MEITAV DASH INVESTMENTS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2019

INDEX

Building a better working world

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Auditors' review report to the shareholders of Meitav Dash Investments Ltd.

Introduction

We have reviewed the accompanying financial information of Meitav Dash Investments Ltd. and its subsidiaries ("the Company"), which comprises the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six and three months periods then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting", and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain subsidiaries, whose assets included in consolidation constitute approximately 29.2% of total consolidated assets as of June 30, 2019 and whose revenues included in consolidation constitute approximately 11.5% and approximately 11.4% of total consolidated revenues for the six and three months periods then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of other auditors.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
August 14, 2019

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,		December 31,
	2019	**2018**	**2018**
	Unaudited		**Audited**
	NIS in millions		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	217	169	278
Short-term investments	262	386	182
Current investments of special purpose subsidiaries for covering ETNs and CDs	-	26,265	-
Customer credit	877	604	768
Trade receivables	31	31	32
Other accounts receivable	83	23	164
Current taxes receivable	7	10	9
	1,477	27,488	1,433
NON-CURRENT ASSETS:			
Investments of provident fund members	97	96	96
Investments, loans and receivables	109	69	80
Investments, loans and capital notes in associates	26	22	24
Property, plant and equipment	209	40	37
Deferred taxes	16	12	20
Intangible assets	1,151	1,157	1,174
	1,608	1,396	1,431
	3,085	28,884	2,864

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2019	June 30, 2018	December 31, 2018
	Unaudited	Unaudited	Audited
	NIS in millions		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of debentures	697	385	573
ETNs and CDs	-	25,593	-
Current liabilities of special purpose subsidiaries for covering ETNs and CDs	-	640	-
Liabilities for short sale of securities	40	32	10
Trade payables	72	64	80
Other accounts payable	195	137	294
Current taxes payable	14	10	15
	1,018	26,861	972
NON-CURRENT LIABILITIES:			
Loans from banks	92	101	97
Debentures	633	812	669
Liabilities to provident fund members	99	98	98
Liabilities for purchase of operations	5	16	11
Lease liabilities	168	15	13
Other accounts payable	1	-	-
Employee benefit liabilities	8	7	8
Deferred taxes	44	42	46
	1,050	1,091	942
Total liabilities	2,068	27,952	1,914
EQUITY:			
Share capital	64	64	64
Share premium	517	563	513
Treasury shares	-	(51)	-
Capital reserve for share-based payment transactions	11	13	14
Retained earnings	218	187	200
Other reserves	38	35	34
Equity attributable to equity holders of the Company	848	811	825
Non-controlling interests	169	121	125
Total equity	1,017	932	950
	3,085	28,884	2,864

August 14, 2019			
Date of approval of the financial statements	Eli Barkat Chairman of the Board	Ilan Raviv CEO	Einat Rom CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
	NIS in millions (except per share data)				
Revenue from management fees, commissions and other, net	426	409	209	207	829
Finance income from non-bank loans	39	28	21	14	61
Total revenues	465	437	230	221	890
Marketing, operating, general and administrative expenses	354	338	173	169	688
Operating income	111	99	57	52	202
Gain (loss) from securities held for investment purposes in nostro portfolio, net	14	2	3	1	(3)
Finance income	1	1	1	1	1
Finance expenses	(23)	(21)	(18)	(15)	(37)
Other expenses, net	(22)	(16)	(10)	(9)	(33)
Company's share of earnings of companies accounted for at equity, net	3	1	2	-	3
Income before taxes on income	84	66	35	30	133
Taxes on income	29	28	12	15	56
Net income for the period	55	38	23	15	77
Other comprehensive income (net of tax effect):					
Gain from cash flow hedge	1	2	1	2	2
Total comprehensive income	56	40	24	17	79
Net income attributable to:					
Equity holders of the Company	48	33	19	13	67
Non-controlling interests	7	5	4	2	10
	55	38	23	15	77
Comprehensive income attributable to:					
Equity holders of the Company	49	35	20	15	69
Non-controlling interests	7	5	4	2	10
	56	40	24	17	79
Net earnings per share attributable to equity holders of the Company:					
Basic net earnings	0.74	0.51	0.29	0.20	1.03
Diluted net earnings	0.73	0.50	0.29	0.20	1.02

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Capital reserve from share-based payment transactions	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
	Unaudited							
	NIS in millions							
Balance at January 1, 2019 (audited)	64	513	14	200	34	825	125	950
Net income for the period	-	-	-	48	-	48	7	55
Other comprehensive income, net	-	-	-	-	1	1	-	1
Total comprehensive income	-	-	-	48	1	49	7	56
Dividend declared and paid	-	-	-	(30)	-	(30)	-	(30)
Dividend to non-controlling interests	-	-	-	-	-	-	(9)	(9)
Exercise of employee options	-*)	4	(4)	-	-	-	-	-
Issuance of shares to non-controlling interests	-	-	-	-	3	3	19	22
Company share-based payment	-	-	1	-	-	1	-	1
Investment in partnership's equity by non-controlling interests	-	-	-	-	-	-	27	27
Balance at June 30, 2019	64	517	11	218	38	848	169	1,017

*) Less than NIS 1 million.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Treasury shares	Capital reserve from share-based payment transactions	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
	Unaudited								
	NIS in millions								
Balance at January 1, 2018 (audited)	64	561	(52)	14	179	36	802	126	928
Cumulative effect of initial adoption of IFRS 9 at January 1, 2018	-	-	-	-	(1)	-	(1)	-	(1)
Balance at January 1, 2018 (after initial adoption of IFRS 9)	64	561	(52)	14	178	36	801	126	927
Net income for the period	-	-	-	-	33	-	33	5	38
Other comprehensive income, net	-	-	-	-	-	2	2	-	2
Total comprehensive income	-	-	-	-	33	2	35	5	40
Dividend declared and paid	-	-	1	-	(24)	-	(23)	-	(23)
Dividend to non-controlling interests	-	-	-	-	-	-	-	(7)	(7)
Purchase of non-controlling interests	-	-	-	-	-	(3)	(3)	(4)	(7)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	1	1
Company share-based payment	-	-	-	1	-	-	1	-	1
Exercise of employee options	-*)	2	-	(2)	-	-	-	-	-
Balance at June 30, 2018	64	563	(51)	13	187	35	811	121	932

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve from share-based payment transactions	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
	Unaudited							
	NIS in millions							
Balance at April 1, 2019	64	516	11	214	34	839	122	961
Net income for the period	-	-	-	19	-	19	4	23
Other comprehensive income, net	-	-	-	-	1	1	-	1
Total comprehensive income	-	-	-	19	1	20	4	24
Dividend declared and paid	-	-	-	(15)	-	(15)	-	(15)
Dividend to non-controlling interests	-	-	-	-	-	-	(3)	(3)
Company share-based payment	-	-	1	-	-	1	-	1
Issuance of shares to non-controlling interests	-	-	-	-	3	3	19	22
Investment in partnership's equity by non-controlling interests	-	-	-	-	-	-	27	27
Exercise of employee options	-*)	1	(1)	-	-	-	-	-
Balance at June 30, 2019	64	517	11	218	38	848	169	1,017

*) Less than NIS 1 million.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Capital reserve from share-based payment transactions**	**Retained earnings**	**Other reserves**	**Total**	**Non-controlling interests**	**Total equity**
	Unaudited								
	NIS in millions								
Balance at April 1, 2018	64	563	(51)	13	184	36	809	124	933
Net income for the period	-	-	-	-	13	-	13	2	15
Other comprehensive income, net	-	-	-	-	-	2	2	-	2
Total comprehensive income	-	-	-	-	13	2	15	2	17
Dividend declared and paid	-	-	-	-	(10)	-	(10)	-	(10)
Dividend to non-controlling interests	-	-	-	-	-	-	-	(1)	(1)
Purchase of non-controlling interests	-	-	-	-	-	(3)	(3)	(4)	(7)
Balance at June 30, 2018	64	563	(51)	13	187	35	811	121	932

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Treasury shares	Capital reserve from share-based payment transactions	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
	Audited								
	NIS in millions								
Balance at January 1, 2018	64	561	(52)	14	179	36	802	126	928
Cumulative effect of initial adoption of IFRS 9 at January 1, 2018	-	-	-	-	(1)	-	(1)	-	(1)
Balance at January 1, 2018 (after initial adoption of IFRS 9)	64	561	(52)	14	178	36	801	126	927
Net income for the period	-	-	-	-	67	-	67	10	77
Other comprehensive income, net	-	-	-	-	-	2	2	-	2
Total comprehensive income	-	-	-	-	67	2	69	10	79
Dividend declared and paid	-	-	2	-	(45)	-	(43)	-	(43)
Dividend to non-controlling interests	-	-	-	-	-	-	-	(8)	(8)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	1	1
Company share-based payment	-	-	-	2	-	-	2	-	2
Net purchases of non-controlling interests	-	-	-	-	-	(4)	(4)	(4)	(4)
Exercise of employee options	-*)	2	-	(2)	-	-	-	-	-
Receipt of treasury shares as dividend in kind	-	(50)	50	-	-	-	-	-	-
Balance at December 31, 2018	64	513	-	14	200	34	825	125	950

*) Less than NIS 1 million.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2019	Six months ended June 30, 2018	Three months ended June 30, 2019	Three months ended June 30, 2018	Year ended December 31, 2018
	Unaudited				Audited
	NIS in millions				
Cash flows from operating activities:					
Net income for the period	55	38	23	15	77
Adjustments to reconcile net income to net cash provided by operating activities:					
Adjustments to the profit or loss items:					
Depreciation of property, plant and equipment	13	3	7	1	7
Amortization of intangible assets	36	27	17	13	56
Capital loss from sale of investment in subsidiary	-	-	-	-	1
Amortization of deferred acquisition costs	5	4	2	2	9
Revaluation of investments to provident fund members	(1)	(1)	(1)	(1)	(1)
Revaluation of liabilities to provident fund members	1	2	1	2	2
Revaluation of short-term loan	1	-	1	-	-
Company's share of earnings of companies accounted for at equity, net	(2)	(1)	(2)	-	(3)
Deferred taxes, net	2	(2)	1	(1)	(6)
Revaluation of debentures	5	3	9	5	6
Gains (losses) from securities measured at fair value through profit or loss, net	(16)	(2)	(2)	-	2
Share-based payment	1	1	1	-	2
	45	34	34	21	75

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2019	Six months ended June 30, 2018	Three months ended June 30, 2019	Three months ended June 30, 2018	Year ended December 31, 2018
	Unaudited				Audited
	NIS in millions				
Changes in asset and liability items attributable to ETN operation:					
Revaluation of current investments of special purpose subsidiaries	-	(200)	-	(647)	(94)
Revaluation of ETNs and CDs	-	495	-	785	483
Change in assets, net	-	2,924	-	1,372	4,444
Change in liabilities, net	-	18	-	(196)	(308)
Change in ETNs and CDs	-	(3,231)	-	(1,310)	(4,550)
Change in securities, net	-	(5)	-	(9)	32
Change in liabilities for short sale of securities	-	3	-	(2)	(20)
	-	4	-	(7)	(13)
Changes in asset and liability items:					
Customer credit, trade receivables and other accounts receivable	(53)	(21)	(147)	(15)	(347)
Restricted cash in limited partnership	(16)	-	(16)	-	-
Short-term credit for giving non-bank loans	156	(90)	94	(87)	103
Trade payables and other accounts payable	(127)	5	(22)	(31)	179
	(40)	(106)	(91)	(133)	(65)
Net cash provided by (used in) operating activities	60	(30)	(34)	(104)	74

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
	NIS in millions				
Cash flows from investing activities:					
Proceeds from (purchase of) short-term investments measured at fair value through profit or loss	(30)	(50)	1	(24)	(28)
Purchase of property, plant and equipment	(1)	(3)	(1)	(2)	(4)
Purchase of intangible assets	(13)	(36)	(7)	(7)	(52)
Purchase of customer credit	-	(4)	-	-	(4)
Repayment of liabilities for business combination	(6)	(6)	(4)	(4)	(10)
Grant of long-term loan	(3)	-	-	-	(13)
Change in restricted deposits, net	(7)	(4)	(5)	(1)	(11)
Proceeds in respect of previously consolidated ETN subsidiaries (c)	-	-	-	-	173
Proceeds from sale of TASE shares	-	-	-	-	27
Net cash provided by (used in) investing activities	(60)	(103)	(16)	(38)	78
Cash flows from financing activities:					
Issuance of Company debentures (net of issuance expenses)	-	95	-	95	95
Issuance of subsidiary's debentures (net of issuance expenses)	-	98	-	98	98
Repayment of Company debentures	-	-	-	-	(87)
Repayment of subsidiary's debentures	(57)	(29)	(28)	(29)	(86)
Change in treasury shareholdings	-	-	-	-	1
Dividend paid to equity holders of the Company	(30)	(23)	(30)	(23)	(43)
Dividend paid to non-controlling interests	(9)	(7)	(9)	(6)	(8)
Repayment of long-term lease liabilities	(12)	(1)	(5)	-	(2)
Investment in partnership's equity by non-controlling interests	27	-	27	-	-
Purchase of non-controlling interests	-	(7)	-	(7)	(8)
Repayment of long-term loans from banks	(5)	(4)	(2)	(4)	(11)
Issuance of shares to non-controlling interests	22	1	22	-	1
Proceeds from short sale of securities	20	-	20	-	-
Short-term credit from banks, net	(17)	19	(7)	(11)	16
Net cash provided by (used in) financing activities	(61)	142	(12)	113	(34)
Increase (decrease) in cash and cash equivalents	(61)	9	(62)	(29)	118
Cash and cash equivalents at the beginning of the period	278	160	279	198	160
Cash and cash equivalents at the end of the period	217	169	217	169	278

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2019	Six months ended June 30, 2018	Three months ended June 30, 2019	Three months ended June 30, 2018	Year ended December 31, 2018
	Unaudited				Audited
	NIS in millions				
(a) Additional information on cash flows from operating activities:					
Group operations, excluding ETN operation:					
Cash paid during the period for:					
Interest	24	21	17	17	48
Taxes on income	24	20	10	7	44
Cash received during the period for:					
Interest	52	34	32	21	83
Taxes on income	7	4	2	-	7
ETN operation:					
Cash paid during the period in ETN operation for:					
Interest	-	6	-	4	9
Dividend	-	11	-	4	21
Cash received during the period in ETN operation for:					
Interest	-	136	-	67	218
Dividend	-	115	-	71	148

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2019	Six months ended June 30, 2018	Three months ended June 30, 2019	Three months ended June 30, 2018	Year ended December 31, 2018
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	NIS in millions				
(b) Proceeds from sale of investment in previously consolidated subsidiary:					
Working capital (excluding cash and cash equivalents)	-	-	-	-	4
Total assets and liabilities on date of sale	-	-	-	-	4
Assets and liabilities on date of sale	-	-	-	-	4
Non-cash proceeds	-	-	-	-	(4)
	-	-	-	-	-
(c) Sale of previously consolidated ETN subsidiaries:					
Current investments of special purpose subsidiaries	-	-	-	-	24,796
Liabilities of special purpose subsidiaries	-	-	-	-	(320)
Liabilities of ETNs and CDs	-	-	-	-	(24,303)
Total assets and liabilities of the subsidiaries on date of sale	-	-	-	-	173

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

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of June 30, 2019 and for the six and three months periods then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2018 and for the year then ended and accompanying notes ("annual consolidated financial statements").

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

b. The significant accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, except as described below:

<u>IFRS 16, "Leases"</u>

As described in Note 2z to the annual consolidated financial statements, effective from January 1, 2019, the Group applies IFRS 16, ("IFRS 16") which provides guidelines for the accounting treatment of leases.

The accounting policy for leases applied commencing from January 1, 2019, is as follows:

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Company has elected to apply the practical expedient in the Standard and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

Transactions that entitle employees to a company car as part of their employment terms are accounted for as employee benefits according to IAS 19 and not as subleases.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life or the lease term. The Company tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset.

A non-cancellable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised. In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability in the modified contract at the revised discount rate on the modification date and carries the change in the lease liability to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Company recognizes a profit or loss arising from the partial or full reduction in the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate on the modification date and carries the change in the lease liability to the right-of-use asset.

As permitted by the Standard, the Group elected to adopt the Standard using the modified retrospective approach and measuring the right-of-use asset at an amount equal to the lease liability. This approach does not require restatement of comparative data. The balance of the liability as of the date of initial application of the Standard is measured using the Company's incremental borrowing rate of interest on the date of initial adoption of the Standard.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Following is data relating to the initial adoption of the Standard as of January 1, 2019, in respect of leases existing as of that date:

1. Effects of the initial application of the Standard on the Company's financial statements as of January 1, 2019 (unaudited):

	According to the previous accounting policy	The change	As presented according to IFRS 16
		NIS in millions	
As of January 1, 2019:			
Non-current assets:			
Property, plant and equipment	37	175	212
Current liabilities:			
Other payables	294	18	312
Non-current liabilities:			
Lease liabilities	13	157	170
Retained earnings	200	-	200

2. The Group hired an external valuation expert for determining the appropriate nominal interest rate for discounting the lease contracts, based on the finance risk applicable to the companies, the average remaining life of the lease contracts and other economic variables. The nominal discount rates used to measure the lease liability on the date of initial adoption of the Standard range between 1.48% and 4.84%, a range which is affected by the differences in the lease term, the various asset categories, the variations between the discount rates used by other Group companies etc.

<u>IFRIC 23, "Uncertainty over Income Tax Treatments"</u>

The Company applies the provisions of IFRIC 23, "Uncertainty over Income Tax Treatments", from January 1, 2019. The adoption of the Interpretation does not have a material effect on the financial statements.

NOTE 3:- FINANCIAL INSTRUMENTS

a. Fair value:

The following table presents the carrying amount and fair value of the groups of financial instruments that are presented in the financial statements not at fair value:

	Carrying amount			Fair value		
	June 30		December 31	June 30		December 31
	2019	2018	2018	2019	2018	2018
	Unaudited		Audited	Unaudited		Audited
	NIS in millions					
Financial liabilities:						
Loans from banks (1) and (3)	101	113	106	101	113	106
Subsidiary's debentures (3)(4)	184	295	239	185	295	240
Debentures (series C) (2) (3)	635	719	632	690	769	669
	920	1,127	977	976	1,177	1,015

(1) The fair value is based on the discounted cash flows in respect of the loans based on interest quotes obtained from the banks for similar loans.

(2) The debentures (series C) are traded on the TASE.

(3) Including current maturities and accrued interest.

(4) The debentures of Peninsula Group Ltd. are traded on the TASE with a fair value based on quoted market prices.

b. Classification of financial instruments by fair value hierarchy:

The financial instruments presented in the financial statements at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

NOTE 3:- FINANCIAL INSTRUMENTS (Cont.)

b. Classification of financial instruments by fair value hierarchy (Cont.):

Financial instruments measured at fair value (excluding ETNs and CDs):

	Level 1	Level 2	Level 3
	NIS in millions		
June 30, 2019 (unaudited)			
Financial assets at fair value through profit or loss			
Shares, options and debentures	143	4	32
Financial assets at fair value through other comprehensive income			
Shares	-	-	4
	143	4	36
Financial liabilities			
Shares, debentures and marketable options	39	-	-
Index forwards used for hedging	-	1	-
Forwards and swaps	-	1	-
Contingent liability for business combination	-	-	15
	39	2	15

Movement in financial assets and liabilities classified at Level 3 (unaudited):

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Liability for purchase of operations	Total
	NIS in millions			
Balance as at January 1, 2019	32	4	(21)	15
Total loss recognized in profit or loss	(2)	-	-	(2)
Acquisitions	19	-	-	19
Sale of assets	(17)	-	-	(17)
Repayments of liabilities	-	-	6	6
Balance as at June 30, 2019	32	4	(15)	21

In addition, as of June 30, 2019, there are financial assets measured at Level 1 in the fair value hierarchy included in investments of provident fund members in the amount of approximately NIS 11 million.

NOTE 3:- FINANCIAL INSTRUMENTS (Cont.)

b. Classification of financial instruments by fair value hierarchy (Cont.):

	Level 1	Level 2	Level 3
		NIS in millions	
June 30, 2018 (unaudited)			
Financial assets at fair value through profit or loss			
Shares and options, debentures and ETNs	107	5	58
Forwards and futures	-	12	-
Financial assets at fair value through other comprehensive income			
Shares	1	-	4
	108	17	62
Financial liabilities			
Shares, debentures and marketable options	32	-	-
Index forwards used for hedging	-	3	-
Contingent liability for business combination	-	-	27
	32	3	27

Movement in financial assets classified at Level 3 (unaudited):

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Liability for purchase of operations	Total
		NIS in millions		
Balance as at January 1, 2018	33	4	(33)	4
Total income recognized in profit or loss	2	-	-	2
Acquisitions	23	-	-	23
Repayments of liabilities	-	-	6	6
Balance as at June 30, 2018	58	4	(27)	35

In addition, as of June 30, 2018, there are financial assets measured at Level 1 in the fair value hierarchy included in investments of provident fund members in the amount of approximately NIS 7 million.

NOTE 3:- FINANCIAL INSTRUMENTS (Cont.)

b. Classification of financial instruments by fair value hierarchy (Cont.):

	Level 1	Level 2	Level 3
	NIS in millions		
December 31, 2018 (audited)			
Financial assets at fair value through profit or loss			
Shares, options and debentures	93	4	32
Financial assets at fair value through other comprehensive income			
Shares	-	-	4
	93	4	36
Financial liabilities			
Shares, debentures and marketable options	6	-	-
Index forwards used for hedging	-	2	-
Forwards and swaps	-	3	-
Contingent liability in business combination	-	-	21
	6	5	21

Movement in financial assets classified at Level 3 (audited):

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Liability for purchase of operations	Total
	NIS in millions			
Balance at January 1, 2018	33	4	(33)	4
Total income (loss) recognized in profit or loss	3	-	(1)	2
Acquisitions	23	-	-	23
Sale of assets	(27)	-	-	(27)
Repayments of liabilities	-	-	13	13
Balance at December 31, 2018	32	4	(21)	15

NOTE 3:- FINANCIAL INSTRUMENTS (Cont.)

b. Classification of financial instruments by fair value hierarchy (Cont.):

Details of levels in the fair value hierarchy of current investments and current liabilities of special purpose subsidiary:

	June 30, 2018 (unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS in millions			
Financial assets at fair value through profit or loss:				
Short-term deposits	-	3,243	-	3,243
Government bonds	4,778	163	-	4,941
Marketable corporate debentures	4,445	122	-	4,567
Marketable shares	6,394	-	-	6,394
ETNs	8	76	-	84
IRSs	3	133	-	136
Forwards and futures	9	138	-	147
	15,637	3,875	-	19,512
Financial liabilities:				
Marketable corporate debentures	52	-	-	52
Marketable shares	255	-	-	255
IRSs	-	53	-	53
Forwards and futures	25	62	-	87
	332	115	-	447

NOTE 4:- INTANGIBLE ASSETS

a. The Company tested impairment of goodwill on June 30, 2019, for the cash-generating unit ETFs management. The recoverable amount of assets allocated to managing ETFs determined based on the fair value, which derived from the discounted DCF method. For the calculation fair value, the Company used forecasts regarding future income derived from the scope of managed assets as of June 30, 2019 based on its profits for the period ended June 30, 2019, its expected future profits, evaluations of a future growth rate of 2.5% and a pre-tax discount rate of about 10.5%. The goodwill allocated to the ETFs unit, as of June 30, 2019, amounts to approximately NIS 258 million. The recoverable amount exceeds the carrying amount and therefore no provision for impairment is needed.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

b. As of June 30, 2019, the assets and liabilities comprising the portfolios and mutual funds management cash-generating unit have not undergone any significant change compared since the impairment test conducted by the Company as of September 30, 2018 according to which the recoverable amount of the cash generated unit materially exceeded its carrying amount and the chances that the recoverable amount that would be determined in the current period would be lower than the carrying amount were remote. Accordingly, the Company used the calculation conducted for June 30, 2018 according to which no provision for impairment was needed. The impairment test for June 30, 2018 relied on its profits for the period ended June 30, 2018, its expected future profits, evaluations of a future growth rate of 2.5% and a pre-tax discount rate of about 10.3%. The goodwill allocated to the managing portfolios and mutual funds unit, as of June 30, 2019, amounts to approximately NIS 191 million.

NOTE 5:- OPERATING SEGMENTS

a. General:

1. The Group operates in five reportable business segments:

Long and medium-term savings management segment	-	Marketing and managing compensation and severance pay funds, study funds, central severance pay funds, pension funds and funds earmarked for other purposes.
Short term savings management segment	-	From the current quarter and following the merger, as described in Note 6b below, the short term savings management segment includes securities investment portfolio marketing and management for private and institutional customers, mutual fund management and ETF management.
TASE member and institutional brokerage segment	-	Providing TASE member services mainly for private costumers and brokerage services for institutional customers that consist, among others, of security custodian services and security transactions for a wide variety of customers.
Non-bank loans	-	Extending credit to small and medium-sized corporations in Israel through Peninsula Group Ltd.

The other activities in the Group are included in the "other" segment and mainly consist of insurance agencies (other than an insurance agency that is wholly owned by the Company and is included in the Long and medium-term savings management segment), distribution of foreign funds and the Capital Markets College that was sold in July 2018.

NOTE 4:- OPERATING SEGMENTS (Cont.)

a. General: (Cont.)

2. Management separately monitors the operating results of its business units for the purpose of making decisions of resource allocation and performance evaluation. Segment performances are evaluated based on the operating income or loss which in certain cases is measured differently from the operating income or loss in the consolidated financial statements.

   The finance expenses, finance income and taxes on income are managed on a group basis and not allocated to operating segments. Other expenses, which mainly consist of amortization of intangible assets, are not allocated to operating segments since they are not part of the CODM's decision-making process. Moreover, expenses that are not allocated to segments mainly include headquarter expenses.

3. The Group accounts for inter-segment revenues as if the revenues are derived from third parties and therefore recognizes them at current market prices.

4. In 2018, the Company's share is included in the consolidated statement of financial position under liabilities in respect of ETNs under several ETN-tracking indices. Against those liabilities, the special purpose ETN subsidiaries hold the Company's shares as part of the assets backing their liabilities. In the Company's consolidated financial statements, these shares are presented in treasury shares and accordingly, gains or losses from the revaluation and exercise of these shares are neutralized in the statements of profit or loss. The CODM does not neutralize the gains and losses arising from the liabilities in respect of the Company's shares for the purpose of making decisions. Consequently, the Company's revenues in the consolidated statements of comprehensive income might differ from the total consolidated revenues of the operating segments.

5. As explained in Note 2b above, as of January 1, 2019, the Company applies the provisions of IFRS 16. The amortization expenses of right-of-use assets are not attributed to the different segments as they are not used by management in making operating decisions.

6. As discussed above, from the current quarter, the short-term savings management segment includes mutual fund management, ETF management and securities investment portfolio marketing and management for private and institutional customers. The presentation is governed by the policy adopted by the Company's CODM who, from the current quarter and as a result of the merger, as described in Note 6b below, views these operations as a reportable segment. Accordingly, the Group restated the segment under the necessary changes.

NOTE 5:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

	Six months ended June 30, 2019						
	Long and medium term savings management	Short term savings management	TASE member and institutional brokerage	Non-bank loans	Other	Adjustments	Total
	Unaudited						
	NIS in millions						
Revenues:							
Revenues from external entities	158	172	56	39	40	-	465
Inter-segment revenues	-	-	-	-	3	(3)	-
Total revenues	158	172	56	39	43	(3)	465
Company's share of earnings of companies accounted for at equity, net	-	-	-	-	3	-	3
Segment income	27	61	19	20	17	-	144
Expenses not allocated to segments (1)							(30)
Gain from securities held for Nostro portfolio investments, net							14
Finance expenses, net							(22)
Other expenses, net							(22)
Income before taxes on income							84

(1) Including amortization of right-of-use assets.

NOTE 5:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments (Cont.):

	Six months ended June 30, 2018						
	Long and medium term savings management	Short term savings management *)	TASE member and institutional brokerage	Non-bank loans	Other	Adjustments	Total
	Unaudited						
	NIS in millions						
Revenues:							
Revenues from external entities	161	160	51	28	37	-	437
Inter-segment revenues	-	-	-	-	2	(2)	-
Total revenues	161	160	51	28	39	(2)	437
Company's share of earnings of companies accounted for at equity, net	-	-	-	-	1	-	1
Segment income	24	55	16	13	9	-	117
Expenses not allocated to segments							(17)
Gain from securities held for Nostro portfolio investments, net							2
Finance expenses, net							(20)
Other expenses, net							(16)
Income before taxes on income							66

*) From the current quarter, the short term savings management segment includes mutual fund management, ETF management and securities investment portfolio marketing and management for private and institutional customers. The presentation is governed by the policy adopted by the Company's CODM who, from the current quarter and as a result of the merger, as described in Note 6b below, views these operations as a reportable segment. Accordingly, the Group restated the segment under the necessary changes.

NOTE 5:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments (Cont.):

	Long and medium term savings management	Short term savings management	TASE member and institutional brokerage	Non-bank loans	Other	Adjustments	Total
	Three months ended June 30, 2019						
	Unaudited						
	NIS in millions						
Revenues:							
Revenues from external entities	79	86	25	21	19	-	230
Inter-segment revenues	-	-	-	-	2	(2)	-
Total revenues	79	86	25	21	21	(2)	230
Company's share of earnings of companies accounted for at equity, net	-	-	-	-	2	-	2
Segment income	17	30	8	10	9	-	74
Expenses not allocated to segments							(15)
Gain from securities held for Nostro portfolio investments, net							3
Finance expenses, net							(17)
Other expenses, net							(10)
Income before taxes on income							35

NOTE 5:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments: (Cont.):

	Long and medium term savings management	Short term savings management *)	TASE member and institutional brokerage	Non-bank loans	Other	Adjustments	Total
	Three months ended June 30, 2018						
	Unaudited						
	NIS in millions						
Revenues:							
Revenues from external entities	80	85	26	14	16	-	221
Inter-segment revenues	-	-	-	-	1	(1)	-
Total revenues	80	85	26	14	17	(1)	221
Segment income	11	32	9	7	-	-	59
Expenses not allocated to segments							(7)
Gain from securities held for Nostro portfolio investments, net							1
Finance expenses, net							(14)
Other expenses, net							(9)
Income before taxes on income							30

*) From the current quarter, the current savings management segment includes mutual fund management, ETF management and securities investment portfolio marketing and management for private and institutional customers. The presentation is governed by the policy adopted by the Company's CODM who, from the current quarter and as a result of the merger, as described in Note 6b below, views these operations as a reportable segment. Accordingly, the Group restated the segment under the necessary changes.

NOTE 5:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments (Cont.):

	Long and medium term savings management	Short term savings management *)	TASE member and institutional brokerage	Non-bank loans	Other	Adjustments	Total
	Year ended December 31, 2018						
	Unaudited						
	NIS in millions						
Revenues:							
Revenues from external entities	320	336	105	61	68	-	890
Inter-segment revenues	-	-	-	-	5	(5)	-
Total revenues	320	336	105	61	73	(5)	890
Company's share of earnings of companies accounted for at equity, net	-	-	-	-	3	-	3
Segment income	42	117	33	30	16	-	238
Expenses not allocated to segments							(33)
Loss from securities held for Nostro portfolio investments, net							(3)
Finance expenses, net							(36)
Other expenses, net							(33)
Income before taxes on income							133

*) From the current quarter, the short term savings management segment includes mutual fund management, ETF management and securities investment portfolio marketing and management for private and institutional customers. The presentation is governed by the policy adopted by the Company's CODM who, from the current quarter and as a result of the merger, as described in Note 6b below, views these operations as a reportable segment. Accordingly, the Group restated the segment under the necessary changes.

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. On February 27, 2019, the Company issued a shelf prospectus by virtue of which it may issue different types of securities as allowed by applicable law. The securities included in the shelf prospectus will be offered in shelf offering reports which will consist of all the details pertaining to each specific offering such as the composition of the offered units and other terms and method of allocation of the offered securities as they will be on the offering date.

b. In keeping with the matters discussed in Note 4c to the annual consolidated financial statements, on March 24, 2019, the Company received the ITA's pre-ruling regarding the merger of Meitav Dash Funds Ltd. ("Meitav Dash Funds") with and into Tachlit Indices Mutual Fund Management Ltd. ("Tachlit") in accordance with the provisions of Section 103B to the Income Tax Ordinance. The merger was subject to the fulfillment of certain suspending conditions which were met On March 28, 2019, and on April 4, 2019, the merger certificate was received and the merger between Tachlit and Meitav Dash Funds was completed. On April 28, 2019, the merged company's name was changed to Meitav Tachlit Mutual Funds Ltd.

c. On March 27, 2019, after obtaining the approval of the Company's Remuneration Committee, the Company's Board approved the extension of management agreements signed with companies controlled by Mr. Eli Barkat, Mr. Zvi Stepak and Mr. Avner Stepak, subject to the approval of the general meeting.

   On May 26, 2019, the Company's general meeting approved the extended management agreements. The extended management agreements are for a period of three years from March 20, 2019. Also, following the approval of the Company's Remuneration Committee and Board, the Company's general meeting approved the Company's officer remuneration policy in keeping with the directives of the Companies Law, 1999, in effect for a period of three years from the date of approval of the general meeting. The remuneration policy is multiannual and prescribes fixed and variable remuneration components by establishing ratios, parameters, thresholds, ranges and ceilings.

d. On March 27, 2019, the Company declared the distribution of a dividend representing NIS 0.23 per share in a total of approximately NIS 15 million. The dividend was paid on April 21, 2019.

   On May 27, 2019, the Company declared the distribution of a dividend of approximately NIS 0.23 per share in a total of approximately NIS 15 million. The dividend was paid on June 18, 2019.

e. In keeping with the matters discussed in Note 4a(3) to the annual consolidated financial statements, on April 1, 2019, Liquidity Capital II, L.P. ("the Fund") completed an initial capital raising round of approximately $ 30 million and on August 1, 2019 the Fund completed another capital raising round of approximately $ 8 million. As of the date of approval of the financial statements, the Fund holds investor commitments totaling approximately $ 40 million.

   The Company's capital commitment for investing in the Fund is $ 7 million, one third of which has already been invested.

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

On May 27, 2019, the Company's Board approved the Company's participation in a convertible loan agreement ("CLA") with other investors according to which Liquidity Capital M.C. Ltd. ("Liquidity") will be granted a convertible loan of up to $ 1 million. As of the date of approval of the financial statements, negotiations are being held with other Israeli and international investors for completing the CLA raising.

f. In keeping with the matters discussed in Note 23b(1)(a) to the annual consolidated financial statements regarding a claim and a motion for class certification filed with the Central District Court on March 23, 2009 against 26 defendants, including the underwriters in the offering and M.D. Treasury Ltd., on April 15, 2019, a court hearing was held regarding the pending proceedings at the Tel-Aviv District Court. The Court ordered any party that is interested to submit its opinion on the content of the settlement agreement.

On June 27, 2019, the Court rendered its decision whereby it ordered the Group members to prepare a binding settlement version. It was also decided that assuming that no objections have been filed by the date of filing objections, guidelines will be provided on submitting the parties' arguments for the distribution of the settlement amount and the payment of legal and professional fees to the plaintiffs' representatives and attorneys. As of the date of approval of the financial statements, a press release has been issued.

g. In keeping with the matters discussed in Note 23b(2)(d) to the annual consolidated financial statements regarding claims and motions for class certification filed with the Jerusalem Regional Labor Court and the Central District Court in October, November and December 2016 against Meitav Dash Provident and Pension Ltd. ("Meitav Dash Provident") and Ayalon Pension and Provident Ltd. (which was merged on January 1, 2017 into Meitav Dash Provident), the following developments have occurred in the cases from the date of publication of the annual consolidated financial statements through the date of these financial statements:

1. With respect to two claims and class action certification motions, on June 26, 2019, a petition was filed for suspending the proceedings, which is pending a decision. Accordingly, Meitav Dash Provident has not yet filed its summations.

2. With respect to another claim and motion for class certification filed by an association, a proof hearing has been scheduled for September 9, 2019 for allowing the petitioner as the class action plaintiff.

h. On May 27, 2019, following the approval of the Company's Remuneration Committee, the Company's Board approved the allocation of 575,000 RSUs of the Company (accounting for about 0.88% of its issued capital) to 16 Company officers and employees (of whom six officers and senior officers). Half of the RSUs will vest at the third anniversary from the date of approval of the allocation by the Board and the other half will vest at the fifth anniversary from said date. On June 4, 2019, the approval for the listing of the RSUs for trade on the TASE was obtained and the RSUs were listed for trade. The fair value on the grant date amounted to approximately NIS 6.9 million.

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

i. On June 10, 2019, Peninsula Group Ltd. ("Peninsula") issued a shelf offering report by virtue of which it issued 13,230,000 ordinary shares, 3,969,000 warrants (series 2) that are exercisable into ordinary shares of Peninsula and 3,969,000 warrants (series 3) that are exercisable into ordinary shares of Peninsula for immediate (gross) proceeds of approximately NIS 30.6 million. In the context of the share and warrant issue, the Company purchased 2,553,000 ordinary shares, 765,900 warrants (series 2) and 765,900 warrants (series 3). As of the date of approval of the financial statements, the Company holds about 52.01% of Peninsula's issued and outstanding share capital (about 49.89% on a fully diluted basis).

j. In keeping with the matters discussed in Note 23b(2)(g) to the annual consolidated financial statements regarding a claim and class action certification motion filed with the Tel-Aviv Regional Labor Court, a pretrial hearing was held on June 23, 2019 and on July 29, 2019, the Court rendered its decision on the petition for disclosure of documents which fully dismissed the petition. An interrogation hearing has been scheduled for January 30, 2020.

k. On June 23, 2019, Midroog Ltd. reported that it was retaining the rating of the debentures (series C) issued by the Company at A1.il with a stable outlook.

NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

a. In keeping with the matters discussed in Note 23b(2)(c) to the annual consolidated financial statements regarding a claim and class action certification motion filed with the Tel-Aviv District Court, a proof hearing was held on July 1, 2019 which consisted of the interrogation of the petitioners. Another proof hearing is scheduled for January 23, 2020.

b. On July 16, 2019, Peninsula completed the issue of NIS 207,971 thousand par value of debentures (series B) of NIS 1 par value each by way of series expansion for total (gross) proceeds of approximately NIS 208.6 million. The debentures are (principal and interest) linkage free and bear fixed annual interest of 1.5%.

c. On July 21, 2019, the Company signed an investment agreement with Reigo Investments Ltd. ("Reigo") along with other investors, including the Company's CEO and the Company's VP of Alternative Investments. According to the agreement, the Company, the CEO and the VP of Alternative Investments were granted a right to receive minority shares in Reigo based on fulfillment of the conditions stipulated in the agreement. Concurrently with the investment agreement, the Company signed an option agreement for increasing its stake in Reigo to about 21% on a fully diluted basis ("the option transaction"), subject to meeting certain suspending conditions. There is currently no certainty that the suspending conditions underlying the closing of the option transaction will be met or that the option transaction will be completed.

NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD (Cont.)

Concurrently with the signing of the investment agreement and the option transaction as above, the Company, the Company's CEO and the VP of Alternative Investments entered into a shareholders' agreement with Reigo for founding a new company and settling their rights in the new company. The new company is expected to serve as the general partner of an investment fund that will be founded by the new company.

Reigo is currently engaged in providing (collateralized) loans for the purchase of US real estate properties using a unique big data algorithm that minimizes risk.

d. On August 14, 2019, the Company declared the distribution of a dividend of approximately NIS 0.15 per share in a total of approximately NIS 10 million.

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