previous policies, and it was also proposed to limit the scope of the time-sensitive requirements that an insurance company must fulfill when renewing a homeowner's policy.

3.3.4. In November 2019, the Capital Market Authority published a consultation paper on **"Implementation of transition provisions under an economic solvency regime."** According to the provisions of the Circular **"Directives for implementing a Solvency-II-based economic solvency regime,"** a period of 7 years was defined, in which the SCR will increase gradually over this period, in contrast to the transition provisions that were defined in the European Directive on this issue, according to which the increase in part of the reserves would increase over a period of 16 years. The Authority wishes to re-examine the transition provisions defined in the Circular, and therefore requests the public's comments on issues related to this, including comments on the insurance products in respect of which the transition provision should be applied, the appropriate timeframe for gradual implementation, and the adjustments required to additional transition provisions defined in the European Directive on implementation in Israel.

3.3.5. In November 2019, the Capital Market Authority published a draft Insurance Circular on "Quantitative Assessment Survey to Examine Adjustments in the Economic Solvency Regimes in Insurance Companies Based on Solvency II." In view of the changes in the provisions of Solvency II in Europe and the accumulated experience on this issue in Israel, the Authority is reviewing specific adjustments to the Solvency Circular (mainly, relief in the field of market risks and credit risks) and to this end, the Draft Circular proposes that the insurance companies conduct a quantitative assessment survey to assess the quantitative effects of these adjustments on their economic solvency.

4. Developments in the Macro-Economic Environment

Set forth below is a brief description of trends, events and developments in the Group's macro-economic environment, which have or are expected to have an impact on the Group.

4.1. Financial markets in Israel

According to publications in the balance sheet period, growth in Israel in the second quarter slowed to an annual rate of 1% but this was attributed mainly to the timing of the change in tax on vehicles, and total growth in the second quarter remained 3.6%, around the economy's potential growth level. Among GDP uses, a sharp rise in public consumption was prominent, which fueled concerns that deficit targets would be breached, with possible implications for tax rates in Israel. Also in the third quarter, the combined index of the Bank of Israel, which was published in the balance sheet period, continued to indicate expansion that corresponds to the economy's growth potential .

The labor market in Israel remained tight, and the monthly unemployment rate dropped to 3.8% in August. Despite the stable growth and low unemployment, concerns increased about the weakness in global trade and appreciation of the shekel, which may have an adverse impact on Israeli exports. In view of these concerns and the surprising slowdown in the inflation rate, Bank of Israel Governor Yaron made a surprising announcement in July ending the interest hike program. The announcement managed to halt the appreciation of the shekel for a limited time. When the appreciation of the shekel renewed, the Bank of Israel announced that it might intervene in the foreign currency market. In response, the bond market began to reflect the possible return to interest rate cuts in Israel. In June, inflation dropped from 1.5% (YOY) to 0.8%, lower than the lower inflation bound of the Bank of Israel, and continued to fall to 0.6% in August. A part of this decline was attributed to the unusual decline in items outside the core index, such as fruit and vegetables and gasoline, as a result of which the market incorporated inflationary expectations within the bounds of the target inflation range.

Despite the deficit breach, which reached 3.9% as of end June, S&P reconfirmed Israel's credit score (-AA). In September, parliamentary elections were held for the second time, after failure to establish a coalition government. However, the political map of the blocs had not changed significantly, and concerns grew that the elections would once again lead to difficulties in forming a government .

The shekel continued to appreciate compared with the currency basket. The shekel gained 7.2% relative to the euro and gained 2.6% relative to the dollar to NIS 3.47 per dollar. The TA125 index gained 3.2%, the ten-year yield (zero SWAP) dropped from 1.54% to 0.92%, and the Tel Bond 60 index increased by 1.5%.

In the period subsequent to the statement of financial position

In the second quarter, growth was adjusted slightly upward to 0.8%, but third quarter growth surprised by rising to an annual rate of 4.1% . Nonetheless, the composition of the growth appeared to be less favorable, with a decline in investments and exports and a slowdown in the growth rate of private consumption to 2.8% in annual terms. The decline in exports occurred against a backdrop of slowed growth in global trade and an appreciation of the shekel. The Bank of Israel's combined index continues to indicate that growth will continue at the potential rate, around 3%. Unemployment continued to hover around 3.7%, a record low, but indications of a loosening of the labor market have been published, including a decline in the rate of job vacancies.

4. **Developments in the Macro Economic Environment (cont'd)**

The CPI continued to show slowed growth, and inflation dropped to 0.4 % in October, although inflationary expectations for the future remain relatively stable, with one-year projections slightly above 1.0%. In October the shekel began to weaken, also against the backdrop of the Bank of Israel's first foreign currency purchase since the beginning of the year. Still, the shekel appreciated again in November. Transcripts from the Bank of Israel's interest decision of October indicate that although the interest rate remained unchanged at 0.25%, two of the five members of the monetary committee voted in favor of an interest cut, and two other members may join them. Following the developments, yields in Israel remained low relative to rising yields worldwide. Uncertainty in the political arena regarding the formation of a new government continued. The shekel weakened against the euro by 1.3% and strengthened against the dollar by 0.2%, reaching NIS 3.54. TA125 rose by 3.9% and the 10-year Israeli government bond yield (zero swap) rose slightly from 0.9% to 1.0%. The Tel Bond 60 remained unchanged.

4.2. Financial markets outside of Israel

The global economy showed a sharp split: On the weak side of the equation, industrial sectors continued to stand out due to a drop in factory orders, a decline in global trade, and company reports of contractions, based on Global Procurement Officer Surveys. The JPM weighted procurement surveys for the industrial sector remained lower than 50 points (49.7 points). Unusual weakness was recorded in Germany, where industrial output declined in July representing an annual change of 4.2% .

The strong side of the global economy was dominated by individual consumers, and especially US consumers. Retail sales in August rose, creating an annual change of 4.3%. Consumer strength is apparently also related to the strength of the labor market, as unemployment remained around the record low level of 3.7% in July .

The main concern was the weakness in the industrial sector would spill over to the labor market at some point, and from there have an adverse effect on consumers.

Global inflationary expectations declined, also against the backdrop of declining oil prices, despite a strong labor market. Also against the backdrop of the dissipation of inflationary expectations and the aforementioned concerns, the FED shifted to interest cuts and lowered the interest rate for August from 2.50% at the beginning of the period to 1.75% at its end.

After a "ceasefire" in the trade war, negotiations toward an agreement collapsed and Trump imposed another round of customs on China – 10% on goods valued at USD 300 billion. In response, the Chinese announced a halt in imports of US agricultural products by government-owned companies, and also permitted a second sharp depreciation of the Chinese currency. The US Treasury Department labeled China a "currency manipulator," which the market interpreted as further escalation of the trade war, which led to falling prices on stock exchanges around the world.

4. Developments in the Macro Economic Environment (cont'd)

The market's recovery was supported by good corporate reports together with statements by the European Central Bank (ECB) that the monetary package in September would be greater than market expectations, and reports that Germany is considering a fiscal incentive.

The S&P500 rose by 1.2, Eurostocks rose by 2.8%, the MSCI EM fell by 5.1%. 10-year US yields fell from 2.0% to 1.7%. The euro weakened against the dollar by 4.2% to 1.09. Oil (WTI) feel by 7.5% to USD 54 per barrel.

In the period subsequent to the statement of financial position

US growth in the third quarter exceeded expectations, reaching 1.9%, backed by growth in private consumption. Consumer strength was also reflected in various consumer surveys and a favorable surprise in the retail sales index. In contrast to stable consumers, the weakness of the manufacturing sector remained prominent, and was reflected in Purchasing Managers Index (of ISM, 48.3 in October), a decline in industrial manufacturing, and weak global trading. US inflation remained muted and rose in October to reach an annual rate of 1.3% (PCE), which was below expectations, and the core price index (PCE) slowed to 1.7%. The Fed continued to cut the interest rate, from 2.00% to 1.75%. In the backdrop, the US and China made progress toward a staged trade agreement and although the signing of the first stage, which was expected to stop the escalation, was meanwhile postponed after several core issued were not resolved, expectations about their resolution are favorable. In Europe, third quarter growth remained at 1.2%, but with a high variance ranging from contraction of the manufacturing sector (in September, contraction of 1.7% in annual terms), which mainly had an adverse impact on Germany, and a steady rise in consumer strength, which was reflected in a rise in retail sales in the Euroblock in September, reaching an annual increase of 3.1%. In October, inflation in the block reached 0.7% in annual terms. The ECB left the interest rate unchanged at -0.5%. In China, growth slowed to 6.0%, with a prominent decline in trade figures. Chinese exports dropped in October by an annual 0.9% (in dollar values) while imports declined by 6.4%. The Central Bank of China cut the interest rate for banks in its efforts to promote credit activities.

The S&P500 rose by 4.8%, Eurostocks gained 4.0%, and MSCI EM rose by 4.8%. Ten-year US Treasury yields increased from 1.7% to 1.8%. The euro gained 1.4% on the dollar, reaching 1.11. Oil prices (WTI) increased by 6.8% to USD 58 per barrel.

5. Explanations of the Board of Directors of the Company's Business Position

5.1. General

The Group's activities are impacted by continuous regulation and by regulatory changes and reforms that are not executed in a single step. The Group operates in a complex and dynamic environment in which it must adapt to the said regulatory changes.

Furthermore, the Group, as the controlling shareholder in institutional entities, must also cope with proposed changes in the minimum capital requirements for institutional entities which, inter alia, also impose restrictions on the distribution of dividends by institutional entities.

The Group's operations and results are significantly affected by the capital markets and, among other things, the low interest rates, which affect the insurance liabilities and the yields embedded in the Group's portfolios of financial assets and, in turn, the management fees and financial margins from investments.

5.2. Description of developments in the Group's financial position:

Principal data from the consolidated statements of financial position (in NIS millions):

	30.09.2019	30.09.2018	31.12.2018
Fixed Assets	730	565	579
Investments in associates	659	635	761
Financial investments for performance-based contracts	57,958	48,788	48,862
Other financial investments	24,193	22,845	22,738
Assets for holders of debentures, exchange-traded funds , reverse certificates, complex certificates, certificates of deposit, and structured bonds	281	28,218	425
Total assets	**104,554**	**118,110**	**91,123**
Total shareholders' equity	**6,517**	**6,326**	**6,426**
Liabilities for insurance contracts and investment contracts:	**89,544**	**78,196**	**76,988**
Of which:			
Liabilities for non-performance-based insurance contracts and investment contracts	22,833	21,602	21,480
Liabilities for performance-based insurance contracts and investment contracts	66,711	56,594	55,508
Liabilities for debentures, ETFs, reverse certificates and complex certificates, certificates of deposit, and structured debentures	285	26,990	384
Total liabilities	**98,037**	**111,784**	**84,697**
Total shareholders' equity and liabilities	**104,554**	**118,110**	**91,123**

(*)The decline in the assets stems from the entry into effect of Amendment 28 (Basket Funds) whereby the Company ceased to consolidate in its financial statements the assets and liabilities of the ETNs. For additional details – see Section 2.4.1 of the Description of the Company's Business

5. **Explanations of the Board of Directors of the Company's Business Position (cont'd)**

Assets

Total assets as of September 30, 2019 were about NIS 104,554 million, compared with about NIS 91,123 million as of December 31, 2018, reflecting an increase of about 14.7%. PP&E as of September 30, 2019 totaled about NIS 730 million, compared with about NIS 579 million as of December 31, 2018, reflecting an increase of about 26%, which stems mainly from initial implementation of IFIS 16 "Leases". Investments in associated companies as of September 30, 2019 totaled about NIS 659 million, compared with about NIS 761 million as of December 31, 2018, reflecting a decline of about 13.4%, which stemmed from the distribution of Mehadrin shares to Company's shareholders as a dividend in kind in the amount of about NIS 230 million. For additional information see Section 1.3 hereinabove. Financial investments for yield-dependent contracts as of September 30, 2019 totaled about NIS 57,958 million compared with about NIS 48,862 as of December 31, 2018. The increase of about 18.6% was affected mainly by capital market returns and continued growth in net accruals in the asset portfolio.

Liabilities

Liabilities in respect of insurance contracts and non-yield-dependent investment contracts totaled about NIS 22,833 million as of September 30, 2019, compared with about NIS 21,480 million as of December 31, 2018, an increase of about 6.3%. The increase was affected mainly by the increase in net accruals in the asset portfolio and an increase in the Company's scope of operations.

Liabilities in respect of insurance contracts and yield-dependent investment contracts totaled about NIS 66,711 million as of September 30, 2019, compared with about NIS 55,508 million as of December 31, 2018, an increase of about 20.2%. The increase was affected mainly by capital market returns and continued growth in net accruals in the asset portfolio.

5.3. **Insurance business premiums (NIS millions):**

For additional details regarding the Company's premiums – see Note 3 to the financial statements.

The earnd gross premiums in the last nine months of 2019 (hereinafter – "the Period of the Report") amounted to about NIS 8,531 million, compared with about NIS 7,414 million in the corresponding period last year – an increase of 15.1%. The earnd gross premiums in the third quarter of 2019 amounted to about NIS 2,820 million, compared with about NIS 2,541 million in the corresponding quarter last year – an increase of 11%. The retained premiums in the Period of the Report amounted to about NIS 7,483 million in 2019, compared with about NIS 6,551 million in the corresponding period last year – an increase of 14.2%. The retained premiums in the third quarter of 2019 amounted to about NIS 2,432 million in 2019, compared with about NIS 2,230 million in the corresponding quarter last year – an increase of 9.1%.

5. **Explanations of the Board of Directors of the Company's Business Position (cont'd)**

In life insurance operations, the earnd gross premiums in the period of the report, including investment contracts, to the amount of about NIS 5,818 million, compared with about NIS 4,988 million in the corresponding period last year – a rate of about 16.6%, mainly as a result of an increase in non-recurring premiums and non-recurring premiums on investment contracts.

In health insurance, the earnd gross premiums in the period of the report grew at the rate of about 46.2%, compared with the corresponding period last year. The increase stems mainly from an increase in collective long-term care policies for members of Maccabi Health Services and from long-term care insurance in Maccabi–Magen Cooperative Association for Reciprocal Insurance against Illnesses Ltd. Regarding the win of The Phoenix Insurance in a tender for provision of collective long-term care insurance services, commencing from January 1, 2019 – see Section 2.3.5(C) of the Report on the Company's Business.

In general insurance operations, the gross premiums in the period of the report to the amount of about NIS 2,144 million, compared with about NIS 2,075 million in the corresponding period last year – a rate of about 3.3, deriving mainly from an increase in the scope of the activities and the number of the Company's policies, while on the other hand there was a decline in the average premium, mostly in the vehicle property sector.

5. Explanations of the Board of Directors of the Company's Business Position (cont'd)

5.4. Developments in the Group's profit for the period and comprehensive income:

Set forth below are highlights of the results of the Company's operations (in NIS millions):

	1-9/2019	1-9/2018	7-9/2019	7-9/2018	1-12/2018
Premiums earned, gross	8,531	7,414	2,820	2,541	10,104
Investment income, net, and financing income	5,793	3,201	1,149	1,800	1,069
Management fees	1,019	744	360	317	827
Revenue from commissions	404	355	149	122	483
Total revenue	**14,873**	**10,992**	**4,138**	**4,529**	**11,507**
Payments and changes in liabilities for insurance contracts and investment contracts, gross	12,671	8,627	3,658	3,568	8,431
Commissions, marketing expenses, and other acquisition costs	1,416	1,293	505	462	1,753
General and administrative expenses	990	893	338	292	1,211
Total expenses	**14,530**	**10,185**	**4,308**	**4,123**	**10,629**
Profit before taxes on income	390	835	(155)	402	949
Taxes on income	115	243	(87)	143	252
Profit for the period	**275**	**591**	**(68)**	**259**	**697**
Profit for the period attributable to the Company's shareholders	**252**	**582**	**(77)**	**255**	**679**
Shareholders' return on equity for the period (based on profit for the period)	5.3%	13.1%	-4.6%	17.7%	11.3%
Other comprehensive income (loss), net of taxest	327	9	103	53	(140)
Comprehensive income for the period	**603**	**601**	**35**	**312**	**557**
Comprehensive income for the period attributable to owners of the Company	**579**	**591**	**26**	**308**	**539**
Shareholders' return on equity for the period (based on comprehensive income for the period)	12.3%	13.4%	1.6%	21.7%	9.0%

5. **Explanations of the Board of Directors of the Company's Business Position (cont'd)**

A significant part of the Group's asset portfolio is invested on the capital market. Therefore, capital market returns for the various investment channels have a material effect on the yields achieved for the Group's customers and on the Group's profits. The gains and losses on investments reflect capital market performance in Israel and abroad, as well as changes in the Consumer Price index and the NIS exchange rates against the main currencies. The aggregate effect of these factors on the financial margin is the main reason for the fluctuation in the reported results. The gains from investments, including other comprehensive income (pre-tax), in the Period of the Report amounted to about NIS 6,299 million, compared with about NIS 3,214 million in the corresponding period last year. The gains from investments, including other comprehensive income (pre-tax), amounted in the third quarter to about NIS 1,309 million, compared with about NIS 1,881 million in the corresponding quarter last year. It is noted that a significant part of the gains from investments, as stated, is recorded to the profit-sharing policies and did not directly impact the Company's results. Regarding this matter – see also Section 5.5.1 below.

The revenues from management fees increased in the Period of the Report by about NIS 275 million and in the third quarter by about NIS 43 million, compared to the corresponding period and quarter last year. Most of the increase in the Period of the Report and in the second quarter stems from variable management fees, in the amounts of about NIS 261 million and about NIS 94 million, respectively – this being after full coverage of the deficit in the variable management fees as of December 31, 2018 already in the first quarter of 2019, in the amount of about NIS 62 million. For details – see Section 5.5.1 below.

The results in the Period of the Report and in the third quarter were impacted by the decline in the interest curve and the non-liquidity premium in the economy, which led to an increase in insurance liabilities in the amount of about NIS 826 million before taxes and about NIS 510 million before taxes, respectively – in addition to the impact of the changes in the Draft Circular of Demographic Assumptions, as stated above, which amounted to about NIS 85 million in the Period of the Report and in the second quarter. This impact was partly offset by update of the Company's estimates in the mandatory vehicle insurance and liabilities sectors due to the decision of the Supreme Court whereby the interest rate for purposes of discounting annual annuities will be 3% and, accordingly, the provisions in these sectors declined by about NIS 155 million before taxes in the Period of the Report and in the second quarter. Furthermore, the impact of changes in assumptions in health insurance and life insurance caused a decline of NIS 27 million in insurance liabilities in the Period of the Report and in the second quarter. The aggregate impact is an increase in the insurance liabilities in the Period of the Report in the amount of about NIS 729 million before taxes, and a decline in the insurance liabilities, in the amount of about NIS 510 million, in the third quarter.

In the corresponding period and third quarter of last year, the results were impacted by an increase on the interest curve and the impact of changes in the assumptions. The impact of the increase in the interest curve and non-liquidity premium and the changes in the assumptions on the decrease in the insurance liabilities and the increase in the profit amounted to about NIS 107 million before taxes in the corresponding period of last year, and about NIS 27 million before taxes in the third quarter of last year. For additional details – see Note 7(1) to the financial statements.

5. **Explanations of the Board of Directors of the Company's Business Position (cont'd)**

The ratio of commissions, marketing expenses and other purchasing expenses to gross earned premiums in the Period of the Report was about 16.6%, compared with about 17.4% in the corresponding period last year. The ratio of commissions, marketing expenses and other purchasing expenses to gross earned premiums in the third quarter was about 17.9%, compared with about 18.2% in the corresponding quarter last year. The ratio of general and administrative expenses to gross earned premiums in the Period of the Report was about 11.6%, compared with about 12% in the corresponding period last year. The ratio of general and administrative expenses to gross earned premiums in the third quarter was about 12%, compared with about 11.5% in the corresponding quarter last year. Most of the change stems from an increase in the premiums as a result of provision of collective long-term care insurance services to member of the Maccabi Sick Fund, which were included in the Period of the Report but were not included in the corresponding period last year.

Taxes on income in the reporting period include tax expenses in the amount of about NIS 35 million in respect of a capital gains tax payment on a dividend distributed by Phoenix Agencies to Phoenix Insurance, and tax in respect of a distribution of Mehadrin shares as a dividend in kind to the shareholders. For information on these distributions, see Notes 7(13) and 7(15) to the financial statements.

For explanations with respect to the comprehensive income in the various segments between the periods presented above – see details in Sections 5.5 through 5.7 below.

The increase in comprehensive income that is not from the reported areas of activity stems mainly from the yields in the capital market, which were higher than the yields in the corresponding period last year, as explained above.

The source of the difference between the comprehensive income and the profit for the period, is gains (losses) from the Group's negotiable assets that are not held against performance-dependent liabilities and that have not yet been sold. The changes in the differences between these periods, as stated, are also contingent on the timing of the sale of the negotiable securities. For explanations regarding the changes in the profits of the various segments in respect of the periods presented above – see analysis of the profitability of the segments below.

5. Explanations of the Board of Directors of the Company's Business Position (cont'd)

Following is a description of the developments of the results of the Group's operations by area of activity:

5.5. Developments in the life insurance and long-term savings segment

5.5.1. Life insurance segment

In June 2018, The Phoenix Insurance was requested by the Capital Market Authority to re-approve the rates for its life insurance plans, according to the guidelines set by the Authority. In February 2019, Individual Risk 1 and Mortgage life insurance tariffs were approved. As at the date of the report, the Company is endeavoring to obtain approvals for its remaining risk policies.

Set forth below are main data from the financial results of the life insurance sector, as included in the Company's financial statements (in NIS millions):

	Life Insurance				
	In NIS millions				
	1-9/2019	**1-9/2018**	**7-9/2019**	**7-9/2018**	**1-12/2018**
Premiums earned, gross	3,965	3,683	1,241	1,231	5,082
Management fees	569	414	200	206	378
Total comprehensive income (loss) before taxes on income	**(201)**	**354**	**(207)**	**189**	**219**

5. **Explanations of the Board of Directors of the Company's Business Position (cont'd)**

Profitability on investments has a fundamental impact on profitability of the segment, which is characterized by the accrual of significant accruals for long periods. Investment income is affected by changes in the capital markets as well as changes in interest rates and the rate of change in the CPI, which affect the returns on the tradeable financial assets that are held against the insurance reserves and contingent claims.

Furthermore, a considerable share of the investment income is charged to profit-sharing policies and does not affect the Company's results directly. In the matter of the investment income that was charged to policyholders after management fees, also see information on weighted returns in profit-sharing policies described hereinafter.

Income from management fees total about NIS 569 million in the reporting period and about NIS 200 million in the third quarter, compared with a total of about NIS 414 million and about NIS 206 million for the corresponding period and quarter of the previous year. The increase in the reporting period stems mainly from variable management fees, which totaled about NIS 261 million in the reporting period, compared with about NIS 130 million in the corresponding period of the previous year. The rise in variable management fees in the reporting period compared with the previous year stems from the higher real returns that the Company achieved in this period compared to the previous year, after fully covering in the first quarter the deficit in variable management fees as of December 31, 2018, which totaled about NIS 62 million. In the third quarter, variable management fees totaled about NIS 94 million, compared with about NIS 112 million in the corresponding quarter of the previous year, due to the decline in returns compared with the corresponding quarter last year.

The effect of the change in the interest curve and the illiquidity premium led to a rise in insurance liabilities in the reporting period in the amount of about NIS 549 million (including a change in reserves for benefits after projected future income [the K Factor] was reduced by about NIS 51 million), compared to a decline in insurance liabilities in the amount of about NIS 87 million in the corresponding period of the previous year. The effect of the change in the interest curve and the illiquidity premium led to an increase in insurance liabilities in the amount of about NIS 359 million and about NIS 30 million in the third quarter and in the corresponding period of the previous year, respectively.

The effect of the change in the Draft Circular on Demographic Assumptions, mentioned above, led to an increase in insurance liabilities, mainly affecting the reserve for benefits already on June 30, 2019 in the amount of about NIS 85 million. Furthermore, the balance of about NIS 1,350 million before tax as of June 30, 2019 was redistributed up to the anticipated statutory pension age using the K capitalization factor. Furthermore, changes in the other assumptions used to calculate life insurance reserves led to an increase in insurance liabilities in the amount of about NIS 4 million in the reporting period, compared with a decline of NIS 39 million in the corresponding period and quarter of the previous year. For additional information see Note 7(1) tot the financial statements. For information on the sensitivity of the insurance liabilities to changes in interest rates, see Note 40(3)92) to the annual financial statements.

The rate of drawdowns from the average reserve (in annual terms) was about 3.3% compared with about 2.8% in the corresponding period of the previous year. Furthermore, the state of the economy, employment, wages, and competition in this segment affect this rate.

5. **Explanations of the Board of Directors of the Company's Business Position (cont'd)**

For information on the Draft Circular on Demographic Assumptions and its effects, see Sections 3.3.7 and 5.4 hereinabove.

Weighted returns on profit-sharing policies

Details concerning estimated net investment earnings attributed to policyholders of profit-sharing policies and management fees calculated according to the Supervisor of Insurance's directives, based on insurance reserve balances and returns (in millions of NIS):

	1-9/2019	1-9/2018	7-9/2019	7-9/2018	1-12/2018
Investment gains (losses) attributed to policyholders after management fees	4,308	1,953	733	1,310	(343)
Management fees	572	416	201	207	382

The management fees in the quarter are after full coverage in the first quarter of 2019 of the deficit in variable management fees as of December 31, 2018, in the amount of about NIS 62 million.

Nominal returns on profit-sharing policies for policies issued from 1992 to 2003 were as follows:

	Policies issued up to 2004 (J Fund)				
	1-9/2019	1-9/2018	7-9/2019	7-9/2018	1-12/2018
Nominal returns before payment of management fees	8.75%	4.69%	1.48%	3.04%	0.23%
Nominal returns after payment of management fees	7.31%	3.75%	1.02%	2.50%	(0.37%)
Real returns before payment of management fees	8.21%	3.55%	2.18%	2.84%	(0.95%)
Real returns after payment of management fees	6.77%	2.62%	1.72%	2.30%	(1.55%)

Fluctuations in these returns derives from capital market returns in Israel and abroad, changes in the CPI, and changes in the NIS exchange rates against major currencies.

Nominal returns on profit-sharing policies for policies issued from 2004 onward were as follows:

	Policies issued since 2004				
	1-9/2019	1-9/2018	7-9/2019	7-9/2018	1-12/2018
Nominal returns before payment of management fees	8.60%	4.40%	1.48%	2.95%	(0.37%)
Nominal returns after payment of management fees	7.76%	3.58%	1.22%	2.69%	(1.41%)
Real returns before payment of management fees	8.06%	3.27%	2.18%	2.75%	(1.55%)
Real returns after payment of management fees	7.22%	2.46%	1.92%	2.49%	(2.58%)

5. Explanations of the Board of Directors of the Company's Business Position (cont'd)

5.5.2. Provident fund segment

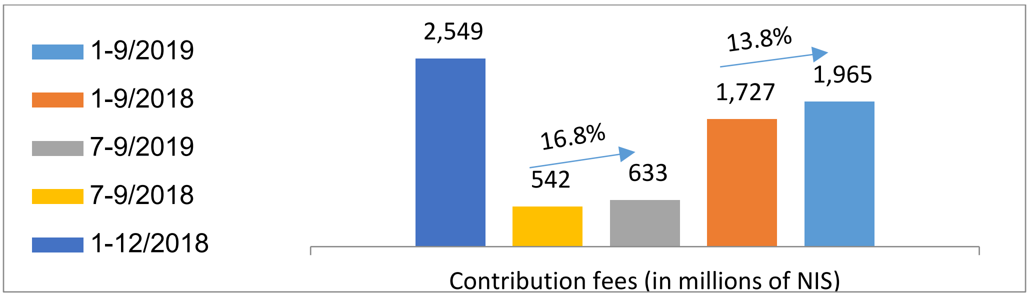
The Group manages the provident and study funds through Excellence Provident Funds, a wholly-owned subsidiary of The Phoenix Insurance, which manages benefit and compensation funds, study funds and a central compensation fund, a guaranteed-yield provident fund, an investment provident fund, a long-term child savings investment provident fund, a personally managed benefit provident fund, and a personally managed study fund.

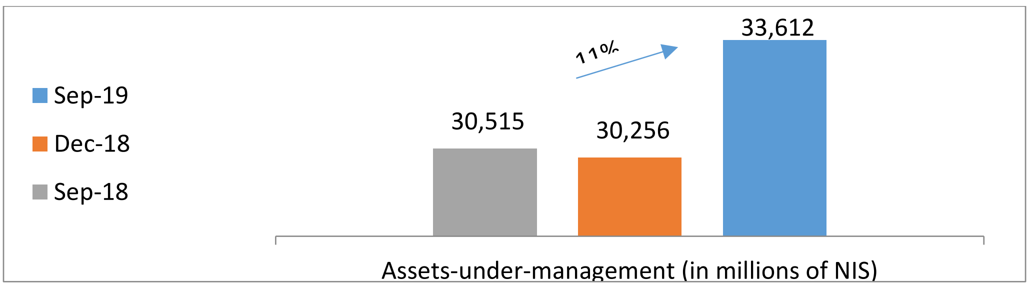
As of June 30, 2019, the merger of the managing companies of the provident funds, study funds, and pension funds was completed. The Phoenix Pensions Ltd. was merged with and into Excellence Provident and Study Ltd. and its name was changed to "The Phoenix Excellence Provident and Study Ltd." For additional details – see Section 1.4 of the Report.

For highlights from the results of provident fund operations, see Note 3 to the financial statements.

Income from management fees in the Period of the Report totaled about NIS 157 million, compared with about NIS 145 million in the corresponding period last year, and in the third quarter they totaled about NIS 53 million, compared with about NIS 50 million in the corresponding quarter last year. The revenues from management fees in the Period of the Report increased mainly due to an increase in the managed assets, along with erosion in management fees resulting from increased competition in the sector. General and administrative expenses in the Period of the Report totaled about NIS 75 million, compared with about NIS 80 million in the corresponding period last year, and in the third quarter they totaled about NIS 24 million, compared with about NIS 28 million in the corresponding quarter last year. Comprehensive income before taxes in the Period of the Report totaled about NIS 34 million, compared with about NIS 24 million in the corresponding period last year, and in the third quarter it totaled about NIS 12 million, compared with about NIS 9 million in the corresponding quarter last year.

Set forth below is the development of the benefit contributions and assets under management:





5. **Explanations of the Board of Directors of the Company's Business Position (cont'd)**

According to Ministry of Finance data,[1] the total benefit contributions in the provident funds market in the Period of the Report amounted to a total of about NIS 30,458 million, compared with about NIS 28,735 million in the corresponding period last year – an increase of 6%. According to Ministry of Finance data,* as of september 30, 2019, aggregate assets under management in the provident funds market amounted to a total of NIS 513 billion, compared with NIS 461 billion on December 31, 2018 – an increase of 11.2%.

5.5.3. Pension funds

The Group's pension fund operations are managed through The Phoenix Pension, a wholly-owned subsidiary of The Phoenix Insurance.

As of september 30, 2019, the merger of the managing companies of the provident, study and pension funds was completed. The Phoenix Pensions Ltd. was merged with and into Excellence Provident and Study Ltd. and its name was changed to "The Phoenix Excellence Provident and Study Ltd." For additional details – see Section 1.4 of the Report.

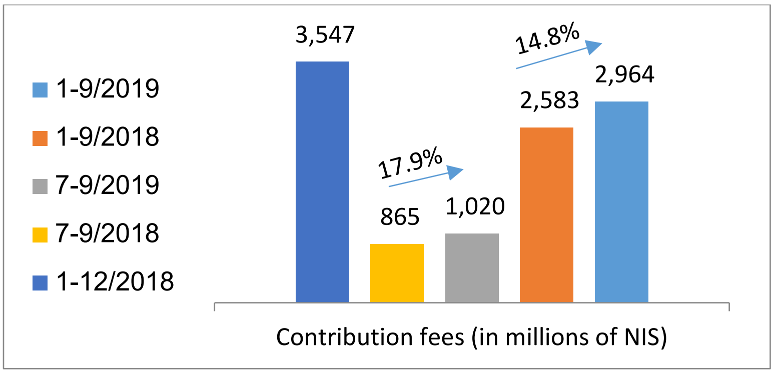
For highlights from the results of pension fund operations, see Note 3 to the financial statements.

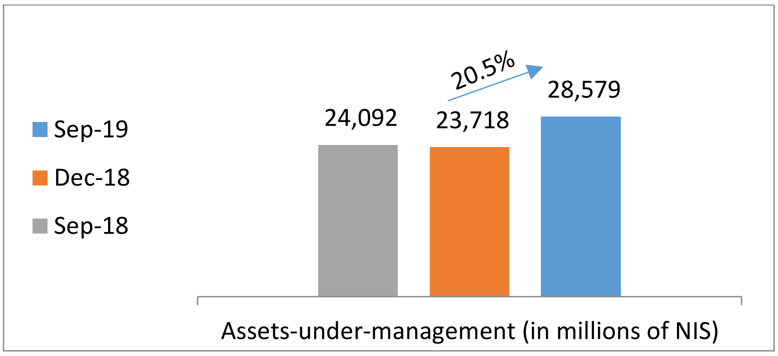
Income from management fees in the Period of the Report totaled about NIS 123 million, compared with about NIS 120 million in the corresponding period last year, and in the third quarter they totaled about NIS 41 million, compared with about NIS 39 million in the corresponding quarter last year. The impact of the increase of the scope of the activities was offset by the decline in management fees.

[1] Based on Gemel Net data.

5. **Explanations of the Board of Directors of the Company's Business Position (cont'd)**

General and administrative expenses in the Period of the Report totaled about NIS 66 million, compared with about NIS 46 million in the corresponding period last year, and in the third quarter they totaled about NIS 22 million, compared with about NIS 15 million in the corresponding quarter last year. The increase in general and administrative expenses stems mainly from a revision to the Group's expense model and in investment management expenses to The Phoenix Investments. The profit before taxes in the Period of the Report and in the third quarter totaled about NIS 9 million and about NIS 3 million, respectively, compared with about NIS 24 million and about NIS 6 million in the corresponding period and the corresponding quarter last year, respectively.





According to Ministry of Finance data,[2]* the total contribution fees in the new comprehensive pension funds market in the Period of the Report amounted to a total of about NIS 31,658 million, compared with about NIS 28,598 million in the corresponding period last year – an increase of 10.7%.

According to Ministry of Finance data,*, as of september 30, 2019, the aggregate assets under management in the new comprehensive pension funds market amounted to a total of NIS 381 billion, compared with NIS 329 billion on December 31, 2018 – an increase of 15.8%.

[2] Pension Net data.

5. Explanations of the Board of Directors of the Company's Business Position (cont'd)

5.6. Healthcare insurance segment

Set forth below is main data from the financial results of the healthcare insurance sector, as included in the Company's financial statements (in NIS millions):

	Healthcare Insurance				
	In NIS millions				
	1-9/2019	**1-9/2018**	**7-9/2019**	**7-9/2018**	**1-12/2018**
Premiums earned, gross	2,422	1,657	860	606	2,231
Total comprehensive income (loss) before taxes on income	**(27)**	**109**	**(114)**	**96**	**79**

Beginning from January 1, 2019, the financial results include services to Maccabi Healthcare for group long-term care insurance. For additional information see Note 20 to the financial statements of 2018.

For an explanation of the change in premiums, see Section 5.3 hereinabove.

Profitability on investments has an effect on the profitability of this segment, which has specific products (such as long-term care) that typically have significant reserves for long periods. The investment income is affected by changes in the capital markets, as well as changes in interest rates and the rate of change in the CPI, which affect the returns in the tradeable financial asset portfolios that are held against the reserves for insurance and contingent claims.

Results in the reporting period and the third quarter compared with the previous year were adversely affected mainly by the decline in the riskless interest curve, which increased the LAT reserve in the health insurance (long-term care) segment by about NIS 261 million in the reporting period and about NIS 156 million in the third quarter, compared with a decline in LAT reserves in the amount of about NIS 19 million in the third quarter of the previous year. Actuarial assumptions were also revised in the reporting period, which led to a decline in insurance liabilities in the amount of about NIS 31 million, compared with an increase in reserves in the amount of about NIS 23 million in the reporting period last year. On the other hand, the results in the reporting period were affected favorably by an improvement in underwriting results, mainly in the healthcare segment, and an increase in investment income.

5. Explanations of the Board of Directors of the Company's Business Position (cont'd)

5.7. General insurance segment

	General insurance segment				
	In NIS millions				
	1-9/2019	1-9/2018	7-9/2019	7-9/2018	1-12/2018
Gross premiums	2,216	2,177	687	733	2,822
Total comprehensive income before taxes on income	**524**	**196**	**90**	**91**	**269**

The gross increase in premiums in the reporting period stems mainly from the issuance of a major policy in the property loss sector, and a decline in the average premium in the auto property sector. The main share of the decline in gross premiums in the third quarter stems from the decline in premiums in the auto property and mandatory auto sectors.

Comprehensive income from the general insurance segment in the reporting period totaled about NIS 524 million, compared with comprehensive income of about NIS 196 million in the corresponding period of the previous year. Comprehensive income from the general insurance segment in the third quarter totaled about NIS 90 million, compared with comprehensive income of about NIS 91 million in the corresponding quarter of the previous year.

Results in the reporting period were significantly affected by a decline in insurance liabilities in the general insurance segment, in mandatory and liability sectors, in the total amount of about NIS 155 million before tax, and about NIS 102 million after tax, following a Supreme Court ruling, which determined that the capitalization rate on damages would be 3%, which is a higher rate than the rate the Company used to calculate its reserves. For additional information, see Section 2.6 hereinabove. The increase in comprehensive income, controlling for said provision, stems mainly from a significant increase in investment income and an improvement in underwriting results in apartment and business insurance sectors.

In the reporting period, the riskless interest rate curve declined, as a result of which the Company recorded a loss of about NIS 16 million, compared with a rise in interest and recorded income of about NIS 4 million in the corresponding period of the previous year. For additional information, see Note 7 to the financial statements.

5. Explanations of the Board of Directors of the Company's Business Position (cont'd)

5.7.1. Mandatory vehicle insurance

	Mandatory vehicle insurance segment				
	In NIS millions				
	1-9/2019	**1-9/2018**	**7-9/2019**	**7-9/2018**	**1-12/2018**
Gross premiums	451	444	142	155	565
Total comprehensive income before taxes on income	**257**	**41**	**35**	**11**	**74**

Comprehensive income in the reporting period and the third quarter increased by about NIS 216 million and about NIS 24 million, respectively, compared with the corresponding periods of the previous year, mainly due to a significant increase in investment income and a decline in insurance liabilities in the reporting period in the amount of about NIS 105 million, following the implementation of the ruling on Capitalization Regulations. See Note 7(1)(f) to the financial statements.

5.7.2. Vehicle property insurance

	Vehicle property insurance segment				
	In NIS millions				
	1-9/2019	**1-9/2018**	**7-9/2019**	**7-9/2018**	**1-12/2018**
Gross premiums	824	864	273	295	1,109
Total comprehensive income before taxes on income	**87**	**106**	**19**	**48**	**116**
loss ratio (gross)	64.6%	59.7%	67.2%	56.1%	60.5%
loss ratio (retained)	64.6%	59.7%	67.2%	56.1%	60.5%
combined ratio (gross)	94.2%	88.4%	95.6%	85.1%	89.9%
combined ratio (retained)	94.2%	88.4%	95.6%	85.1%	89.9%

Gross premiums declined in the reporting period and the third quarter compared with the corresponding periods of the previous year, mainly due to a decline in average premiums and an increase in the number of policies issued by the Company.
The decline in comprehensive income in the reporting period and the third quarter stems mainly from a decline in average premiums, noted above, an increase in claims and acquisition costs, alongside a significant increase in investment income.

5. Explanations of the Board of Directors of the Company's Business Position (cont'd)

5.7.3. Other (non-vehicle) property insurance

	Other (non vehicle) property insurance segments				
	In NIS millions				
	1-9/2019	**1-9/2018**	**7-9/2019**	**7-9/2018**	**1-12/2018**
Gross premiums	608	542	173	175	719
Total comprehensive income before taxes on income	**95**	**71**	**21**	**27**	**96**
loss ratio (gross)	32.3%	51.7%	25.6%	44.1%	51.3%
loss ratio (retained)	24.4%	33.8%	29.7%	25.9%	33.1%
combined ratio (gross)	60.8%	81.0%	55.7%	73.6%	79.1%
combined ratio (retained)	60.5%	69.1%	73.5%	64.7%	66.8%

The increase in gross premiums in the reporting period stems mainly from the issuance of a major policy in the property loss sector. The increase in comprehensive income before tax in the reporting period stems from a significant increase in investment income and an improvement in underwriting results in apartment and business insurance sectors.

5.7.4. Liability and other insurance

	Liability and other insurance sectors				
	In NIS millions				
	1-9/2019	**1-9/2018**	**7-9/2019**	**7-9/2018**	**1-12/2018**
Gross premiums	333	327	99	108	429
Total comprehensive income (loss) before taxes on income	**85**	**(22)**	**15**	**4**	**(16)**

The increase in comprehensive income in the reporting period and the third quarter compared with the corresponding periods of the previous year stems mainly from a significant increase in investment income and a decline in insurance liabilities in the reporting period in the amount of about NIS 50 million, following the implementation of the ruling on the Capitalization Regulations. See Note 7(1)(f) to the financial statements.

5. Explanations of the Board of Directors of the Company's Business Position (cont'd)

5.8. Financial services

The operations in this segment are carried out through Excellence.

Set forth below are key data with respect to financial results of the financial services segment, as included in the Company's financial statements for the Period of the Report (in NIS millions):

	1-9/2019	1-9/2018	7-9/2019	7-9/2018	1-12/2018
Investment income, net, and financing income	0	2	0	1	3
Management fees	169	62	65	22	90
Income from other financial services	102	118	32	52	165
Other revenue	34	0	4	0	0
Total revenue	**305**	**182**	**101**	**75**	**258**
Commissions, marketing expenses, and other acquisition costs	27	23	10	9	30
General and administrative expenses	156	121	53	42	173
Finance expenses	1	1	1	0	1
Total expenses	**184**	**145**	**64**	**51**	**204**
Share in the profits of equity-accounted investees	5	5	2	2	6
Total income before taxes on income and comprehensive income	**126**	**42**	**39**	**26**	**60**

* Amount less than NIS 1 million.

Income from management fees in the reporting period include income from ETNs after Amendment 28 (ETNs) came into effect in October 2018; in the corresponding period of the previous year income from ETNs were recorded under income from financial services.

Income from financial services includes income from a company that was consolidated for the first time in the first quarter of 2019. Furthermore, last year income from financial services includes a set-off the effects of the change in the value of the Company's shares held by ETNs. When Amendment 28 came into effect, this effect was eliminated.

In the reporting period, other income in the amount of about NIS 34 million stems mainly from revaluation gains in the amount of about NIS 29 million on an investment in an investee consolidated for the first time in the first quarter of 2019, due to an increase in control. For information on the investee's consolidation for the first time see Note 7 to the financial statements.

5. Explanations of the Board of Directors of the Company's Business Position (cont'd)

5.9. Analysis of cash flow developments

6. Disclosure regarding Exposure and Management of Market Risks

In the Period of the Report, there were no significant changes in the exposure to market risks and the management thereof compared with that described in the Periodic Report for 2018.

7. Linkage balance

8. Aspects of Corporate Governance

Effectiveness of the internal control over the financial reporting and the disclosure

8.1.1. Securities Regulations

In December 2009, Amendment No. 3 to the Securities Regulations (Periodic and Immediate Reports). 2009, was published ("ISOX"), regarding the system of internal control over the financial reporting and the disclosure (hereinafter – "the Regulations"). Pursuant to the Amendment, a number of changes were made, the purpose of which is to improve the quality of the financial reporting and disclosure by reporting companies.

Commencing with publication of the ISOX Amendment and as detailed in the prior reports of the Company's Board of Directors, the Company took action and is continuing to take steps to implement the required process in accordance with the provisions of the ISOX Amendment in The Phoenix Group. Pursuant to the provisions of the above-mentioned Amendment to the ISOX Amendment, with reference to the internal control in all the consolidated institutional entities, the Company chose to apply the provisions of the Circulars of the Supervisor of the Capital Market, Insurance and Savings applicable to them – Circular Institutional Entities 2009-9-6 regarding "Responsibility of Management for the Internal Control over Financial Reporting – Amendment," Circular Institutional Entities 2009-9-7 regarding "Internal Control over Financial Reporting – Declarations, Reports and Disclosures," Circular 2012-9-5 "Internal Control over Financial Reporting – Declarations, Reports and Disclosures and Responsibility of Management for the Internal Control over Financial Reporting – Amendments," and Circular 2015-9-15 "Internal Control over Financial Reporting – Declarations, Reports and Disclosures and Responsibility of Management for the Internal Control over Financial Reporting – Amendments" (hereinafter – "the Management Responsibility Circulars").

The required reports and declarations in accordance with the ISOX Amendment and the Amendment thereto are attached below to the periodic financial statements – see Part 6 – Report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure.

The processes related to the activities of the institutional entities are also treated in the framework of the provisions of the Circulars of the Supervisor of Insurance – see Section 8.1.2 below.

8.1.2. Circulars of the Commissioner of Insurance

Concurrent with the process described in Section 8.1.1 above, the provisions of Management Responsibility Circulars, regarding controls and procedures with respect to the disclosure and the internal control over the financial reporting of an institutional entity, and the required processes are being executed in connection therewith, as detailed below are implemented by the institutional entities in The Phoenix Group– based on the stages and within the deadlines stipulated in the above-mentioned Circulars and in cooperation with external advisors who were hired for this task. In this framework, the Group's institutional entities adopted the COSO – Committee of the Sponsoring Organization of the Treadway Commission internal control model, which constitutes a defined and recognized framework used for purposes of evaluation of the internal control.

8. Aspects of Corporate Governance (cont'd)

- **Controls and procedures regarding the disclosure**

At the end of the period that is covered by this Report, the managements of the institutional entities, in cooperation with their CEOs and CFOs, evaluated the effectiveness of the controls and procedures regarding the disclosure of the said institutional entities in their financial statements. On the basis of this evaluation, the CEOs and CFOs of the institutional entities in The Phoenix Group concluded that at the end of this period, the controls and procedures regarding the disclosures by the institutional entities are effective for recording, processing, summarizing, and reporting the information the institutional entities are required to disclose in the quarterly report, in accordance with the provisions of law and the reporting rules determined by the Supervisor of the Capital Market, Insurance and Savings and on the date provided in these rules.

- **Internal control over the financial reporting**

During the quarter ended september 30, 2019, no change occurred in the internal control of the Group's institutional entities over the financial reporting that had, or that could reasonably be expected to have a significant impact on the internal control of the Group's institutional entities over the financial reporting. In addition, the Group's institutional entities are in the process of improvement and streamlining the processes and/or the internal control and/or the service to customers.

Attached to the financial statements of the institutional entities in the Phoenix Group are the required reports and declarations with reference to the relevant processes –in accordance with the Management Responsibility Circulars.

9. Disclosure Rules regarding the Financial Reporting of the Company

9.1. Events occurring subsequent to the date of the statement of financial position

Regarding events occurring subsequent to the date of the statement of financial position – see Note 8 to the financial statements.

9.2. Designated disclosure for the Group's debenture holders

Series / Issue Date	Debentures (Series 2)	Debentures (Series 3)	Debentures (Series 4)
Rating Company	Midroog	Midroog	Midroog
Rating as of the reporting date	Aa3	Aa3	Aa3
Par value upon issue	NIS 620,050,496	272,191,000	300,000,000
Type of interest	CPI-linked	Unlinked	Unlinked
Nominal interest rate	2.55%	2.22%	1.53%
Effective interest rate upon issue	3.95%	Similar to the nominal interest rate	1.7
Listed for trading on the TASE	Yes	Yes	Yes
Interest payment dates	6 equal annual installments of 5% on March 26 of each of the years 2014 through 2019, and 5 equal installments of 14% on March 26 of each of the years 2020 through 2024	5 equal annual installments of 16.66% on July 31 of each of the years 2022 through 2026, and 1 payment of 16.7% on July 31, 2027.	2 equal annual installments of 12% on July 31 of each of the years 2020 and 2021, and 4 equal installments of 19% on July 31 of each of the years 2025 through 2028
Interest payment dates	Semi-annual interest on March 26 and September 26	Semi-annual interest on January 31 and July 31	Quarterly interest on January 31, April 30, July 31 and October 30.
Par value Nominal as of september 30, 2019	About NIS 434 million	About NIS 272 million	About NIS 300 million
Nominal par value CPI-linked as of September 30, 2019	About NIS 445 million	About NIS 272 million	About NIS 300 million
Carrying amount of debenture balances as of september 30, 2019	About NIS 430 million	About NIS 270 million	About NIS 297 million
Carrying amount of interest payable as of september 30, 2019	About NIS 0.12 million	About NIS 1 million	About NIS 0.8 million
Market value as of september 30, 2019 (*)	About NIS 474 million	About NIS 285 million	About NIS 302 million
Material series	The series is a material series as defined in Regulation 10(b)13(a) to the Securities Regulations (Periodic and Immediate Reports), 1970	The series is a material series as defined in Regulation 10(b)13(a) to the Securities Regulations (Periodic and Immediate Reports), 1970	The series is a material series as defined in Regulation 10(b)13(a) to the Securities Regulations (Periodic and Immediate Reports), 1970

(*) The market value including accrued interest as of september 30, 2019.

9. Disclosure Rules regarding the Financial Reporting of the Company (cont'd)

Contractual restrictions and financial covenants

As part of the trust certificate of the Company's debentures (Series 2), the Company undertook that so long as the debentures (Series 2) have not been fully repaid, it will not create a general floating lien on its assets, unless at the same time it also creates a lien, as stated, in favor of the holders of the debentures (Series 2), at the same priority level. In addition, with respect to the debentures (Series 2), the Company assumed restrictions relating to distribution of a dividend and expansion of the debentures (Series 2), and the Company also undertook to comply with financial covenants whereby the Company's shareholders' equity shall not fall below NIS 1.3 billion in two successive quarters, and the ratio of the Company's net financial debt to the total assets shall not exceed 60%. For additional details – see the Shelf Offer Report dated February 19, 2013.

As part of the trust certificate of the Company's debentures (Series 3), the Company undertook that so long as the debentures (Series 3) have not been fully repaid, it will not create a general floating lien on its assets, unless it received the consent of the debenture holders in advance and unless at the same time it also creates a lien, as stated, in favor of the holders of the debentures (Series 3) at the same priority level. In addition, with respect to the debentures (Series 3), the Company assumed restrictions relating to distributions of dividends and expansion of the debentures (Series 3), and the Company also undertook to comply with financial covenants whereby the Company's shareholders' equity shall not fall below the amount of NIS 2.5 billion in two successive quarters, and the ratio of the Company's net financial debt to the total assets shall not exceed 50%. For additional details – see the Shelf Offer Report dated January 22, 2018.

As part of the trust certificate of the Company's debentures (Series 4), the Company undertook that so long as the debentures (Series 4) have not been fully repaid, it will not create a general floating lien on its assets, unless it received the consent of the debenture holders in advance and unless at the same time it also creates a lien, as stated, in favor of the holders of the debentures (Series 4) at the same priority level. In addition, with respect to the debentures (Series 4), the Company assumed restrictions relating to distribution of a dividend and expansion of the debentures (Series 4), and the Company also undertook to comply with financial covenants whereby the Company's shareholders' equity shall not fall below the amount of NIS 2.9 billion during two successive quarters, and the ratio of the Company's net financial debt to the total assets shall not exceed 50%. For additional details – see the Shelf Offer Report dated May 7, 2019.

As of the date of the statement of financial position, the Company was in compliance with the financial covenants described above. The ratio of net financial debt ratio as of June 30, 2019 is about 11%, and the Company's shareholders' equity, as it appears in the separate-company (solo) financial statements as of september 30, 2019 is about NIS 6,416 million, which is higher than the shareholders' equity required as above.

For more information, see Note 26 to the Company's financial statements for December 31, 2018.

The members of the Board of Directors thank the Company's management, its employees and its agents for their contribution to the Company.

Benny Gabbay	Eyal Ben Simon
Acting Chairman of the Board of Directors	CEO