

SAPIENS INTERNATIONAL CORP N V
Form 20-F
March 27, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.

Commission file number **000-20181**

SAPIENS INTERNATIONAL CORPORATION N.V.

(Exact name of Registrant as specified in its charter)

Cayman Islands

(Jurisdiction of incorporation or organization)

Azrieli Center

26 Harokmim St.

Holon, 5885800 Israel

(Address of principal executive offices)

Roni Giladi, Chief Financial Officer

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26 Harokmim St.

Holon, 5885800 Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Class:	Name of each exchange on which registered:
Common Shares, par value € 0.01 per share	NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report

As of December 31, 2018, the issuer had 49,982,004 Common Shares, par value € 0.01 per share, outstanding (which excludes 2,328,296 Common Shares held in treasury).

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer: Accelerated filer:

Non-accelerated filer: Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued Other
by the International Accounting Standards Board

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

Definitions

In this annual report, unless the context otherwise requires:

references to “Sapiens,” the “Company,” the “Registrant,” “our company,” “us,” “we” and “our” refer to Sapiens International Corporation N.V., a Cayman Islands company, and its consolidated subsidiaries;

references to “our shares,” “Common Shares” and similar expressions refer to Sapiens’ Common Shares, par value € 0.01 per share;

references to “Sapiens Poland” refer to Sapiens Software Solutions (Poland) Sp.Z.O.O (formerly Insseco Sp. Z O.O), a Poland-based software and services provider for the insurance market that Sapiens acquired in the third quarter of 2015;

references to “Adaptik”, refer to Adaptik Corporation, a New Jersey company engaged in the development of software solutions, which Sapiens acquired during the first quarter of 2018;

references to “KnowledgePrice.com” refer to KnowledgePrice.com, a Latvian company that specializes in digital insurance services and consulting, which Sapiens acquired in the fourth quarter of 2017;

references to “StoneRiver” refer to StoneRiver, Inc., a Denver, Colorado- based provider of technology solutions and services to the insurance industry that Sapiens acquired in the first quarter of 2017;

references to “dollars”, “U.S. dollars”, “U.S. \$” and “\$” are to United States Dollars;

references to “Euro” or “€” are to the Euro, the official currency of the Eurozone in the European Union;

references to “shekels” and “NIS” are to New Israeli Shekels, the Israeli currency;

references to the “Articles” are to our Amended Articles of Association, as currently in effect;

references to the “Securities Act” are to the Securities Act of 1933, as amended;

references to the “Exchange Act” are to the Securities Exchange Act of 1934, as amended;

references to “NASDAQ” are to the NASDAQ Stock Market;

references to the “TASE” are to the Tel Aviv Stock Exchange; and

references to the “SEC” are to the United States Securities and Exchange Commission.

Cautionary Note Regarding Forward-Looking Statements

Certain matters discussed in this annual report are forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words “anticipate,” “believe,” “estimate,” “expect,” “may,” “will,” “plan” and similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those expressed or implied by the forward-looking statements. Please read the risks discussed in Item 3 – “Key Information” under the caption “Risk Factors” and cautionary statements appearing elsewhere in this annual report in order to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

We undertake no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this annual report might not occur.

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Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information**A. Selected Financial Data.**

The following tables summarize certain selected consolidated financial data for the periods and as of the dates indicated. We derived the statement of operations financial data for the years ended December 31, 2016, 2017 and 2018, and the balance sheet data as of December 31, 2017 and 2018, from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of income financial data for the years ended December 31, 2014 and 2015, and the balance sheet data as of December 31, 2014, 2015 and 2016, are derived from our audited financial statements not included in this annual report. Our historical consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and presented in U.S. dollars. You should read the information presented below in conjunction with those statements.

The information presented below is qualified by the more detailed historical consolidated financial statements, the notes thereto and the discussion under “Operating and Financial Review and Prospects” included elsewhere in this annual report.

Selected Financial Data:	Year Ended December 31,				
	(In thousands, except per share data)				
Statement of Income Data:	2014	2015	2016	2017	2018
Revenues	\$ 157,450	\$ 185,636	\$ 216,190	\$ 269,194	\$ 289,707

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Cost of revenues	99,095	111,192	130,402	175,678	180,138
Gross profit	58,355	74,444	85,788	93,516	109,569
Operating Expenses:					
Research and development	11,352	10,235	16,488	31,955	34,415
Selling, marketing, general and administrative	32,097	39,859	44,460	60,559	52,133
Total operating expenses	43,449	50,094	60,948	92,514	86,547
Operating income	14,906	24,350	24,840	1,002	23,022
Financial income (expenses), net	124	163	533	(3,010)	(3,991)
Income before tax benefit (taxes on income)	15,030	24,513	25,373	(2,008)	19,031
Tax benefit (taxes on income)	(454)	(4,213)	(5,772)	2,564	(5,031)
Net income	14,576	20,300	19,601	556	14,000
Attributed to non-controlling interest	131	59	(43)	(189)	215
Attributed to redeemable non-controlling interest	(18)	1	(135)	43	-
Adjustment to redeemable non-controlling interest	-	224	443	350	-
Net income attributable to Sapiens	14,463	20,016	19,336	352	13,785
Basic net earnings per share attributable to Sapiens' shareholders	\$0.31	\$0.42	\$0.40	\$0.01	\$0.28
Diluted net earnings per share attributable to Sapiens' shareholders	\$0.30	\$0.41	\$0.40	\$0.01	\$0.28
Weighted average number of shares used in computing basic net earnings per share	47,210	48,121	48,947	49,170	49,827
Weighted average number of shares used in computing diluted net earnings per share	48,637	49,327	49,780	49,926	50,106

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Balance Sheet Data:	At December 31,				
	2014	2015	2016	2017	2018
	(In thousands)				
Cash and cash equivalents	\$47,400	\$54,351	\$60,908	\$71,467	\$64,628
Marketable securities	33,098	39,651	35,448	-	-
Working capital	43,663	51,342	72,453	60,804	48,206
Total assets	233,210	242,271	257,851	373,619	378,865
Series B Debentures ⁽¹⁾	-	-	-	78,281	79,809
Capital stock	249,938	234,658	227,463	221,863	215,613
Total equity ⁽²⁾	\$178,293	\$181,809	\$194,391	\$200,874	\$202,484

(1) In September 2017, we issued NIS 280 million (approximately \$78.3 million, net of \$0.96 million of debt discount and issuance costs) principal amount of Series B unsecured, non-convertible debentures, in a public offering and private placement in Israel. For more information concerning the Series B debentures, please see Item 5.B “Liquidity and Capital Resources”—“Israeli Public Offering and Private Placement of Debentures”.

(2) On April 22, 2015, March 31, 2016, October 18, 2017 and September 16, 2018, our Board of Directors declared one-time cash dividends of \$0.15, \$0.20, \$0.20 and \$0.20 per Common Share (or \$7.2 million, \$10.0 million, \$9.8 million and \$10.0 million, in the aggregate, respectively), which were paid on June 1, 2015, June 1, 2016, December 14, 2017 and October 30, 2018, respectively.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

We operate globally in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The following section lists some, but not all, of those risks and uncertainties that may have a material adverse effect on our business, financial position, results of operations or cash flows.

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Risks Relating to Our Business, Our Industry and our Financing Activities

The implementation of our M&A growth strategy, which requires the integration of our multiple acquired companies, including, most recently, Adaptik, KnowledgePrice, StoneRiver, MaxPro, 4Sight, and their respective businesses, operations and employees with our own, involves significant risks, and the failure to integrate successfully may adversely affect our future results.

In the past eight years we have completed eleven acquisitions. Most recently, in the first quarter of 2018, we have acquired Adaptik, after having acquired KnowledgePrice.com and StoneRiver in 2017, and Maximum Processing Inc, or MaxPro, and 4Sight Business Intelligence, or 4Sight, in 2016. These acquisitions are part of our integrated M&A growth strategy, which is centered on three key factors: growing our customer base, expanding geographically and adding complementary solutions to our portfolio— all while we seek to ensure our continued high quality of services and product delivery. Any failure to successfully integrate the business, operations and employees of our acquired companies, or to otherwise realize the anticipated benefits of these acquisitions, could harm our results of operations. Our ability to realize these benefits will depend on the timely integration and consolidation of organizations, operations, facilities, procedures, policies and technologies, and the harmonization of differences in the business cultures between these companies and their personnel. Integration of these businesses will be complex and time-consuming, will involve additional expense and could disrupt our business and divert management’s attention from ongoing business concerns. The challenges involved in integrating Adaptik, Knowledgeprice.com, StoneRiver MaxPro, 4Sight and other former acquisitions include:

Preserving customer, supplier and other important relationships;

Integrating complex, core products and services that we acquire with our existing products and services;

Integrating financial forecasting and controls, procedures and reporting cycles;

Combining and integrating information technology, or IT, systems; and

Integrating employees and related HR systems and benefits, maintaining employee morale and retaining key employees.

The benefits we expect to realize from these acquisitions are, necessarily, based on projections and assumptions about the combined businesses of our company, Adaptik, KnowledgePrice.com, MaxPro, 4Sight and StoneRiver, and assume, among other things, the successful integration of these acquired entities into our business and operations. The

acquisition of StoneRiver, in particular, has significantly expanded our presence and scale in the North American insurance industry, and is expected to help us further accelerate our growing market footprint in the U.S. P&C space. The StoneRiver acquisition is the largest acquisition that we have ever effected, and failure to successfully integrate the business, operation and employees of StoneRiver could, in and of itself, significantly harm our results of operations. Our projections and assumptions concerning our acquisitions may be inaccurate, however, and we may not successfully integrate the acquired companies and our operations in a timely manner, or at all. We may also be exposed to unexpected contingencies or liabilities of the acquired companies. If we do not realize the anticipated benefits of these transactions, our growth strategy and future profitability could be adversely affected.

Our development cycles are lengthy, we may not have the resources available to complete development of new, enhanced or modified solutions and we may incur significant expenses before we generate revenues, if any, from our solutions.

Because our solutions are complex and require rigorous testing, development cycles can be lengthy, taking us up to two years to develop and introduce new, enhanced or modified solutions. Moreover, development projects can be technically challenging and expensive. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses. We may also not have sufficient funds or other resources to make the required investments in product development. Furthermore, we may invest substantial resources in the development of solutions that do not achieve market acceptance or commercial success. Even where we succeed in our sales efforts and obtain new orders from customers, the complexity involved in delivering our solutions to such customers makes it more difficult for us to consummate delivery in a timely manner and to recognize revenue and maximize profitability. Failure to deliver our solutions in a timely manner could result in order cancellations, damage our reputations and require us to indemnify our customers. Any of these risks relating to our lengthy and expensive development cycle could have a material adverse effect on our business, financial conditions and results of operations.

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Our sales cycle is variable and often lengthy, depends upon many factors outside our control, and requires us to expend significant time and resources prior to generating associated revenues.

The typical sales cycle for our solutions and services is lengthy and unpredictable, requires pre-purchase evaluation by a significant number of persons in our customers' organizations, and often involves a significant operational decision by our customers. Our sales efforts involve educating our customers and industry analysts and consultants about the use and benefits of our solutions, including the technical capabilities of our solutions and the efficiencies achievable by organizations deploying our solutions. Customers typically undertake a significant evaluation process, which frequently involves not only our solutions, but also those of our competitors and can result in a lengthy sales cycle. Our sales cycle for new customers is typically one year to two years and can extend even longer in some cases. We spend substantial time, effort and money in our sales efforts without any assurance that such efforts will produce any sales.

Investment in highly skilled research and development and customer support personnel is critical to our ability to develop and enhance our solutions and support our customers, but an increase in such investment may reduce our profitability.

As a provider of software solutions that rely upon technological advancements, we rely heavily on our research and development activities to remain competitive. We consequently depend in large part on the ability to attract, train, motivate and retain highly skilled information technology professionals for our research and development team, particularly individuals with knowledge and experience in the insurance industry. Because our software solutions are highly complex and are generally used by our customers to perform critical business functions, we also depend heavily on other skilled technology professionals to provide ongoing support to our customers. Skilled technology professionals are often in high demand and short supply. If we are unable to hire or retain qualified research and development personnel and other technology professionals to develop, implement and modify our solutions, we may be unable to meet the needs of our customers. Even if we succeed in retaining the necessary skilled personnel in our research and development and customer support efforts, our investments in our personnel and product development efforts increase our costs of operations and thereby reduce our profitability, unless accompanied by increased revenues. Given the highly competitive industry in which we operate, we may not succeed in increasing our revenues in line with our increasing investments in our personnel and research and development efforts.

Furthermore, as we seek to expand the marketing and offering of our products into new territories, it requires the retention of new, additional skilled personnel with knowledge of the particular market and applicable regulatory regime. Such skilled personnel may not be available at a reasonable cost relative to the additional revenues that we expect to generate in those territories, or may not be available at all. In particular, wage costs in lower-cost markets where we have recently added personnel, such as India, are increasing and we may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive. The transition of projects to new locations may also lead to business disruptions due to differing levels of employee knowledge and organizational and leadership skills. Although we have never experienced an organized labor dispute, strike or work stoppage, any such

occurrence, including in connection with unionization efforts, could disrupt our business and operations and harm our financial condition.

Failure to manage our rapid growth— both organic and non-organic—could effectively harm our business.

We have recently experienced, and expect to continue to experience, rapid growth in our number of employees and in our international operations that has placed, and will continue to place, a significant strain on our operational and financial resources and our personnel. To manage our anticipated future growth effectively, we must continue to maintain and may need to enhance our information technology infrastructure, financial and accounting systems and controls and manage expanded operations and employees in geographically distributed locations. We also must attract, train and retain a significant number of additional qualified sales and marketing personnel, professional services personnel, software engineers, technical personnel and management personnel. Our failure to manage our rapid growth effectively could have a material adverse effect on our business, results of operations and financial condition. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new services or product enhancements. For example, since it may take as long as six months to hire and train a new member of our professional services staff, we make decisions regarding the size of our professional services staff based upon our expectations with respect to customer demand for our products and services. If these expectations are incorrect, and we increase the size of our professional services organization without experiencing an increase in sales of our products and services, we will experience reductions in our gross and operating margins and net income. If we are unable to effectively manage our growth, our expenses may increase more than expected, our revenues could decline or grow more slowly than expected and we may be unable to implement our business strategy. Our rapid growth may also be accompanied by greater exposure to litigation, including suits by clients, vendors, employees or former employees, as the sizes of our workforce and our overall international operations increase. Restructuring strategies that we have been implementing as part of our management of the effectiveness of our growth require the termination of employees, which also increases our potential exposure to suits by former employees. All such litigation carries with it related costs and could divert our management's attention from ongoing business concerns. We also intend to continue to expand into additional international markets which, if not technologically or commercially successful, could harm our financial condition and prospects.

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The skilled and highly qualified workforce that we need to develop, implement and modify our solutions may be difficult to hire, train and retain, and we could face increased costs to attract and retain our skilled workforce.

Our business operations depend in large part on our ability to attract, train, motivate and retain highly skilled information technology professionals, software programmers and communications engineers on a worldwide basis. In addition, our competitive success will depend on our ability to attract and retain other outstanding, highly qualified employees, consultants and other professionals. Because our software products are highly complex and are generally used by our customers to perform critical business functions, we depend heavily on skilled technology professionals. Skilled technology professionals are often in high demand and short supply. If we are unable to hire or retain qualified technology professionals to develop, implement and modify our solutions, we may be unable to meet the needs of our customers. In addition, serving several new customers or implementing several new large-scale projects in a short period of time may require us to attract and train additional IT professionals at a rapid rate.

If existing customers are not satisfied with our solutions and services and either do not make subsequent purchases from us or do not continue using such solutions and services, or if our relationships with our largest customers are impaired, our revenue could be negatively affected.

We depend heavily on repeat product and service revenues from our base of existing customers. Five of our customers accounted for, in the aggregate, 22% and 20.7% of our revenues in the years ended December 31, 2017 and 2018, respectively. If our existing customers are not satisfied with our solutions and services, they may not enter into new project contracts with us or continue using our technologies. A significant decline in our revenue stream from existing customers, including due to termination of agreement(s), would have a material adverse effect on our business, results of operations and financial condition.

Our business often involves long-term, large, complex projects across the globe, some of which are fixed-price projects that involve uncertainties, such as estimated project costs and profit margins. Changes in the scope of a project or in the implementation schedule mid-stream can adversely impact our expected future revenues, profitability and/or, in some cases, our relationship with the relevant client.

Our business is characterized by relatively large, complex projects or engagements that can have a significant impact on our total revenue and cost of revenue from quarter to quarter. A high percentage of our expenses, particularly employee compensation, are relatively fixed. Therefore, variations in the timing of the initiation, estimate of scope of work, progress or completion of projects or engagements can cause significant variations in operating results from quarter to quarter.

This is particularly the case for fixed-price contracts, where our delivery requirements sometimes span more than one year. For a highly complex, fixed-price project that requires customization, we may not be able to accurately estimate our actual costs of completing the project. We are often dependent on the assistance of third-parties (such as our customers' vendors or IT employees, or our system integrator partners) in implementing such a project, which may not be provided in a timely manner. If our actual cost-to-completion of such a project significantly exceeds the estimated costs, we could experience a loss on the related contract, which (when multiplied by multiple projects) could have a material adverse effect on our results of operations, financial position and cash flow.

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Similarly, delays in executing client contracts (whether fixed price or not) may affect our revenue and cause our operating results to vary widely. Our solutions are delivered over periods of time ranging from several months to a few years. Payment terms are generally based on periodic payments or on the achievement of milestones. Any delays in payment or in the achievement of milestones may have a material adverse effect on our results of operations, financial position or cash flows.

For non-fixed price contracts, we generally provide our customers with up-front estimates regarding the duration, budget and costs associated with the implementation of our products. Due to the complexities described above, however, we may not meet those upfront estimates and/or the expectations of our customers, which could lead to a dispute with a client.

As an example, in 2017 we were involved in a dispute with a significant customer (which accounted for approximately 12% of our revenues in 2016) under a software development project agreement, which agreement provided for the customizing, enhancement and implementation of a new product. The customer alleged that we had materially breached our agreement with the customer. After carefully examining the customer's allegations, we informed the customer that we had not materially breached any of our obligations under the agreement and that the customer had itself materially breached the agreement. Work on the project was canceled due to the dispute. While we eventually entered into a settlement agreement with the customer, that settlement resulted in the termination of the software development project agreement, which resulted in a reduction in our revenues and operating profit relative to our prior estimates for 2017. Similar such disputes with other significant customers in the future, whether due to failure on our part to meet upfront estimates or customer expectations, or even absent such failures on our part, could harm our reputation, thereby adversely affecting our ability to attract new customers and to sell additional solutions and services to existing customers.

As a further example, in 2018, a South African customer changed the scope of an ongoing project significantly, which resulted in a decrease in the revenues realized from that customer during 2018. The project, as originally planned, will not continue. Currently, we provide some IT services to that customer, which provides a small revenue stream for us that is expected to continue in 2019. That decrease in revenue adversely impacted our revenues in 2018.

We may be liable to our clients for damages caused by a violation of intellectual property rights, the disclosure of other confidential information, including personally identifiable information, system failures, errors or unsatisfactory performance of services, and our insurance policies may not be sufficient to cover these damages.

We often have access to, and are required to collect and store, sensitive or confidential client information, including personally identifiable information. Some of our client agreements do not limit our potential liability for breaches of confidentiality, infringement indemnity and certain other matters. Furthermore, breaches of confidentiality may entitle the aggrieved party to equitable remedies, including injunctive relief. If any person, including any of our employees

and subcontractors, penetrates our network security or misappropriates sensitive or confidential client information, including personally identifiable information, we could be subject to significant liability from our clients or from our clients' customers for breaching contractual confidentiality provisions or privacy laws. Despite measures we take to protect the intellectual property and other confidential information or personally identifiable information of our clients, unauthorized parties, including our employees and subcontractors, may attempt to misappropriate certain intellectual property rights that are proprietary to our clients or otherwise breach our clients' confidences. Unauthorized disclosure of sensitive or confidential client information, including personally identifiable information, or a violation of intellectual property rights, whether through employee misconduct, breach of our computer systems, systems failure or otherwise, may subject us to liabilities, damage our reputation and cause us to lose clients.

Many of our contracts involve projects that are critical to the operations of our clients' businesses and provide benefits to our clients that may be difficult to quantify. Any failure in a client's system or any breach of security could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Furthermore, any errors by our employees in the performance of services for a client, or poor execution of such services, could result in a client terminating our engagement and seeking damages from us.

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In addition, while we have taken steps to protect the confidential information that we have access to, including confidential information we may obtain through usage of our cloud-based services, our security measures may be breached. If a cyber-attack or other security incident were to result in unauthorized access to or modification of our customers' data or our own data or our IT systems or in disruption of the services we provide to our customers, or if our products or services are perceived as having security vulnerabilities, we could suffer significant damage to our business and reputation.

Although we attempt to limit our contractual liability for consequential damages in rendering our services, these limitations on liability may not apply in all circumstances, may be unenforceable in some cases, or may be insufficient to protect us from liability for damages. There may be instances when liabilities for damages are greater than the insurance coverage we hold and we will have to internalize those losses, damages and liabilities not covered by our insurance.

Changes in privacy regulations may impose additional costs and liabilities on us, limit our use of information, and adversely affect our business.

Personal privacy has become a significant issue in the United States, Europe, and many other countries where we operate. Many government agencies and industry regulators continue to impose new restrictions and modify existing requirements about the collection, use, and disclosure of personal information. Changes to laws or regulations affecting privacy and security may impose additional liability and costs on us and may limit our use of such information in providing our services to customers. If we were required to change our business activities, revise or eliminate services or products, or implement burdensome compliance measures, our business and results of operations may be harmed. Additionally, we may be subject to regulatory enforcement actions resulting in fines, penalties, and potential litigation if we fail to comply with applicable privacy laws and regulations.

In particular, our European activities are subject to the new European Union General Data Protection Regulation, or GDPR, which has created additional compliance requirements for us. GDPR broadens the scope of personal privacy laws to protect the rights of European Union citizens and requires organizations to report on data breaches within 72 hours and be bound by more stringent rules for obtaining the consent of individuals on how their data can be used. GDPR became enforceable on May 25, 2018 and non-compliance may expose entities such as our company to significant fines or other regulatory claims. While we have invested in, and intend to continue to invest in, reasonably necessary resources to comply with these new standards, to the extent that we fail to adequately comply, that failure could have an adverse effect on our business, financial conditions, results of operations and cash flows.

Errors or defects in our software solutions could inevitably arise and would harm our profitability and our reputation with customers, and could even give rise to claims against us.

The quality of our solutions, including new, modified or enhanced versions thereof, is critical to our success. Since our software solutions are complex, they may contain errors that cannot be detected at any point in their testing phase. While we continually test our solutions for errors or defects and work with customers to identify and correct them, errors in our technology may be found in the future. Testing for errors or defects is complicated because it is difficult to simulate the breadth of operating systems, user applications and computing environments that our customers use, and our solutions themselves are increasingly complex. Errors or defects in our technology have resulted in terminated work orders and could result in delayed or lost revenue, diversion of development resources and increased services, termination of work orders, damage to our brand and warranty and insurance costs in the future. In addition, time-consuming implementations may also increase the number of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

In addition, since our customers rely on our solutions to operate, monitor and improve the performance of their business processes, they are sensitive to potential disruptions that may be caused by the use of, or any defects in, our software. As a result, we may be subject to claims for damages related to software errors in the future. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. Regardless of whether we prevail, diversion of key employees' time and attention from our business, the incurrence of substantial expenses and potential damage to our reputation might result. While the terms of our sales contracts typically limit our exposure to potential liability claims and we carry errors and omissions insurance against such claims, there can be no assurance that such insurance will continue to be available on acceptable terms, if at all, or that such insurance will provide us with adequate protection against any such claims. A significant liability claim against us could have a material adverse effect on our business, results of operations and financial position.

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The market for software solutions and related services is highly competitive.

The market for software solutions and related services and for business solutions for the insurance and financial services industry in particular, is highly competitive. Many of our smaller competitors have been acquired by larger competitors, which provides such smaller competitors with greater resources and potentially a larger client base for which they can develop solutions. Our customers or potential customers may prefer suppliers that are larger than us, are better known in the market or that have a greater global reach. In addition, we and some of our competitors have developed systems to allow customers to outsource their core systems to external providers (known as BPO). We are seeking to partner with BPO providers, but there can be no assurance that such BPO providers will adopt our solutions rather than those of our competitors. Determinations by current and potential customers to use BPO providers that do not use our solutions may result in the loss of such customers and limit our ability to gain new customers.

Consolidation in the insurance industry in which some of our clients operate also increases competitiveness for us by reducing the number of potential clients for whose business we and our competitors compete. The high level of continuity with which insurance and other financial services clients remain with their providers of software-related services also increases general competitiveness by tying clients to their service providers and thereby shrinking the market of potential clients.

Incorrect or improper use of our products or our failure to properly train customers on how to implement or utilize our products could result in customer dissatisfaction and negatively affect our business, results of operations, financial condition and growth prospects.

Our products are complex and are deployed in a wide variety of network environments. The proper use of our solutions requires training of the customer. If our solutions are not used correctly or as intended, inadequate performance may result. Additionally, our customers or third-party partners may incorrectly implement or use our solutions. Our solutions may also be intentionally misused or abused by customers or their employees or third parties who are able to access or use our solutions. Similarly, our solutions are sometimes installed or maintained by customers or third parties with smaller or less qualified IT departments, potentially resulting in sub-optimal installation and, consequently, performance that is less than the level anticipated by the customer. Because our customers rely on our software, services and maintenance support to manage a wide range of operations, the incorrect or improper use of our solutions, our failure to properly train customers on how to efficiently and effectively use our solutions, or our failure to properly provide implementation or maintenance services to our customers has resulted in terminated work orders and may result in termination of work orders, negative publicity or legal claims against us in the future. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our software and services.

In addition, if there is substantial turnover of customer personnel responsible for implementation and use of our products, or if customer personnel are not well trained in the use of our products, customers may defer the deployment of our products, may deploy them in a more limited manner than originally anticipated or may not deploy them at all. Further, if there is substantial turnover of the customer personnel responsible for implementation and use of our products, our ability to make additional sales may be substantially limited.

Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and results of operations.

The software industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents and other intellectual property rights. In particular, leading companies in the software industry own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims against us. From time to time, third parties, including certain of these leading companies, may assert patent, copyright, trademark or other intellectual property claims against us, our customers and partners, and those from whom we license technology and intellectual property.

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Although we believe that our products and services do not infringe upon the intellectual property rights of third parties, we cannot assure you that third parties will not assert infringement or misappropriation claims against us with respect to current or future products or services, or that any such assertions will not require us to enter into royalty arrangements or result in costly litigation, or result in us being unable to use certain intellectual property. We cannot assure you that we are not infringing or otherwise violating any third party intellectual property rights. Infringement assertions from third parties may involve patent holding companies or other patent owners who have no relevant product revenues, and therefore our own issued and pending patents may provide little or no deterrence to these patent owners in bringing intellectual property rights claims against us.

Any intellectual property infringement or misappropriation claim or assertion against us, our customers or partners, and those from whom we license technology and intellectual property could have a material adverse effect on our business, financial condition, reputation and competitive position regardless of the validity or outcome. If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court, or are determined in our favor, we may be required to expend significant time and financial resources on the defense of such claims. Furthermore, an adverse outcome of a dispute may require us to pay damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed on a party's intellectual property; cease making, licensing or using our products or services that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our products or services; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or works; and to indemnify our partners, customers, and other third parties. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Any of these events could seriously harm our business, results of operations and financial condition. In addition, any lawsuits regarding intellectual property rights, regardless of their success, could be expensive to resolve and divert the time and attention of our management and technical personnel.

Although we apply measures to protect our intellectual property rights and our source code, there can be no assurance that the measures that we employ to do so will be successful.

In accordance with industry practice, since we have no registered patents on our software solution technologies, we rely on a combination of contractual provisions and intellectual property law to protect our proprietary technology. We believe that due to the dynamic nature of the computer and software industries, copyright protection is less significant than factors such as the knowledge and experience of our management and personnel, the frequency of product enhancements and the timeliness and quality of our support services. We seek to protect the source code of our products as trade secret information and as unpublished copyright works. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements that grant customers a personal, non-transferable license to use our products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of our products. In addition, while we attempt to protect trade secrets and other proprietary information through non-disclosure agreements with employees, consultants and distributors, not all of our employees have signed invention assignment agreements. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful. Our failure to protect our rights, or the improper use of our products by others without licensing them from us could have a material adverse effect on our results of

operations and financial condition.

We and our customers rely on technology and intellectual property of third parties, the loss of which could limit the functionality of our products and disrupt our business.

We use technology and intellectual property licensed from unaffiliated third parties in certain of our products, and we may license additional third-party technology and intellectual property in the future. Any errors or defects in this third-party technology and intellectual property could result in errors that could harm our brand and business. In addition, licensed technology and intellectual property may not continue to be available on commercially reasonable terms, or at all. The loss of the right to license and distribute this third party technology could limit the functionality of our products and might require us to redesign our products.

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Further, although we believe that there are currently adequate replacements for the third-party technology and intellectual property we presently use and distribute, the loss of our right to use any of this technology and intellectual property could result in delays in producing or delivering affected products until equivalent technology or intellectual property is identified, licensed or otherwise procured, and integrated. Our business would be disrupted if any technology and intellectual property we license from others or functional equivalents of this software were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required either to attempt to redesign our products to function with technology and intellectual property available from other parties or to develop these components ourselves, which would result in increased costs and could result in delays in product sales and the release of new product offerings. Alternatively, we might be forced to limit the features available in affected products. Any of these results could harm our business and impact our results of operations.

We could be required to provide the source code of our products to our customers.

Some of our customers have the right to require the source code of our products to be deposited into a source code escrow. Under certain circumstances, our source code could be released to our customers. The conditions triggering the release of our source code vary by customer. A release of our source code would give our customers access to our trade secrets and other proprietary and confidential information which could harm our business, results of operations and financial condition. A few of our customers have the right to use the source code of some of our products based on the license agreements signed with such clients (mostly with respect to older versions of our solutions), although such use is limited for specific matters and cases, these clients are exposed to some of our trade secrets and other proprietary and confidential information which could harm us.

Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.

A significant invasion, interruption, destruction or breakdown of our information technology, or IT, systems and/or infrastructure by persons with authorized or unauthorized access could negatively impact our business and operations. We could also experience business interruption, information theft and/or reputational damage from cyber attacks, which may compromise our systems and lead to data leakage internally. Both data that has been inputted into our main IT platform, which covers records of transactions, financial data and other data reflected in our results of operations, as well as data related to our proprietary rights (such as research and development, and other intellectual property-related data), are subject to material cyber security risks. Our IT systems have been, and are expected to continue to be, the target of malware and other cyber attacks. To date, we are not aware that we have experienced any loss of, or disruption to, material information as a result of any such malware or cyber attack.

We have invested in advanced detection, prevention and proactive systems to reduce these risks. Based on independent audits, we believe that our level of protection is in keeping with the industry standards of peer technology

companies. We also maintain a disaster recovery solution, as a means of assuring that a breach or cyber attack does not necessarily cause the loss of our information. We furthermore review our protections and remedial measures periodically in order to ensure that they are adequate.

Despite these protective systems and remedial measures, techniques used to obtain unauthorized access are constantly changing, are becoming increasingly more sophisticated and often are not recognized until after an exploitation of information has occurred. We may be unable to anticipate these techniques or implement sufficient preventative measures, and we therefore cannot assure you that our preventative measures will be successful in preventing compromise and/or disruption of our information technology systems and related data. We furthermore cannot be certain that our remedial measures will fully mitigate the adverse financial consequences of any cyber attack or incident.

Catastrophes may adversely impact the P&C insurance industry, preventing us from expanding or maintaining our existing customer base and increasing our revenues.

Our customers include P&C insurance carriers that have experienced, and will likely experience in the future, catastrophe losses that adversely impact their businesses. Catastrophes can be caused by various events, including, amongst others, hurricanes, tsunamis, floods, windstorms, earthquakes, hail, tornados, explosions, severe weather and fires. Moreover, acts of terrorism or war could cause disruptions in our or our customers' businesses or the economy as a whole. The risks associated with natural disasters and catastrophes are inherently unpredictable, and it is difficult to predict the timing of such events or estimate the amount of loss they will generate. In the event a future catastrophe adversely impacts our current or potential customers, we may be prevented from maintaining and expanding our customer base and from increasing our revenues because such events may cause customers to postpone purchases of new products and professional service engagements or discontinue projects.

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Decreases in the capital markets may adversely impact the life insurance industry, thereby preventing us from expanding or maintaining our existing customer base and increasing our revenues.

Our customers include life insurance carriers that have invested some of their funds in the capital markets. Those carriers may experience in the future major losses in those capital market investments that may cause disruptions to their businesses or to the economy as a whole. Any such major disruption, may cause those existing or potential new customers to postpone purchases of new products or professional service engagements, or discontinue existing projects, which, in turn, may prevent us from increasing our revenues, or from maintaining or expanding our customer base.

There may be consolidation in the life insurance market, which could reduce the use of our products and services and adversely affect our revenues.

Mergers or consolidations among our customers could reduce the number of our customers and potential customers. This could adversely affect our revenues even if these events do not reduce the aggregate number of customers or the activities of the consolidated entities. If our customers merge with or are acquired by other entities that are not our customers, or that use fewer of our products and services, they may discontinue or reduce their use of our products and services. Any of these developments could materially and adversely affect our results of operations and cash flows.

Some of our services and technologies may use “open source” software, which may restrict how we use or distribute our services or require that we release the source code of certain products subject to those licenses.

Some of our services and technologies may incorporate software licensed under so-called “open source” licenses, including, but not limited to, the GNU General Public License and the GNU Lesser General Public License. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Additionally, open source licenses typically require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. These open source licenses typically mandate that proprietary software, when combined in specific ways with open source software, become subject to the open source license. If we combine our proprietary software with open source software, we could be required to release the source code of our proprietary software.

We take steps to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require our proprietary software to be subject to an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced

is therefore subject to some uncertainty. Additionally, we rely on multiple software programmers to design our proprietary technologies, and although we take steps to prevent our programmers from including open source software in the technologies and software code that they design, write and modify, we do not exercise complete control over the development efforts of our programmers and we cannot be certain that our programmers have not incorporated open source software into our proprietary products and technologies or that they will not do so in the future. In the event that portions of our proprietary technology are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our services and technologies and materially and adversely affect our business, results of operations and prospects.

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Our deed of trust related to our Series B Debentures contains certain affirmative covenants and restrictive provisions that, if breached, could result in an increase in the interest rate and, potentially, an acceleration of our obligation to repay those debentures, which we may be unable to effect.

In the deed of trust that we have entered into with the trustee for the holders of our Series B Debentures, or the debentures, which we offered and sold in an Israeli public offering and Israeli private placement in September 2017, we have undertaken to maintain a number of conditions and limitations on the manner in which we can operate our business, including limitations on our ability to undergo a change of control, distribute dividends, incur a floating charge on our assets, or undergo an asset sale or other change that results in a fundamental change in our operations. The deed of trust also requires us to comply with certain financial covenants, including maintenance of a minimum shareholders' equity level and a maximum ratio of financial indebtedness to shareholders' equity, at levels that are customary for companies of comparable size. These limitations and covenants may force us to pursue less than optimal business strategies or forego business arrangements that could otherwise be financially advantageous to us and, by extension, our debenture holders. The deed of trust furthermore provides for an upwards adjustment in the interest rate payable under the debentures in the event that our debentures' rating is downgraded below a certain level. A breach of the financial covenants for more than two successive quarters or a substantial downgrade in the Israeli rating of the debentures (below BBB-) would constitute an event of default that could result in the acceleration of our obligation to repay the debentures, of which there is NIS 280 million (approximately US \$79.14 million) principal amount outstanding, which accelerated repayment may be difficult for us to effect.

Risks Relating to Our International Operations

Our international sales and operations subject us to additional risks that can adversely affect our business, results of operations and financial condition.

We are continuing to expand our international operations as part of our growth strategy. In fiscal years 2017 and 2018, 59%% and 52.8%, respectively, of our revenues were derived from outside of North America. Our current international operations and our plans to further expand our international operations subject us to a variety of risks, including:

increased exposure to fluctuations in foreign currency exchange rates;

complexity in our tax planning, and increased exposure to changes in tax regulations in various jurisdictions in which we operate, which could adversely affect our operating results and frustrate our ability to conduct effective tax planning;

increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;

longer payment cycles and difficulties in enforcing contracts and collecting accounts receivable;

the need to localize our products and licensing programs for international customers;

lack of familiarity with and unexpected changes in foreign regulatory requirements;

the burdens of complying with a wide variety of foreign laws and legal standards;

compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended, or FCPA, particularly in emerging market countries;

import and export license requirements, tariffs, taxes and other trade barriers;

increased financial accounting and reporting burdens and complexities;

weaker protection of intellectual property rights in some countries;

multiple and possibly overlapping tax regimes; and

political, social and economic instability abroad, terrorist attacks and security concerns in general.

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As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these risks could harm our international operations and reduce our international sales, adversely affecting our business, results of operations, financial condition and growth prospects.

International operations in the insurance industry, in which a significant portion of our business is concentrated, are accompanied by additional costs related to adaptation to regulations in specific territories.

As we seek to expand the marketing and offering of our products into new territories, because insurance regulations vary by legal jurisdiction, the investment required to adapt our solutions to the legal and language requirements of such territories may prevent or delay us from effectively expanding into such territories. Such adaptation process requires the retention of new, additional skilled personnel with knowledge of the particular market and applicable regulatory regime. Such skilled personnel may not be available at a reasonable cost relative to the additional revenues that we expect to recognize in those territories, or may not be available at all.

Our international operations expose us to risks associated with fluctuations in foreign currency exchange rates that could adversely affect our business.

Most of our revenues are derived from international operations that are conducted in local currencies. Those operations are conducted in US dollars, GBP, Euro, New Israeli Shekels, or NIS, Indian rupee, or INR and Polish zloty, or PLN. In 2017 and 2018, our revenues were approximately 53% and 56.9%, respectively, in US dollars, with the remainder in the other currencies.

In some territories, like in Israel, India and Poland, our cost of operation in local currency is higher than the revenues derived from such operation. In other territories, our revenues are higher than our cost of operation in local currency. Because exchange rates between the NIS, GBP, Euro, INR and the PLN against the US dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations could negatively affect our revenue and profitability.

In certain locations, we engage in currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our financial position and results of operations. However, there can be no assurance that any such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, our financial position and results of operations could be adversely affected.

Our business may be materially affected by changes to fiscal and tax policies. Potentially negative or unexpected tax consequences of these policies, or the uncertainty surrounding their potential effects, could adversely affect our results of operations and share price.

As a multinational corporation, we are subject to income taxes, withholding taxes and indirect taxes in numerous jurisdictions worldwide. Significant judgment and management attention and resources are required in evaluating our tax positions and our worldwide provision for taxes. In the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting, and other laws, regulations, principles and interpretations. This may include recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, changes in foreign currency exchange rates, or changes in the valuation of our deferred tax assets and liabilities.

We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. If we experience unfavourable results from one or more such tax audits, there could be an adverse effect on our tax rate and therefore on our net income. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made. Additionally, we are subject to transfer pricing rules and regulations, including those relating to the flow of funds between us and our affiliates, which are designed to ensure that appropriate levels of income are reported in each jurisdiction in which we operate.

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The recently enacted U.S. Tax Cuts and Jobs Act of 2017, or the Tax Act, enacted in December 2017, introduced significant changes to the U.S. Internal Revenue Code. The primary impact of the Tax Act on us was a reduction of our effective tax rate in the US. The final impact of the Tax Act may differ from the tax expense we incurred, due to, among other things, possible changes in the interpretations and assumptions made by us as a result of additional information, additional guidance that will be issued by the U.S. Department of Treasury, the IRS or other standard-setting bodies. There may be additional tax effects of the Tax Act that may impact our future financial statements upon finalization of law, regulations, and additional guidance and will be accounted for when such guidance is issued.

Risks Related to an Investment in our Common Shares

There is limited trading volume for our common shares, which reduces liquidity for our shareholders, and may furthermore cause the share price to be volatile, all of which may lead to losses by investors.

There has historically been limited trading volume in our common shares, both on the NASDAQ Capital Market and the TASE. While recently there has been improvement, the trading volume is still limited, which results in reduced liquidity for our shareholders. As a further result of the limited volume, our common shares have experienced significant market price volatility in the past and may experience significant market price and volume fluctuations in the future, in response to factors such as announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results and general conditions in the industry in which we compete.

We are a foreign private issuer under the rules and regulations of the SEC and are therefore exempt from a number of rules under the Exchange Act and are permitted to file less information with the SEC than a domestic U.S. reporting company, which reduces the level and amount of disclosure that you receive.

As a foreign private issuer under the Exchange Act, we are exempt from certain rules under the Exchange Act, including the proxy rules, which impose certain disclosure and procedural requirements for proxy solicitations. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. companies with securities registered under the Exchange Act; and are not required to comply with Regulation FD, which imposes certain restrictions on the selective disclosure of material information. In addition, our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our common shares. Accordingly, you receive less information about our company than you would receive about a domestic U.S. company, and are afforded less protection under the U.S. federal securities laws than you would be afforded in holding securities of a domestic U.S. company.

As a foreign private issuer, we are also permitted, and have begun, to follow certain home country corporate governance practices instead of those otherwise required under the Listing Rules of the NASDAQ Stock Market for domestic U.S. issuers. We have informed NASDAQ that we follow home country practice—in the Cayman Islands— with regard to, among other things, composition of our Board of Directors (whereby a majority of the members of our Board of Directors need not be “independent directors,” as is generally required for domestic U.S. issuers), director nomination procedure and approval of compensation of officers. In addition, we have opted to follow home country law instead of the Listing Rules of the NASDAQ Stock Market that require that a listed company obtain shareholder approval for certain dilutive events, such as the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the Company, certain transactions other than a public offering involving issuances of a 20% or greater interest in the Company, and certain acquisitions of the stock or assets of another company. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on the NASDAQ Capital Market may provide our shareholders with less protection than they would have as stockholders of a domestic U.S. company.

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Our controlling shareholder, Formula Systems (1985) Ltd., beneficially owns approximately 48.1% of our outstanding Common Shares and therefore asserts a controlling influence over matters requiring shareholder approval, which could delay or prevent a change of control that may benefit our public shareholders.

Formula Systems (1985) Ltd. beneficially owns approximately 48.1% of our outstanding Common Shares. As a result, it exercises a controlling influence over our operations and business strategy and has sufficient voting power to control the outcome of various matters requiring shareholder approval. These matters may include:

the composition of our board of directors, which has the authority to direct our business and to appoint and remove our officers;

approving or rejecting a merger, consolidation or other business combination;

raising future capital; and

amending our Articles, which govern the rights attached to our Common Shares.

This concentration of ownership of our Common Shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our Common Shares that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our Common Shares. This concentration of ownership may also adversely affect our share price.

Our U.S. shareholders may suffer adverse tax consequences if we are classified as a passive foreign investment company or as a “controlled foreign corporation”.

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the average quarterly value of our assets (which may be measured in part by the market value of our Common Shares, which is subject to change) are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended, or the Code. Based on our gross income and gross assets, and the nature of our business, we believe that we were not classified as a PFIC for the taxable year ended December 31, 2018. Because PFIC status is determined annually based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for the taxable year ending December 31, 2019, or for any subsequent year, until we finalize our financial statements for that year. Furthermore, because the value of our gross assets is likely to be determined in large part by reference to our market capitalization, a decline in the value of our Common Shares may

result in our becoming a PFIC. Accordingly, there can be no assurance that we will not be considered a PFIC for any taxable year. Our characterization as a PFIC could result in material adverse tax consequences for you if you are a U.S. investor, including having gains realized on the sale of our Common Shares treated as ordinary income, rather than a capital gain, the loss of the preferential rate applicable to dividends received on our Common Shares by individuals who are U.S. holders, and having interest charges apply to distributions by us and the proceeds of share sales. Certain elections exist that may alleviate some of the adverse consequences of PFIC status and would result in an alternative treatment (such as mark-to-market treatment) of our Common Shares. Prospective U.S. investors should consult their own tax advisers regarding the potential application of the PFIC rules to them. Prospective U.S. investors should refer to “Item 10.E. Taxation—U.S. Federal Income Tax Considerations” for discussion of additional U.S. income tax considerations applicable to them based on our treatment as a PFIC.

Certain U.S. holders of our Common Shares may suffer adverse tax consequences if we or any of our non-U.S. subsidiaries are characterized as a “controlled foreign corporation”, or a CFC, under Section 957(a) of the Code. Certain changes to the CFC constructive ownership rules under Section 958(b) of the Code introduced by the TCJA [*assuming this has been defined in main doc previously*] may cause one or more of our non-U.S. subsidiaries to be treated as CFCs, may also impact our CFC status, and may adversely affect holders of our Common Shares that are United States shareholders. Generally, for U.S. shareholders that own 10% or more of the combined vote or combined value of our Common Shares, this may result in adverse U.S. federal income tax consequences and these shareholders may be subject to certain reporting requirements with the U.S. Internal Revenue Service. Any such 10% U.S. shareholder should consult its own tax advisers regarding the U.S. tax consequences of acquiring, owning, or disposing our Common Shares and the impact of the TCJA, especially the changes to the rules relating to CFCs.

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Risks Related to Our Israeli Operations and Our Status as a Cayman Islands Company

The tax benefits that are available to us require us to continue to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes

Certain of our Israeli subsidiaries were granted Approved Enterprise, or AE, status under the Israeli Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law. These subsidiaries elected the alternative benefits program, pursuant to which income derived from the AE program is tax-exempt for two years and enjoys a reduced tax rate of 10.0% to 25.0% for up to a total of eight years, subject to an adjustment based on the percentage of foreign investors' ownership. We were also eligible for certain tax benefits provided to Benefited Enterprises, or BEs, under the Investment Law. In May 2015, we notified the Israel Tax Authority that we apply the new tax Preferred Enterprise, or PFE, regime under the Investment Law instead of our AE and BE. Accordingly, we are eligible for certain tax benefits provided to PFEs under the Investment Law. If we do not meet the conditions stipulated in the Investment Law and the regulations promulgated thereunder, as amended, for the PFE, any of the associated tax benefits may be cancelled and we would be required to repay the amount of such benefits, in whole or in part, including interest and CPI linkage (or other monetary penalties). Further, in the future these tax benefits may be reduced or discontinued. If these tax benefits are reduced, cancelled or discontinued, our Israeli taxable income would be subject to regular Israeli corporate tax rates (25% in 2016, 24% in 2017 and 23% in 2018 and thereafter), which would harm our financial condition and results of operation. Additionally, if we increase our activities outside of Israel through acquisitions, for example, our expanded activities might not be eligible for inclusion in future Israeli tax benefit programs. See "Item 5. Operating and Financial Review and Prospects—Operating Results—Impact of Tax Policies and Programs on our Operating Results —Israeli Tax Considerations and Government Programs."

In the event of distribution of dividends from said tax-exempt income, the amount distributed will be subject to corporate tax in respect of the amount of dividend distributed (grossed up to reflect such pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate that would have otherwise been applicable on the AE/BE's income if such income had not been exempted from tax.

The Israeli government grants that our Israeli subsidiary has received require us to meet several conditions and restrict our ability to manufacture products and transfer know-how developed using such grants outside of Israel and require us to satisfy specified conditions.

One of our Israeli subsidiaries received grants in the past from the government of Israel through the National Technological Innovation Authority, or the Innovation Authority (formerly operating as Office of the Chief Scientist of the Ministry of Economy of the State of Israel, or the OCS), for the financing of a portion of its research and development expenditures in Israel with respect to our legacy technology. In consideration for receiving grants from the OCS, we are obligated to pay the Innovation Authority royalties from the revenues generated from the sale of

products (and related services) developed (in whole or in part) using the OCS funds, in an amount that is up to 100% to 150% of the aggregate amount of the total grants that we received from the OCS, plus annual interest for grants received after January 1, 1999. We must fully and originally own any intellectual property developed using the OCS grants and any right derived therefrom unless transfer thereof is approved in accordance with the provisions of the Israeli Encouragement of Research, Development and Technological Innovation Law, 5744-1984, or the Innovation Law (formerly known as the Encouragement of Industrial Research and Development Law, 5744-1984, or the Research Law), and related regulations.

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When a company develops know-how, technology or products using grants provided by the Innovation Authority, the terms of these grants and the Innovation Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel. Even after the repayment of such grants in full, we will remain subject to the restrictions set forth under the Innovation Law, including:

Transfer of know-how outside of Israel. Any transfer of the know-how that was developed with the funding of the Innovation Authority, outside of Israel, requires prior approval of the Innovation Authority, and the payment of a redemption fee.

Local manufacturing obligation. The terms of the grants under the Innovation Law require that the manufacturing of products resulting from Innovation Authority-funded programs be carried out in Israel, unless a prior written approval of the Innovation Authority is obtained (except for a transfer of up to 10% of the production rights, for which a notification to the Innovation Authority is sufficient).

Certain reporting obligations. We, as any recipient of a grant or a benefit under the Innovation Law, are required to file reports on the progress of activities for which the grant was provided as well as on our revenues from know-how and products funded by the Innovation Authority. In addition, we are required to notify the Innovation Authority of certain events detailed in the Innovation Law.

Therefore, if aspects of our technologies are deemed to have been developed with OCS funding, the discretionary approval of an OCS committee would be required for any transfer to third parties outside of Israel of know-how or manufacturing or manufacturing rights related to those aspects of such technologies. We may not receive those approvals. Furthermore, the OCS may impose certain conditions on any arrangement under which it permits us to transfer technology or development out of Israel.

The transfer of OCS-supported technology or know-how outside of Israel may involve the payment of significant amounts, depending upon the value of the transferred technology or know-how, the amount of OCS support, the time of completion of the OCS-supported research project and other factors. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with OCS funding (such as a merger or similar transaction) may be reduced by any amounts that we are required to pay to the OCS.

We received grants from the OCS prior to an extensive amendment to the Research Law that came into effect as of January 1, 2016, or the Amendment, which may also affect the terms of existing grants. The Amendment provides for an interim transition period (which has not yet expired), after which time our grants will be subject to terms of the Amendment. Under the Research Law, as amended by the Amendment, the Authority is provided with a power to modify the terms of existing grants. Such changes, if introduced by the Authority in the future, may impact the terms governing our grants.

Our shareholders may face difficulties in protecting their interests because we are incorporated under Cayman Islands law

Our corporate affairs are governed by our memorandum of association, or the Memorandum, our articles of association, or the Articles, the Companies Law (2016 Revision) of the Cayman Islands, or the Companies Law, and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under the laws of the Cayman Islands are not as clearly established under statutes or judicial precedent as in jurisdictions in the United States. Therefore, you may have more difficulty in protecting your interests than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less developed nature of Cayman Islands law in this area.

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting convened for that purpose. The convening of the meeting and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. A dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved.

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When a takeover offer is made and accepted by holders of 90.0% of the shares within four months, the offeror may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of a corporation incorporated in a jurisdiction in the United States, providing rights to receive payment in cash for the judicially determined value of the shares. This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation or to require that the offeror give you additional consideration if you believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders. Our directors have discretion under our Memorandum and Articles to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors.

Service of process and enforcement of legal proceedings commenced against us in the United States may be difficult to obtain.

We operate under the laws of the Cayman Islands and a majority of our assets are located outside of the United States. In addition, most of our directors and executive officers reside outside of the United States. As a result, it may be difficult for investors to affect service of process within the United States upon us and such other persons, or to enforce judgments obtained against such persons in United States courts, and bring any action, including actions predicated upon the civil liability provisions of the United States securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts or jurisdictions located outside of the United States, rights predicated upon the United States securities laws.

Based on the advice of our Cayman Islands legal counsel, we believe no reciprocal statutory enforcement of foreign judgments exists between the United States and the Cayman Islands, and that foreign judgments originating from the

United States are not directly enforceable in the Cayman Islands. A prevailing party in a United States proceeding against us or our officers or directors would have to initiate a new proceeding in the Cayman Islands using the United States judgment as evidence of the party's claim. A prevailing party could rely on the summary judgment procedures available in the Cayman Islands, subject to available defenses in the Cayman Islands courts, including, but not limited to, the lack of competent jurisdiction in the United States courts, lack of due service of process in the United States proceeding and the possibility that enforcement or recognition of the United States judgment would be contrary to the public policy of the Cayman Islands.

Depending on the nature of damages awarded, civil liabilities under the Securities Act or the Exchange Act for original actions instituted outside the Cayman Islands may or may not be enforceable. For example, a United States judgment awarding remedies unobtainable in any legal action in the courts of the Cayman Islands, such as treble damages, would likely not be enforceable under any circumstances.

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Item 4. Information on the Company

A. History and Development of the Company.

Corporate Details

Our legal and commercial name is Sapiens International Corporation N.V., and we were incorporated and registered in Curaçao on April 6, 1990. In August 2018, following shareholder approval, we migrated the legal domicile of our company to the Cayman Islands and now operate as a public limited liability company under the provisions of the Companies Law (2016 Revision) of the Cayman Islands. We are registered as an Israeli company for tax purposes only. Our principal place of business is located at Azrieli Center, 26 Harokmim Street, Holon, 5885800, Israel, and our telephone number there is +972-3-790-2000. Sapiens Americas Corporation is our agent in the United States. Our World Wide Web address is www.sapiens.com. The information contained on that web site is not a part of this annual report. Except as described elsewhere in this annual report, we have not had any important events in the development of our business since January 1, 2018.

Capital Expenditures and Divestitures since January 1, 2016

In the third quarter of 2016, we acquired Maximum Processing Inc., or MaxPro, a privately-held company headquartered in Bradenton, Florida, with offices in Garner, North Carolina. MaxPro is the provider of the Stingray System, a P&C insurance administration suite targeted towards the tier 4-5 U.S. market, as well as managing general agents, or MGAs, third-party administrators, or TPAs, and insurance brokers. We paid \$4.3 million in cash for this acquisition (including \$1.5 million that we placed in escrow at the closing).

In the third quarter of 2016, we acquired 4Sight Business Intelligence Inc., or 4Sight, a provider of business intelligence reports that is based in Austin, Texas. 4Sight offers insurance-specific business intelligence, or BI, solutions, including 4SightBI, a P&C-specific, off-the-shelf business intelligence (BI) product. We paid \$330,000 in cash for this acquisition.

The seller of 4Sight, who was also one of the sellers of MaxPro, has the right to receive a total amount of approximately \$5.5 million, subject to certain criteria which include, among others, continued employment criteria. For further information, please see Note 1(e) to our consolidated financial statements included in Item 18 of this annual report.

In the first quarter of 2017, we acquired StoneRiver, a US-based provider of a wide range of technology solutions and services to insurance carriers, agents, and broker-dealers, whose product groups encompass P&C solutions, Life solutions, workers compensation, reinsurance solutions and F&C for all major business lines. The acquisition will enable us to expand the range of solutions and services that we offer in North America. We paid approximately \$101 million in cash, subject to certain adjustments based on working capital, transaction expenses, unpaid debt and certain litigation matters. For further information, please see Note 1(b) to our consolidated financial statements included in Item 18 of this annual report.

In the fourth quarter of 2017, we acquired KnowledgePrice.com, a Latvian company that specializes in digital insurance services and consulting. This acquired entity will join our Digital Division, which focuses on digital and business intelligence services and solutions, including portal and digital distribution offerings to customers worldwide. The total purchase price was approximately €5,840,500, out of which €3,100,000 was paid at closing and the remainder is subject to earn-outs based on the revenues of KnowledgePrice.com following the closing. For further information, please see Note 1(d) to our consolidated financial statements included in Item 18 of this annual report.

In the first quarter of 2018, we acquired Adaptik, a New Jersey company engaged in the development of software solutions for P&C insurers, including policy administration, rating, billing, customer management, task management and product design. The total purchase price was approximately \$18.2 million in cash, subject to adjustment, and about \$3.5 million is subject to earn out-based specific criteria and continued employment of founders.

Our principal capital expenditures during the last three years related mainly to the purchase of computer equipment and software for use by our subsidiaries. Our capital expenditures totaled approximately \$4.7 million in 2016, \$2.6 million in 2017 and \$1.9 million in 2018.

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B. Business Overview.

Sapiens is a leading global provider of software solutions for the insurance industry. Our extensive expertise is reflected in our innovative software platforms, suites, solutions and services for property & casualty (P&C); life, pension & annuity (L&A); reinsurance; financial and compliance (F&C); workers' compensation (WC); and financial markets. Our company offers a full digital suite that facilitates an innovative, holistic and seamless digital experience for carriers, agents, customers and assorted insurance personnel, across multiple devices and technologies. Sapiens' offerings enable our customers to effectively manage their core business functions, including policy administration, claims and billing, and to offer support during an insurer's journey to becoming a digital insurer. Our portfolio also covers underwriting, illustration and electronic application.

Sapiens also supplies a complete reinsurance offering for providers and a decision management platform tailored to a variety of financial services providers, so business users can quickly deploy business logic and comply with policies and regulations across their organizations.

Our platforms possess modern, modular architecture and are digital-driven. They empower customers to respond to the rapidly changing insurance market and frequent regulatory changes, while improving the efficiency of their core operations. These process enhancements increase revenue and reduce costs.

2018 was a year of moderate growth for Sapiens, while building the foundation for growth for 2019 and beyond. As described further below, in 2018, the Company acquired Adaptik, a Pennsylvania-based firm that offers P&C insurers policy administration and billing capabilities for commercial, personal, specialty and workers' compensation lines of business. The acquisition was another step in Sapiens' journey to offer the U.S. insurance market a modern, modular, fully integrated property and casualty insurance platform.

In February 2017, Sapiens acquired StoneRiver, a U.S. based company that offered a reach product portfolio that was comprised of claims, billing, rating, underwriting, illustration, reinsurance and F&C solutions for all major insurance business lines, across both P&C and L&A. StoneRiver's rich set of solutions complements Sapiens' offerings and has helped Sapiens accelerate its growth in the U.S. market, as well as globally.

In December 2017 Sapiens expanded its Digital division's capabilities through the acquisition of KnowledgePrice.com (or KnowledgePrice), a technology specialist with expertise in digital insurance services and consulting. The expanded Digital division will create innovative offerings and provide full support during customers' digital journeys.

Privately-held KnowledgePrice employed digital insurance technology experts and supplied services to leading insurance providers in the UK and Europe. KnowledgePrice personnel joined the Sapiens Digital division – which focuses on digital and business intelligence (BI) services and solutions, including customer and agent portal solutions and digital distribution offerings to customers worldwide. Former KnowledgePrice personnel now staff a Sapiens center for excellence for digital engagement services.

In March 2018, Sapiens also announced the acquisition of Adaptik, a North American (NA) P&C solution provider. This acquisition better positioned Sapiens to provide North American P&C carriers with an enhanced and complete platform, which has improved Sapiens' competitive position and enabled the Company to increase its market share in the North American insurance market. The acquisition of Adaptik and StoneRiver (in February 2017) created synergy with Sapiens' strong capabilities, and enable us to offer a truly modern, comprehensive property and casualty digital insurance platform to the U.S. market. Sapiens now offers an innovative P&C digital insurance platform that combines three powerful core components: Sapiens PolicyPro for Property & Casualty (formerly called Adaptik Policy), Sapiens BillingPro for Property & Casualty (formerly known as Adaptik Billing) and Sapiens ClaimsPro for Property & Casualty (formerly called StoneRiver Stream Claims), accompanied by Sapiens' existing solutions for data and analytics, digital engagement and distribution, and the cloud.

Sapiens' enhanced managed services offerings and cloud deployment have been adopted by several major customers and are expected to grow in the coming years. By allowing Sapiens to manage a substantial part of their ongoing IT operations, customers can focus on their core insurance competency and business.

In February 2019, Sapiens announced a complete rebranding that highlights our evolution to a unified global provider of insurance software solutions. The new brand identity marks Sapiens' growth into a one-stop-shop for insurance software solutions. Sapiens has renamed its entire product portfolio and changed the look-and-feel and contents of all its collateral, and launched a new website. Our new master brand architecture and descriptive solution names quickly communicate our offerings' main functions and frame Sapiens as a unified company (following the acquisitions described above). The updated look features our human-to-human (H2H) approach, reflecting the long-term partnerships we have with customers and employees and that is reflected in the entirely new marketing communications suite we have developed.

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Software Solutions

Our software portfolio is comprised of:

Property & Casualty – a comprehensive software platform, suite and solutions supporting a broad range of business lines, including personal, commercial and specialty lines, as well as reinsurance and workers’ compensation (see below).

Our portfolio includes Sapiens Platform for Property & Casualty (which is comprised of core, data and digital solutions) and two core suites: Sapiens CoreSuite for Property & Casualty (for North America) and Sapiens IDITSuite for Property & Casualty (for EMEA and APAC). The core suites are offered as a full suite, or insurers can choose standalone components: policy, billing and claims. Sapiens CoreSuite is based on technology acquired from Adaptik and StoneRiver, while the IDITSuite technology evolved from our previous Sapiens IDIT offering. Smaller, more agile insurance providers can choose Sapiens Stingray for Property & Casualty.

Life, Pension and Annuities – a comprehensive software platform, suite and complementary solutions for the management of a diversified range of products for life, pension and annuities. Our portfolio includes the Sapiens Platform for Life, Pension & Annuities; Sapiens CoreSuite for Life, Pension & Annuities (formerly called Sapiens ALIS), Sapiens UnderwritingPro for Life & Annuities (formerly called StoneRiver LifeSuite), Sapiens ApplicationPro for Life & Annuities (formerly called StoneRiver LifeApply), Sapiens IllustrationPro for Life & Annuities (formerly called StoneRiver LifePortrait) and Sapiens ConsolidationMaster for Life & Pension (formerly called Sapiens Closed Books).

Digital – Sapiens provides a full digital insurance suite that is based on an enablement platform that digitalizes insurance carriers’ business and helps them transform. The suite is comprised of a set of integrative offerings, including: Sapiens DigitalSuite (formerly called Sapiens Digital Suite), which offers an end-to-end, holistic and seamless digital experience for customers, agents, brokers, customer groups and third-party service providers. The suite is pre-integrated with Sapiens core suites and is comprised of the Sapiens DigitalHub (API Layer and Digital Studio) that enables openness and connectivity with partners; Sapiens AgentConnect (formerly Sapiens PORTAL) and Sapiens CustomerConnect (formerly Sapiens PORTAL) portals, specifically designed for the life, pension and annuities, property and casualty, and additional insurance markets; and the Sapiens PartnerHub, which makes third-party technology and insurtech solutions available to insurers and their customers. Sapiens also offer Sapiens Intelligence or Sapiens IntelligencePro (advanced analytics).

Reinsurance – complete reinsurance software solutions for full financial control and auditing support. Our portfolio includes: Sapiens ReinsuranceMaster, Sapiens ReinsurancePro and Sapiens Reinsurance GO.

Workers' Compensation – Sapiens' workers' compensation offerings handle comprehensive policy/billing and claims needs. Our solution portfolio includes Sapiens Platform for Workers' Compensation, Sapiens CoreSuite for Workers' Compensation (formerly called StoneRiver PowerSuite), Sapiens PolicyPro for Workers' Compensation and Sapiens ClaimsPro for Workers' Compensation. Providers looking to preserve greater agility may select Sapiens GO for Workers' Compensation (formerly called StoneRiver CompSuite), which is comprised of Sapiens PolicyGo for Workers' Compensation, Sapiens ClaimsGo for Workers' Compensation and Sapiens Connect for Workers' Compensation.

Financial & Compliance – we offer financial & compliance solutions comprised of both annual statement and insurance accounting software. This software includes Sapiens FinancialPro (formerly called StoneRiver PRO), Sapiens Financial GO (formerly called StoneRiver PTE), Sapiens StatementPro (formerly called StoneRiver eFreedom), Sapiens CheckPro (formerly called StoneRiver Power2Pay) and Sapiens Reporting Tools.

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Decision Management – Sapiens Decision is an enterprise-scale platform that enables institutions across verticals to centrally author, store and manage all organizational business logic. Organizations use it to track, verify and ensure that every decision is based on the most up-to-date rules and policies. Our Decision management offerings target the banking and insurance markets (P&C and life).

Technology-Based – tailor-made solutions (unrelated to the insurance or financial services market) based on our Sapiens eMerge platform, which provides end-to-end, modular business solutions, ensuring rapid time to market.

Services

Our services modernize and automate processes for insurance providers and financial institutions around the globe, helping to create greater organizational efficiencies, reduce costs and provide a better end user experience. They can be divided into three main categories: **program delivery**, **business services** and **managed services** (our various methodologies are applied across the categories).

Program delivery includes:

Project and program management

Training

Testing

Migration

Implementation and integration

Business services are comprised of:

Business transformation – planning and strategy, business process evaluation, training and change management

Digital transformation – business model and processes transformation and data management consolidation, as well as data migration

User acceptance testing (UAT)

System integration

Managed services include:

Hosting services

Application and system management

Ongoing production support

Sapiens has partnered with Microsoft Azure to offer its policy administration systems and accompanying services over private and public (single tenant) clouds. The company maintains an agnostic approach that also utilizes Amazon Web Services (AWS). Sapiens' cloud deployment includes full infrastructure for operations, plus the option of choosing cloud-related managed services delivered by Sapiens' experienced professional services team.

Methodologies:

Sapiens offers various delivery methodologies, including waterfall and Agile (and a combination of the two). We also provide delivery tools and delivery performance indicators.

Built on a solid foundation of insurance domain expertise, proven technology and a history of successful deployments, our organization assists clients in identifying and eliminating IT barriers to achieve business objectives.

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Our Marketplace and its Needs

Our Target Markets

We operate in a large market undergoing significant transformation. According to the Gartner report “Forecast: Enterprise IT Spending for the Insurance Market, Worldwide, 2016-2022, 4Q18 Update” (a market statistics research report by Gartner, a research and consulting firm, written by James Ingham, Venecia K. Liu and Rika Narisawa that was published on February 10, 2019, and which we refer to herein as the Gartner report), Gartner forecasts that the global IT spending insurance market will grow by 3.7% in 2019, to \$220.7 billion in U.S. dollars (on a constant-currency basis). This industry is forecast to reach nearly \$244 billion by 2022, growing at a 3.6% compound annual growth rate (CAGR) for the period from 2017 through 2022.

We believe that our current total addressable market for core insurance software solutions and the accompanied point solutions is approximately \$40 billion, which we expect will grow as a result of insurance carriers’ and financial institutions’ need to address, via modern software solutions from external providers, the operational challenges presented by the inefficiency of their legacy core systems. Legacy systems reflect technical and functional limitations that adversely impact carriers’ ability to swiftly launch new, innovative products that satisfy their customers’ changing needs and preferences.

By slowing down carriers’ business and geographic expansion, legacy systems create operational inefficiencies that result in increased business risk and financial costs. They are also a barrier for the adoption of digital capabilities, due to their inability to communicate and interact with innovative digital solutions. Today’s insurance providers are looking for more than just the traditional “core” capabilities. They seek insurance platforms with a wider range of capabilities, including full digitalization.

Our customers are operating in a constantly evolving regulatory environment. Often their legacy systems simply do not support new regulatory requirements and put carriers at risk of costly non-compliance. There is also a strong trend of shifting attention to the end-customer experience and activities, with a focus on digital operations. Many insurers are currently unable to provide the type of quality digital experience that their customers are already enjoying across most other verticals, and customer satisfaction is only one of the many recognized benefits of going digital. This can only be supported via increased usage of data for decision-making, risk analysis, customer evaluation and rating, which requires a streamlined data flow and easy access to information from multiple sources.

We believe these challenges will accelerate the shift from spending on legacy systems to new vendor software solutions. It is also Sapiens’ view that these challenges are too difficult to overcome via “in-house” systems and that the

majority of insurers will turn to external software vendors, such as Sapiens.

Property & Casualty Market

Property & casualty insurance protects policyholders against a range of losses on items of value. P&C insurance includes the **personal segment**, which is insurance coverage for individuals, with products such as motor, home, personal property and travel; the **commercial segment**, covering aspects of commercial activity, such as commercial property, car fleets and professional liability; and **specialty lines**, covering unique domains, such as marine, art and credit insurance. This market also includes workers' compensation for market carriers, administrators and state funds.

During the past few years, the P&C market has been characterized by a fast rate of digital adoption. New business and technology models are adopted rapidly, to launch innovative business offerings. This requires advanced software solutions, both on the "core" layer, which needs to be flexible and open, and with the variety of digital tools addressing customer experience needs.

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Life, Pension and Annuity Markets

Life, pension & annuity providers offer their customers a wide range of products for long-term savings, protection, pension and insurance. They assist policyholders with financial planning through life insurance, medical and investment products. Their products can be classified into several areas, primarily investment and savings, risk and protection, pension and health-related products. These products can be targeted to individuals, as well as group- and employee-benefit types of products.

The products in this field are long-term in nature. When insurance providers consider purchasing new platforms from Sapiens, the decision is typically slower and involves multiple decision-makers throughout the organization.

Digital Market

Insurance carriers risk losing their customers if they do not provide the type of digital experience that all of us have come to expect from the retailers and service providers we interact with daily. Agents, brokers and other channel and service providers also require a powerful digital ecosystem to capably carry out their crucial tasks.

It is not enough to simply provide a portal to offer today's consumers the online presence they demand, or to work with an isolated analytics system to parse data. A big step up is needed via an all-encompassing digital approach featuring integrated components functioning at their highest levels and complementing each other.

Reinsurance Market

Reinsurance is insurance that is purchased by an insurance company (ceded reinsurance) from another insurance company (assumed reinsurance) as a means of risk management. The reinsurer and the insurer enter into a reinsurance agreement, which details the conditions upon which the reinsurer would pay the insurer's losses. The reinsurer is paid a reinsurance premium by the insurer and the insurer issues insurance policies to its own policyholders. The insurer must maintain an accurate system of records to track its reinsurance contracts and treaties, to avoid claims leakage.

Workers' Compensation

Workers' compensation is one of the largest lines of business in the property and casualty (P&C) industry in North America. But future profitability is getting harder to maintain, with medical and indemnity costs per lost time claim increasing at rates greater than inflation. Insurance organizations require technology solutions that can adapt quickly to business and market conditions, offering high levels of accuracy and efficiency.

Financial & Compliance Market

Financial professionals face overwhelming challenges as they struggle to satisfy ever-changing regulatory requirements, while meeting the demands of managerial reporting. The move towards globalization has introduced new currencies, and CEOs need more performance data for strategic decision-making. Organizations require one partner to optimize efficiencies with solutions that can be implemented quickly.

Decision Management Markets

Increasing competition, regulatory burden, customer experience expectations and the proliferation of digital and product innovation requirements have necessitated a shift in thinking and approach among organizations across verticals. By replacing conventional policy and process management with the discipline known as "decision management," financial institutions are bridging the gap between business and IT, by enabling business users to rapidly frame requirements in formal business models that can be easily understood by all stakeholders.

The decision management processes affect overall corporate performance, including its impact on customers and competitors. Decision management systems are a key performance component of every financial services organization, as they help the organization define, avoid and hedge financial risk.

Needs of our Target Markets

Large insurance and financial organizations must constantly invest in their IT systems to respond to key market drivers. They require the ability to:

Satisfy today's sophisticated, tech-savvy and demanding end-customers – who demand the type of instant, personalized service they enjoy via Facebook or Amazon – via digitalization and innovative initiatives, providing a stronger customer experience and engagement.

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Use advanced technologies, such as artificial intelligence (AI) and machine learning, to facilitate, improve and automate traditional insurance processes.

Provide innovative business models, based on technology capabilities and digital operation (such as a portal, a web-based acquisition process, advanced analytics, customer engagement platforms and the usage of data sources – including wearables, the Internet of Things (IoT) and robo-advice.

Respond to complex and evolving regulatory standards, such as Solvency II, IFRS 17, Dodd-Frank legislation, GDPR, etc.

Support internal customers' growth and operations. This includes reducing the time to market of new products, expanding into new geographies, reducing costs and streamlining operations.

Rapidly launch new products and propositions to the market, within a short timeframe and using existing, pre-defined capabilities.

Specific Needs of the Insurance Markets

The insurance market is a large, complex and highly regulated environment. Insurance carriers operate in a super-competitive and quickly evolving market, which necessitates differentiating their value propositions. Additionally, carriers operate under a rigid regulatory regime that demands fast compliance. The insurance market is going through a rapid evolution process, driven by new technologies, digital capabilities and new business models, all enabled by new technologies.

To efficiently manage their operations, insurance carriers require IT platforms that enable rapid introduction of changes via configurable, user-driven activities, integration with internal and external systems, control and auditing of employees' work, support for omni-channel distribution and clear visibility into the carrier's business operations, through streamlining and intelligent usage of data.

To compete in the rapidly-changing environment, and win the competition for end-customers, insurance carriers require a coherent digital proposition, allowing them to better interact with their customers in a digital and omni-channel manner. They are increasingly using robotics, predictive analytics, AI and machine learning to automate processes and obtain stronger business insights. The cloud can also be utilized for improved operations and scale.

Insurance carriers are experiencing substantial operational challenges due to the inefficiency of their legacy policy administration systems and their lack of digitalization. These legacy systems, which include both technical and functional limitations, acutely impact carriers' ability to cope with growing challenges, such as the need for innovation, the shift of power to the consumer, and the dynamic and constantly changing regulatory environment.

We believe the following are key considerations for insurance carriers when they think about upgrading their legacy systems:

Dynamic business environment with constantly changing regulations – many insurance carriers still use outdated legacy systems that are costly and time-consuming to modify or upgrade. This has prevented insurance carriers from innovating and growing. Carriers who use legacy systems may find that it is difficult for them to modify existing products, introduce new products and reach untapped market segments. Varied and frequently changing global regulatory requirements require specialized data and business rules, which makes change implementation particularly challenging.

Change in end-consumers' behavior and the shift of power to consumers – insurance carriers must rapidly adapt to the shifting needs and behaviors of consumers, including the types and terms of insurance products offered, and how consumers access information. Insurance carriers require systems with integration capability and support for multi-channel distribution, so they can reach their clients' customers and partners using multiple methods, including social media, across devices.

A need to improve operational efficiency and reduce total cost of ownership – Sapiens believes that a majority of insurance carriers are still using inefficient and outdated processes that do not automate operations and workflows, and thus don't offer efficient process management. Many of these processes may have high error rates. Additionally, the ongoing maintenance of legacy systems is expensive and technically difficult. A specialized IT staff with the requisite skills and experience needed to maintain these systems is difficult to find and then eventually replace. Insurers seek systems that are modern, digital, automated, efficient and easy to maintain, and can lower costs over the long term.

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Increasing global and multi-national operation – a rising number of insurers are accelerating their growth initiatives through global acquisitions. These insurers seek a single provider who can deliver solutions that will be used across markets, combining the support of local regulatory requirements and specific customer needs, while driving a generic corporate business approach and strategy across the globe, reducing costs and overhead.

Going digital – digitalization holds significant potential for insurers, but only if they manage to efficiently digitalize their operations, support multi-channel distribution and ensure that agents and customers are able to access real-time, accurate data at any time and from anywhere – including tablets and other mobile devices.

Exploring new business models and innovative propositions – carriers are increasingly looking to: adopt and use new technologies and innovative capabilities; bring modern and differentiating propositions to the market, reduce cost, enhance and speed customer engagement, and improve their business parameters and KPIs.

Business Decision Management Market Needs

Many large organizations, particularly in the financial services market, must comply with complex regulations. They operate in highly competitive markets that require quick responses. Business logic drives most of the financial services transactions and is the backbone of an organization's policies and strategies, and its ability to successfully operate.

To achieve efficiency, business owners must assume ownership of the business logic and possess the ability to define and modify it, standardize it and reuse it across the organization. Business logic is defined today by business owners and compliance officers, but IT departments translate the requirements into code. This process raises several key challenges: the result does not always accurately reflect the business requirements; the new requirements might conflict with, or override, previous requirements; and the entire process is not fully audited. These gaps often create an inefficient and risk-exposed organization.

Sapiens' Software Solutions

Overview

Sapiens is a leading global provider of software solutions for the insurance industry. By enabling our insurance and financial services customers to digitize their business and be more agile in the face of changing business environments, we help them take advantage of powerful current trends – such as the Internet of Things, artificial

intelligence, machine learning, customer engagement, chat bots, etc. – while simultaneously reducing IT costs.

We offer our insurance customers a range of packaged software solutions that are:

Digital – revealing their history and anticipating their future needs, while facilitating easy engagement across preferred interaction channels and multiple devices.

Data-driven – based on set of data analysis tools, from data-warehouse and reporting, through business intelligence and analytics, to predictive and advanced analytics – so our customers can become a data-driven operation.

Highly automated – by using various technologies, from decision to robotics, we improve efficiency and offer agile customer engagement.

Comprehensive and functionally-rich – support for insurance standards, regulations and processes, by providing field-proven functionality and best practices.

Customizable & configurable – easily matches our customers' specific business requirements. Our flexible architecture and configurable structure allow quick functionality augmentation that permits our platform to be used across different markets, unique business requirements and regulatory regimes. We utilize our knowledge and extensive insurance best practices and feature business-led configuration.

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Open architecture and insuretech ecosystem – provides easy integration to any external application under any technology, allowing streamlined connectivity to all satellite applications. This enhances the digital experience and omni-channel distribution, while maintaining total platform independence and system reliability. Easy interaction with various insuretech companies providing point-solutions that can be consumed by our platforms is enabled.

Component-based and scalable – allows our customers to deploy platforms and solutions in a phased and modular approach, reducing risk and harm to the business, while supporting the growth plans and cost efficiency of the organization.

Our packaged software solutions enable:

Rapid deployment of new insurance products – via configurable software, which creates a competitive advantage in all the insurance markets we serve.

Improvement of operational efficiency and reduction of risk – full insurance process automation, with configurable workflows, audit and control, streamlined insurance practices, and simple integration and maintenance.

Reduction of overhead for IT maintenance – easy-to-integrate solutions with flexible and modern architecture, resulting in lower costs for ongoing maintenance, modifications, additions and integration.

Enhanced omni-channel distribution and focus on the customers – event-driven architecture, a proactive client management approach, rapid access to all levels of data, and a holistic view of clients and distributors.

Cloud-first as a preferred deployment model – with the flexibility to also provide an on-premises deployment approach.

Support for digitalization – insurers and financial services institutions who manage to efficiently digitalize their operations, support omni-channel distribution and ensure that agents and customers are able to access real-time, accurate data at any time and from anywhere – including tablets and mobile devices – will unlock massive potential.

Managed services – offering our customers access to a long-term engagement by providing comprehensive support for their daily IT operations, while allowing them to focus on their business KPIs.

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Sapiens Property & Casualty Solutions

Sapiens Platform for Property & Casualty

The Sapiens Platform for Property & Casualty is an end-to-end, cloud-based platform with advanced digital capabilities. It can be implemented as a pre-integrated platform, or as standalone modules. The platform addresses all P&C carrier needs across all lines of business and distribution channels, offering a wealth of digital features. It is comprised of core (policy, billing and claims), data (advanced analytics) and digital (a full suite) solutions.

Sapiens offers two core suites, based on region:

Sapiens CoreSuite for Property & Casualty (North America)

Sapiens CoreSuite for Property & Casualty is comprised of three fully integrated, core components that can also be deployed stand-alone: Sapiens PolicyPro, Sapiens BillingPro and Sapiens ClaimsPro.

CoreSuite is pre-integrated with additional components that can be selected, including business intelligence, reinsurance and portal solutions (customer and agent), as well as various interfaces.

This modular, automated, highly customizable suite offers a single platform for personal, commercial and specialty lines of business (LoBs). This increases organizational efficiency by reducing manual effort, generates competitive advantages and saves costs.

Sapiens IDITSuite for Property & Casualty (EMEA & APAC)

The Sapiens IDITSuite for Property & Casualty (formerly called Sapiens IDIT) is a component-based, standalone software solution suite that offers policy, billing and claims and forms the core of the Sapiens Platform for Property & Casualty. IDITSuite supports all end-to-end core operations and processes for the non-life P&C market from inception, to renewal and claims. This pre-integrated, fully digital suite offers customer and agent portals, business

intelligence and more. IDITSuite enables insurers to expand their offerings by testing new lines of business, products and services using our flexible product factory.

The suite is modular, or can integrate with your ecosystem's components. IDITSuite for Property & Casualty includes multiple lines of business in one policy for multiple insured objects and assets. It can support corporate agreements and master policy structures. IDITSuite is designed with growth and change in mind, with extensive multi-company, multi-branding, multi-currency and multi-lingual capabilities. The IDITSuite management system is built on open technology and can be used on desktops, laptops and tablets, as well as smartphones (requiring a mobile portal).

Sapiens Policy Administration Solutions

The Sapiens' policy solutions for property & casualty come pre-integrated with the core system. They are easily integrated with existing and external systems and applications. The solutions manage the end-to-end policy administration lifecycle of an insurance contract, from initial quote, through rating and policy issuance. They also feature a complete range of policy issuance and amendment capabilities. Agents, underwriters and customers use the solutions to quote, issue and administer policies. The offerings provide comprehensive policy lifecycle support for all P&C lines of business.

Sapiens Billing Solutions

The Sapiens' billing solution for P&C enables carriers, MGAs and brokers to manage the full lifecycle of premium services, taxes and fees, along with commission billing, collection and disbursements. P&C carriers can integrate with third-party systems and data repositories, enjoy best-in-class usability and automate processes throughout the billing lifecycle.

Sapiens Claims Solutions

Sapiens' claims solutions for property & casualty provide simplified management and automated control of claims management handling and the settlement process. They offer intelligent, rules-driven workflow with effective claim assignment, ensuring faster cycle times, as well as rules-driven automatic claims payment.

Sapiens Stingray for Property & Casualty

Sapiens Stingray for Property & Casualty is a complete solution with quick implementation for all P&C insurance lines, providing a complete core processing solution right out of the box. Its modular software components are designed with flexibility in mind. This solution is customizable and well-suited for tiers 4-5.

P&C Digital Offerings

The Sapiens DigitalSuite (formerly known as Sapiens Digital Suite) offers an end-to-end, holistic and seamless digital experience for P&C customers, agents, brokers, customer groups and third-party service providers. The suite is pre-integrated with Sapiens' P&C core and is comprised of digital engagement and digital enablement and API layer components. The suite is cloud-based.

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Sapiens Life, Pension & Annuity Solutions

Sapiens Platform for Life, Pension & Annuities

The Sapiens Platform for Life, Pension & Annuities is a modern, digital insurance platform that includes core, data and digital solutions. With the ability to deploy its offerings as a complete platform, or as standalone modules, Sapiens can address life providers' needs across all their lines of business and distribution channels. Our mature platform is cloud and API-based, and features a strong core and advanced analytics, as well as data enablement and full digital engagement capabilities.

Sapiens CoreSuite for Life, Pension & Annuities

Sapiens CoreSuite for Life, Pension & Annuities (formerly called Sapiens ALIS) is designed to provide excellence in the administration of insurance business, facilitate digital transformation and fast time-to-value for digital strategies, and create greater efficiency via legacy consolidation. It offers insurers:

A single platform for individual and group business

Transformation, enablement and execution for digital strategies

Greater efficiency via improved automation, user experience and system consolidation

Single Platform

The Sapiens CoreSuite software suite supports the end-to-end administration of group and individual life, annuities, pension and investment business in a single system. The suite offers a 360-degree view of the customer from their policy administration system, across all distribution channels and communication streams.

Existing System Consolidation

Many insurers still use systems developed decades ago that cannot support today's regulatory changes, digital marketplace and demanding customers. Too many manual processes can lead to errors that impact customer experience. Our unique conversion approach reduces the risks involved in migrating from existing legacy systems.

Sapiens UnderwritingPro for Life, Pension & Annuities

Sapiens UnderwritingPro for Life, Pension & Annuities (formerly called StoneRiver LifeSuite) is a web-based solution for automated underwriting and new business case management that is part of Sapiens' core suite. It speeds new business processes for insurance carriers and their channels, offering an intuitive user interface with critical updates and task assignments provided on a real-time dashboard. Sapiens UnderwritingPro enables underwriters and case managers to work on multiple cases simultaneously.

Sapiens ApplicationPro for Life & Annuities

Sapiens ApplicationPro for Life & Annuities (formerly known as StoneRiver LifeApply) is web-based insurance application software that provides carriers with the choice of a standalone eApplication system, or a more comprehensive solution that seamlessly integrates with Sapiens IllustrationPro for Life & Annuities (formerly called StoneRiver Life Portraits) and Sapiens UnderwritingPro for Life & Annuities (formerly StoneRiver LifeSuite). Sapiens ApplicationPro is robust electronic application software that helps carriers address critical business drivers, such as decreasing time-to-issue and reducing policy acquisition costs, all in an extremely intuitive and easy-to-use package.

Sapiens IllustrationPro for Life & Annuities

Sapiens IllustrationPro for Life & Annuities (formerly called StoneRiver Life Portraits) is a point-of-sale solution, offering responsive product illustrations from any location in an electronic environment, with internet and desktop support. ACORD®-compliant, it offers straight-through processing, from point-of-sale to application e-submission, supported by a needs analysis suite. IllustrationPro explains complex products in a compelling way. Its powerful calculation engines handle the most complex product illustrations, including the appropriate historical and hypothetical references.

Sapiens ConsolidationMaster for Life & Pension

Sapiens ConsolidationMaster (formerly called Sapiens Closed Books) is a purpose-built, end-to-end, legacy, portfolio-focused system with a unique migration methodology that deals with “dirty” data. The solution has over 500 product templates capable of supporting the compliant administration of legacy products in any language and regulatory jurisdiction. ConsolidationMaster is designed to significantly cut the costs that are commonly associated with legacy platforms.

Digital Transformation

Sapiens CoreSuite features full pre-integration to the Sapiens DigitalSuite and digital capabilities have been enhanced via adaptors. This facilitates digital transformation and fast time-to-value for digital strategies. It enables life carriers to become engaged, agile organizations with increased sales opportunities. By integrating CoreSuite with our advanced analytics solution and data warehouse, we can quickly generate actionable insights, self-service business intelligence and data discovery capabilities, across all mobile devices (and in the cloud).

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Sapiens Digital Offerings

Sapiens Intelligence

Sapiens Intelligence is an innovative business intelligence solution specifically designed for the insurance market. The solution is based on the advanced technology of SAP's analytics platform and on insights from scores of customers in production. It empowers business users to quickly and easily draw business conclusions and insights from raw data, via self-service analytics and easy-to-use, modern tools. Sapiens Intelligence drives analytics adoption across the organization with compelling, insightful dashboards and apps.

Sapiens IntelligencePro

Sapiens IntelligencePro (formerly 4SightBI) suite is a comprehensive, affordable BI solution, with over 100 pre-configured reports, dashboards, scorecards, ad hoc reporting and hundreds of analytics. With "what-if?" capabilities and ease-of-use in underwriting, claims, billing, management, reinsurance and other areas, carriers can generate actionable insights and heal their pain-points.

Sapiens DigitalSuite

Sapiens DigitalSuite offers an end-to-end, holistic and seamless digital experience for customers, agents, brokers, customer groups and third-party service providers. The suite is pre-integrated with Sapiens' core suites and is comprised of Sapiens DigitalHub (API Layer and Digital Studio) that enables openness and connectivity with partners; Sapiens AgentConnect (formerly Sapiens PORTAL) and Sapiens CustomerConnect (formerly Sapiens PORTAL) portals, specifically designed for the life, pension and annuities (L&A), property and casualty (P&C), and additional insurance markets; and Sapiens PartnerHub. The suite is cloud-based.

Sapiens CustomerConnect

Sapiens CustomerConnect (formerly called Sapiens PORTAL) is a modular, highly innovative portal solution specifically designed for the life, pension & annuity (L&A) and property and casualty (P&C) insurance markets. It is a direct-to-consumer application, enabling insureds to buy policies, view the statuses of their policies and accounts, and

issue claims. Many other transactions can be performed that save both consumers and insurers time, and reduce costs, while increasing overall consumer satisfaction.

Sapiens AgentConnect

Sapiens AgentConnect (formerly called Sapiens PORTAL) is a modular, highly innovative portal solution specifically designed for the life, pension & annuity (L&A) and property & casualty (P&C) insurance markets. It empowers agents with full lifecycle enablement, including the ability to manage their pipeline, sell policies to their consumers and provide top-level customer service in real-time. Agents can also see a holistic view of their business performance overall and benefit from full access to all their remunerations, payments, commission transactions and statements.

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Sapiens DigitalHub

Sapiens DigitalHub (API Layer and Digital Studio) facilitates an open-communication, API-based platform that enables carriers to interact with insurtech companies, ecosystem technology providers and business partners. By enabling seamless interaction with any service under any technology, Sapiens' open architecture ensures that providers will easily choose the building blocks they need. They'll be able to seamlessly integrate all elements within their insurance ecosystem, to succeed today and prepare for the future.

Sapiens PartnerHub

Sapiens is a global organization with over three decades of extensive experience in insurance innovation and technology. We seek out and identify the most relevant, advanced and innovative technology solutions for the insurance market. We connect third-party technology and insurtech solutions to our Sapiens PartnerHub, from where we make their offerings available to insurers for their own use, and for the use of their customers.

Sapiens ReinsuranceMaster

Sapiens ReinsuranceMaster (formerly called Sapiens Reinsurance) is a comprehensive business and accounting system, providing a superior solution for all types of reinsurance contracts – treaty and facultative, and proportional and non-proportional. It enables insurers of all sizes to manage their entire range of reinsurance contracts and activities for all lines of business, including rich accounting functionality and reporting capabilities.

Our reinsurance solution enables full and flexible control of reinsurance processes, with built-in automation of contracts, calculations and processes. By incorporating fully automated functions adapted conveniently for your business procedures, Sapiens Reinsurance provides flexible and total financial control of your reinsurance processes, including complete support for all auditing requirements and statutory compliance.

Sapiens ReinsurancePro

Sapiens ReinsurancePro (formerly called StoneRiver URS) is an efficient reinsurance administration system, supporting all types of reinsurance processing, regardless of volume, in one comprehensive and powerful reinsurance

system. The system produces Schedule F automatically. Our solution enables insurance companies to manage and automate the underwriting and administration of reinsurance, including treaty and facultative, ceded, assumed and retroceded reinsurance.

Sapiens Reinsurance GO

Sapiens Reinsurance GO (formerly called StoneRiver FRS) is designed to meet the ceded reinsurance processing needs of property and casualty providers, from calculating premium and claim cessions, to producing the data required for Schedule F. Sapiens Reinsurance GO consolidates reinsurance accounting and cash management into one area. It automatically attaches and calculates ceded premium, commissions, losses, reserves and LAE, and automatically allocates ceded transactions to reinsurers.

Sapiens Workers' Compensation Offerings

Sapiens Platform for Workers' Compensation

The Sapiens Platform for Workers' Compensation includes the Sapiens CoreSuite for Workers' Compensation, Sapiens Connect for Worker's Connection (a portal solution) and Sapiens IntelligencePro (business intelligence).

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Sapiens CoreSuite for Workers' Compensation

The Sapiens CoreSuite for Workers' Compensation (formerly StoneRiver PowerSuite) offers larger carriers, administrators and state funds the technology solutions that enable them to adapt quickly to business and market conditions, offering high levels of accuracy and efficiency. The suite provides broad functionality throughout the entire insurance lifecycle for workers' compensation, via a core suite, as well as policy, claims and intelligence modules that can be deployed individually, or as an integrated solution. This suite can be purchased as an integrated offering, or standalone components:

Sapiens PolicyPro and Sapiens ClaimsPro.

Sapiens GO for Workers' Compensation

Sapiens GO for Workers' Compensation (formerly called StoneRiver CompSuite) was developed specifically for carriers, managing general agents (MGAs), self-insurance funds and third-party administrators. Sapiens GO can deliver a turnkey solution in just 120 days. With its streamlined user interface and advanced business features, the suite addresses critical objectives for carriers, MGAs, self-insurance funds and third-party administrators (TPAs). This suite can be purchased as an integrated offering, or standalone components:

Sapiens PolicyGO and Sapiens ClaimsGO for Workers' Compensation

Sapiens Financial and Compliance Solutions

Sapiens FinancialPro

Sapiens FinancialPro (formerly called StoneRiver PRO) is accounting software designed for insurers to meet their unique requirements for cash, statutory and GAAP reporting, well as unique allocation and consolidation needs. It handles multi-basis accounting and inter-company transactions, and facilitates the speed and accuracy of financial reporting. Sapiens insurance experts assist carriers in collecting and reporting information they need to expedite all regulatory processes.

Sapiens Financial GO

Sapiens Financial GO (formerly called StoneRiver PTE) gives small- and mid-sized insurers a competitive edge in today's marketplace, because it's developed and supported by highly experienced insurance experts. The solution is designed to meet insurers' specific requirements for cash, statutory and GAAP reporting, as well as unique allocation and consolidation needs. Sapiens Financial GO manages and presents data to help insurance managers make informed decisions.

Sapiens StatementPro

Sapiens StatementPro (formerly StoneRiver eFreedom) makes statement preparation faster and simpler by offering one-click navigation between statements, pages and form validations (cross-checks) to the pages they reference. Intuitive workflow and helpful wizards lead users effortlessly through each step, transforming the filing process and offering one-step filing. Additionally, Sapiens offers Sapiens CheckPro (formerly called StoneRiver Power2Pay) and Sapiens Reporting Tools.

Sapiens Business Decision Management Solutions

Sapiens Decision is a set of complete decision management solutions that place software development in the hands of the business domain and enforce business logic across all enterprise applications. Decision effectively addresses the complexity of determining and then translating business logic – data, business rules and machine learning used to make business decisions – into operational code. The business side of the organization can model, validate, test and simulate the business logic required for all new processes using Sapiens Decision. The process takes days or weeks, instead of months or years. A rigorous, structured approach ensures accuracy, efficiency and consistency during modeling. The models may then be automatically generated and deployed as code into automated DevOps environments, ensuring that the software is fully aligned with the organization's business needs.

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We are currently focusing on the development and marketing of Sapiens Decision in the financial services market in North America and Western Europe, and we are building best practices to be used primarily by mortgage, retail and investment banking where the scale and complexity of operations requires enterprise-grade technology that can easily be adapted as policies and business strategies rapidly evolve. We also developed and market Sapiens Decision for the insurance industry and leverage our industry knowledge and close relationships with our existing customers and partners Decision targets multiple markets, including consumer and commercial, investment and mortgage banking; as well as the P&C and life insurance markets.

Sapiens Decision for Insurance (formerly called Sapiens DECISION) enables insurers to efficiently adapt their business operations to the demands of digital transformation, changing regulations, customer demands and increasing competition. It is currently used by a top-tier, P&C insurance company to implement process automation and effect digital transformation. Sapiens Decision transforms how insurance carriers are approaching change, by modernizing traditional business rules management. It enables insurers to grow their business and respond to market needs through accurate and consistent enforcement of business rules and policies.

Technology-Based Solutions

Sapiens eMerge

Sapiens eMerge is a rules-based, model-driven architecture that enables the creation of tailor-made, mission-critical core enterprise applications with little or no coding. Our technology is intended to allow customers to meet complex and unique requirements using a robust development platform. For example, we perform proxy porting for our customers in an efficient, cost effective manner with Sapiens eMerge.

Sapiens' Global Services

As noted previously, the Sapiens Service Suite is comprised of three main pillars: **program delivery**, **business services** and **managed services**, as well as our various methodologies (which are applied across the first three pillars).

Program delivery includes:

Project and program management

Core development and implementation

Integration

Deployment

Testing

Business transformation services are comprised of:

Business transformation – planning and strategy, business process evaluation, training and change management

Digital transformation – business model and processes transformation, plus data management consolidation and data migration

User acceptance testing (UAT)

System integration

Managed services include:

Hosting services

Application and system management

Ongoing production support

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Our services modernize and automate processes for insurance providers and financial institutions around the globe, helping to create greater organizational efficiencies, reduce costs and provide a better end-user experience. Built on a solid foundation of insurance domain expertise, proven technology and a heritage of successful deployments, we assist clients in identifying and eliminating IT barriers to achieve business objectives.

Benefits include:

Project delivery experience – more than 35 years of field-proven project delivery of core system solutions, based on best practices and accumulated experience.

System integration – we help our customers deploy modern solutions, while expertly integrating these solutions with their legacy environments that must be supported.

Global presence – insurance and technology domain experts are located close to our customers to provide professional services.

Our implementation teams assist customers in building implementation plans, integrating our software solutions with their existing systems, and deploying specific requirements unique to each customer and installation. Sapiens' business services include API integration management and business intelligence (BI) and advanced analytics consolidation. Our managed services offer ongoing production support and a 24/7 help desk.

Sapiens' service teams possess strong technology skills and industry expertise. The level of service and business understanding they provide contributes to the long-term success of our customers. This helps us develop strategic relationships with our customers, enhances information exchange and deepens our understanding of the needs of companies within the industry.

Through our service teams, we provide a wide scope of services and consultancy around our core solutions, both in the initial project implementation stage, as well as ongoing additional services. Many of our customers also use our services and expertise to assist them with various aspects of daily maintenance, ongoing system administration and the addition of new solution enhancements.

Such services include:

Adding new lines of business and functional coverage to existing solutions running in production

Ongoing support services for managing and administering the solutions

Creating new functionalities, per specific requirements of our customers

Assisting with compliance for new regulations and legal requirements

In addition, most of our clients elect to enter into an ongoing maintenance and support contract with us. The terms of such a contract are usually twelve months and are renewed every year. A maintenance contract entitles the customer to technology upgrades (when made generally available) and technical support. We also offer introductory and advanced classes and training programs available at our offices and customer sites.

We partner with several system integration and consulting firms to achieve scalable, cost-effective implementations for our customers. We have developed an efficient, repeatable methodology that is closely aligned with the unique capabilities of our solutions.

Our Strengths

Comprehensive digital platform of high-end, crucial business-solutions for insurance – Sapiens is a one-stop-shop offering end-to-end solutions for both the P&C and L&A markets, supporting most sub-segments of these markets and the complete lifecycle of product lines. Our software supports and enables our customers' core insurance business processes throughout the full lifecycle, including policy administration, billing and claims. These are accompanied by the Sapiens DigitalSuite, which offers strong analytics, data management and customer engagement capabilities. We believe this is a unique offering among software providers. Built for global and multi-national operations, our solutions are used in a variety of international regulatory, language and currency environments. And our digital suite is pre-integrated with our Sapiens core products.

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Innovative solutions with leading functionality and technology – Our platforms, suites and solutions are based on advanced, modern architectures that are specifically designed to satisfy our customers’ needs. These offerings are integrated, modular and component-based, and include scalable product suites supporting various lines of business. By using our solutions, carriers can support new sales channels, including mobile and social, reduce time to market for new product launches, and lower total cost of ownership. Additionally, we significantly invest in research and development to ensure that our products employ new technology, are compatible with the needs of our clients and are easy to use. As a result, our products maintain a leadership position, as recognized by top industry analysts – such as Celent, Gartner and Novarica – for their levels of technology and functionality.

One-stop-shop across products and services – In addition to our market-leading products across P&C and L&A, we possess consulting and implementation capabilities, which we use to customize our products and design the solution that best meets our customers’ requirements. We believe that our customers do business with us not only because of our leading products, but also due to our complementary service offerings, which enhance our products and enable clients to maximize the value derived from our solutions.

Additionally, Sapiens’ managed services proposition enables our customers to benefit from a long-term engagement model that helps them take care of their IT operational aspects and ongoing business support. We believe that this approach lowers the risks for our clients, as they transition to a new system, and at the same time provides them with the desired functionality. We consult with each of our customers to determine their specific needs and then enhance our core solution and customize the appropriate interfaces.

Strong, diverse and stable customer base – Sapiens currently serves more than 450 customers globally, including some of the world’s largest global insurance carriers and financial institutions. Our customer base is diversified across insurance providers of all types and sizes. We have been able to successfully maintain these customers due to our broad product portfolio geared toward addressing the needs of the various industries. In addition, our business decision management platform is applicable across the financial services industry, including a wide range of financial institutions, and offers an opportunity for further diversification in other markets. Such a diversified portfolio of products enables us to benefit further from cross- and up-sell opportunities to this large customer base. Geographically, we derived 47.1%, 44.4%, 4.6%, and 3.9% of our revenues from the North American, European, and Asia-Pacific regions, and from South Africa, respectively, in the year ended December 31, 2018, and 40.7%, 44.9%, 6.7% and 7.7% from these respective areas, in the year ended December 31, 2017.

Long-term relationships with customers – Our products are at the core of our customers’ businesses, which ensures that our customers continue to use and co-invest in our products, providing us with long-term relationships that result in revenue stability. Installing a new core system is a major undertaking for insurance carriers that involves extended pre-production work and entails a comprehensive integration and implementation effort that is offered as part of our services. Many of our customer relationships have been in place for more than 10 years and we have benefited from recurring revenues as customers request support, upgrades and enhancements for our systems. We successfully leverage these relationships in a mutually beneficial way, by marketing complementary solutions to our loyal

customer base.

Global company –Sapiens’ 450 customers and 2,500 (approximately) employees are located in 25 countries around the world. We have five major development, delivery and support centers in Israel, U.S., India, Poland and the UK. Sapiens’ “think global, act local” approach is based on having experts in close proximity to Sapiens customers, to establish and maintain strong relationships, and provide fast support when necessary

Proven management team – Sapiens’ management team has extensive experience in the insurance and financial services industries, and we have been able to achieve our business and development objectives to date. Management has also been successful in retaining key personnel from the companies we acquired, enabling us to benefit from their experience and knowledge of the acquired products and technology. Our management team possesses a variety of skills in product development, business development, sales, marketing, technology and finance, as well as a unique knowledge of the financial services industry. We have maximized contributions from our hard-working, talented and innovative employees.

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Our Strategy

Leveraging our offerings, geographic presence and experienced management team, our goal is to further expand our presence in the markets in which we operate and further enhance our leadership in the global market. Our growth strategy is solidly based on both existing and new customers, and will include mergers and acquisitions, when applicable, to accelerate our growth. We plan to achieve our goals by focusing on the following principles:

Continue to innovate and extend the leadership of our product offerings – We plan to continue to invest in research and development (R&D) to enhance our software platforms, as well as expand our business and technology partnerships, and to ensure our offerings remain leading products, in terms of functionality and technology. Sapiens believes our focus on innovation, combined with our industry expertise, will enable us to improve our existing offerings and allow us to produce new solutions for the benefit of our customers and partners.

Leverage our global footprint to offer our complete platform/solutions – Sapiens intends to broaden our existing offering of solutions to enhance our presence in the geographies in which we currently operate. In particular, we believe that there is considerable opportunity to grow sales of our P&C platforms in the United States, Canada and Europe. Additionally, we plan to market our current suite of solutions to previously untapped countries in Europe, to continue to generate revenue on existing products in new geographies. Sapiens also plans to expand the market reach of our business decision management platform into Europe and the Asia Pacific region.

Mergers and Acquisitions (M&As) – Our M&A approach facilitates our growth strategy. We continually (but also prudently) seek to identify new growth markets to penetrate via acquisition of local offices and customer bases. In addition, we aim to enhance our product portfolio with complementary solutions that will help our customers excel. Sapiens believes that our acquisition of local customer bases and expertise will accelerate our market penetration in strategic regions. We continue to successfully leverage the acquisition of StoneRiver and Adaptik to strengthen our presence in North America, expand our product portfolio and accelerate our footprint in the North American P&C market.

Capture adjacencies and new opportunities – Insurance software vendor engagements with insurers are often long-term. To maximize the value of our current offerings and leverage our ongoing relationships with customers, Sapiens plan to feature and promote our digital suite and managed services proposition to enhance our presence in the insurance market. Additionally, we plan to focus on deeper penetration of the financial services market with our business decision management platform. Our business decision management platform can be used in a wide variety of organizations (particularly banking) to facilitate streamlined and efficient regulatory compliance.

Invest in sales and marketing – Sapiens plans to strengthen our sales and marketing teams by working with and training sales professionals with experience in the insurance industry, or with connections to new or existing customers. We continually try to expand market-awareness of our brand and solutions, including our recent total rebrand of our website and master brand architecture, and enter new markets and domains within the insurance technology space. We believe that the strength of our core solutions, the experience of our sales and marketing team, and our established and growing customer base create a significant opportunity to provide new and complementary solutions that address the ongoing needs of our customers.

Focus on our existing customer base – One of our strongest assets is our large and continuously-growing customer base and our long-term relationship with our customers. As we continuously grow our product portfolio, our value-added services, and our managed services proposition, Sapiens has a unique opportunity to enhance our footprint within our existing customers base via cross- and up-selling. By providing additional services and products, Sapiens can grow its presence with established customers. The company plans to strengthen its account management team and in 2018 we made a strategic decision to create a new team to evolve our previous customer support model from a “siloed-by-business” support approach to what is now a fully integrated customer success team that supports all Sapiens’ product lines. We recruited several key executives in 2018 and we will continue to expand this team throughout 2019.

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Competitive Landscape

Sapiens is focused on serving insurers. The market for core software solutions for the insurance industry is highly competitive and characterized by rapidly changing technologies, evolving industry standards and customer requirements, and frequent innovation. In addition, we offer a business decision management platform, mainly to financial services organizations.

Competitive Landscape for our Insurance Software Solutions

Our competitors in the insurance software solutions market differ from us based on size, geography and lines of business. Some of our competitors offer a full suite, while others offer only one module; some operate in specific (domestic) geographies, while others operate on a global basis. And delivery models vary, with some competitors keeping delivery in-house, using IT outsourcing (ITO), or business process outsourcing (BPO).

The insurance software solutions market is highly competitive and demanding. Maintaining a leading position is challenging, because it requires:

Development of new core insurance solutions, which necessitates a heavy R&D investment and in-depth knowledge of complex insurance environments.

Technology innovation to attract new customers, with rapid, technology-driven changes in the insurance business model and new propositions coming.

A global presence and the ability to support global insurance operations.

Ability to manage multiple partnerships, due to the changing landscape of insurers' ecosystems.

Extensive knowledge of regulatory requirements and how to fulfill them (they can be burdensome and require specific IT solutions).

Continued support and development of the solutions entails a critical mass of customers that support an ongoing R&D investment.

Know-how of insurance system requirements and an ability to bridge between new systems and legacy technologies.

Enabling mission-critical operations that require experience, domain expertise and proven delivery capabilities to ensure success

The complex requirements of this market create a high barrier to entry for new players. As for existing players, these requirements have led to a marked increase in M&A transactions in the insurance software solutions sector, since small, local vendors have not been able to sustain growth without continuing to fund their R&D departments and following the globalization trend of their customers.

We believe Sapiens is well-positioned to leverage our modern solutions, customer base and global presence to compete in this market and meet its challenges. In addition, our accumulated experience and expert teams allow us to provide a comprehensive response to the IT challenges of this market.

Different types of competitors include:

Global software providers with their own IP.

Local/domestic software vendors with their own IP, operating in a designated geographic market and/or within a designated segment of the insurance industry.

BPO providers who offer end-to-end outsourcing of insurance carriers business, including core software administration (although BPO providers want to buy comprehensive software platforms to serve as part of the BPO proposition from vendors and may seek to purchase our solutions for this purpose).

Internal IT departments, who often prefer to develop solutions in-house.

New insuretech companies with niche solutions.

We differentiate ourselves from our competitors via the following key factors:

We offer innovative and modern software solutions, with rich functionality and advanced, intuitive user interfaces.

Sapiens uses model-driven architecture that allows rapid deployment of the system, while reducing total cost of ownership.

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Our solutions are built using an architecture that allows customers to implement the full solution or components, and readily integrate the solution or individual components into their existing IT landscape.

Strong and global partnership program, with established IT players and new insurtech companies, to ensure linkage to innovative technologies and new business models, as well as ongoing work to embed innovation into Sapiens platforms.

We recognize technology trends and invest in adjusting our solutions to keep pace with today's frenetic evolutions.

We are able to fund R&D investment and maintain the competitive advantage of our products, due to our large and growing customer base and financial stability.

Our delivery methodology is based on extensive insurance industry experience and cooperation with large insurance companies globally. Our track record over the past few years in developing a strong off-shore development center is also a significant parameter in differentiating our abilities in the services space.

We leverage our proven track record of successful delivery to help our customers deploy our modern solutions, while integrating with their legacy environment (when that legacy environment must remain supported).

Competitive Landscape for Business Decision Management Solutions

Sapiens Decision is a pioneer in this disruptive market landscape. Since the introduction of our innovative approach to enterprise architecture to the market, we have identified only a small number of potential competitors.

We differentiate ourselves from our potential competitors through the following key factors:

We believe that Sapiens Decision is the only solution (that is currently generally available and already in production) that offers a true separation of the business logic in a decision management system for large enterprises.

Sapiens Decision is unique in its proven ability to support complex environments, with a full audit trail and governance that is crucial for large financial services organizations.

We understand complex environments where Decision is deployed, due to our experience delivering complex, mission-critical solutions.

Geographical Scope of Our Operations

For a breakdown of the geographical regions in which our revenues are generated and the relative amounts of such revenues over the course of the last three fiscal years, please see: “Item 5 – Operating and Financial Review and Prospects—A. Operating Results—Revenue by geographical region” below in this annual report.

Sales and Marketing

Our main sales channel is direct sales, with a small portion of partner sales. Our sales team is dispersed across our regional offices in North America, the United Kingdom, Belgium, France, Israel, Australia, India, Poland and the Nordics. The direct sales force is geared to large organizations within the insurance and financial services industry.

In 2018, we continued to significantly invest in our target regions – North America, the UK, Europe and South Africa – and in our sales, presales, domain experts and marketing teams. We anticipate that our sales team will leverage their proximity to customers and prospective clients to drive more business, and offer our services across our target markets.

Our account managers were focused on building ongoing relationships with existing customers during the past year, to maintain a high level of customer satisfaction and identify up-selling opportunities within these organizations. We believe that a high level of post-contract customer support is important to our continued success.

As part of our sales process, we typically sell a package that includes a license, implementation, customization and integration services, and training services. All of our clients for whom we have deployed our solutions elect to enter into an ongoing maintenance and support contract with us. We aim to expand our distribution model to include more channel partners and system integrators, but we intend to maintain the direct sales model as our prime distribution channel.

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We attend major industry trade shows to improve our visibility and our market recognition. Additionally, we host client conferences— such as our annual Sapiens Client Conference, which took place in North Atlanta, U.S. in September 2016; in Lisbon, Portugal in October 2017; and in San Antonio, Texas, U.S. in 2018. We continue investing in our web presence and digital marketing activities to generate leads and enhance our brand recognition. As previously mentioned, we invested in our rebranding that included a new website that was launched in 2018 through early 2019. Sapiens maintains a blog channel (“Sapiens Spotlight”) and we also invest in our working relationships and advisory services within the global industry-analyst community.

We work together with standards providers – such as ACORD and MISMO— to further enrich our offerings and provide our customers with comprehensive and innovative solutions that address the entire breadth of their business needs.

Intellectual Property

Sapiens relies on a combination of contractual provisions and intellectual property law to protect our proprietary technology. We believe that due to the dynamic nature of the insurance and software industries, factors such as the knowledge and experience of our management and personnel, the frequency of product enhancements and the timeliness and quality of our support services build upon the protection offered by copyrights.

We seek to protect the source code of our products as trade secret information and as unpublished copyright work, although in some cases, we agree to place our source code into escrow. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements that grant customers a personal, non-transferable license to use our products and contain terms and conditions prohibiting the unauthorized reproduction, reverse engineering or misuse of our products. In addition, we attempt to protect trade secrets and other proprietary information through agreements with employees, consultants and distributors.

Our trademark rights include rights associated with our use of our trademarks, and rights obtained by registration of our trademarks. Our use and registration of our trademarks do not ensure that we have superior rights to others that may have registered or used identical or related marks on related goods or services. We have registrations for the mark “Sapiens” in USA, Benelux, Germany, France, Italy Switzerland and Israel. In the past we have registered trademarks and tradenames for many of our products both in the US and in the European Union, and we intend to continue to do so going forward. The initial terms of protection for our registered trademarks range from 10-20 years and are renewable thereafter.

In the third quarter of 2014, we acquired Knowledge Partners International LLC, or KPI, and the assets of The Decision Model, or TDM, which included certain intellectual property rights, including a patent held by TDM and a

patent application for The Event Model, or TEM. Both TDM and TEM relate to decision management methodology. See “Item 4.B. Business Overview— Sapiens Business Decision Management Solutions” for further information.

In the first quarter of 2017, we acquired StoneRiver. The acquisition of StoneRiver included the acquisition of about 25 registered trademarks and one issued patent.

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Regulatory Impact

The global financial services industry is subject to significant government regulations that are constantly changing. Financial services companies must comply with regulations, such as the Sarbanes-Oxley Act, Solvency II, Retail Distribution Review (known as RDR) in the United Kingdom, the Dodd-Frank Act, the GDPR (enforceable as of May 25, 2018) and other directives regarding transparency. In addition, many individual countries have increased supervision over financial services operating in their market.

For example, regulators in Europe have been very active, motivated by past financial crises and the need for pension restructuring. Distribution of policies is being optimized with the increasing use of bank assurance (selling insurance through a bank's established distribution channels), supermarkets and kiosks (insurance stands). Increased activity – such as that occurring in Europe – would generally tend to have a positive impact on the demand for our software solutions and services. Nevertheless, insurers are cautiously approaching spending increases, and while many companies have not taken proactive steps to replace their software solutions in recent years, many of them are now looking for innovative, modern replacements to meet the regulatory changes.

For further information, please see Item 5.D below, “Trend Information.”

C. Organizational Structure.

Sapiens International Corporation N.V., or Sapiens N.V., is the parent company of the Sapiens group of companies. Our significant subsidiaries are as follows (subsidiary companies of other Sapiens subsidiaries are listed in indented format beneath their respective parent companies below):

Sapiens International Corporation B.V., or Sapiens B.V.: incorporated in the Netherlands and 100% owned by Sapiens N.V.

Unless otherwise indicated, the other subsidiaries of Sapiens listed below are 100% owned by Sapiens B.V.:

Sapiens Israel Software Systems Ltd.: incorporated in Israel
Sapiens North America Inc.: incorporated in Ontario, Canada

Sapiens (UK) Limited: incorporated in England

Sapiens France S.A.S.: incorporated in France

Sapiens Japan Co.: incorporated in Japan and 90% owned by Sapiens B.V.

Sapiens Americas Corporation: incorporated in New York, U.S. (this entity includes the operations of each of the following former wholly-owned subsidiaries of Sapiens Americas Corporation, which were merged into it effective as of January 1, 2019: Maximum Processing Inc., 4Sight Business Intelligence Inc., StoneRiver, Inc. and Adaptik Corporation)

Sapiens Technologies (1982) Ltd.: incorporated in Israel

Sapiens Deutschland GmbH: incorporated in Germany (owned 100% by Sapiens Technologies (1982) Ltd.)

Sapiens Deutschland Consulting GmbH & Co. KG: incorporated in Germany (owned 100% by Sapiens Deutschland GmbH and Sapiens B.V.)

Sapiens Software Solutions (IDIT) Ltd., or Sapiens IDIT: incorporated in Israel (owned 100% by Sapiens Technologies (1982) Ltd.)

IDIT Europe: incorporated in Belgium (owned 100% by Sapiens IDIT)

Sapiens (Singapore) Insurance Solution Pte Ltd.: incorporated in Singapore (owned 100% by Sapiens IDIT)

Sapiens Software Solutions (Life and Pension) Ltd., or Sapiens L&P: incorporated in Israel (owned 100% by Sapiens Technologies (1982) Ltd.)

Neuralmatic Ltd.: incorporated in Israel (owned 66% by Sapiens L&P)

Sapiens NA Insurance Solutions Inc.: incorporated in Delaware, US (owned 100% by Sapiens L&P)

Sapiens (UK) Insurance Software Solutions Limited: incorporated in the UK (owned 100% by Sapiens L&P)

Formula Insurance Solutions France (F.I.S France): incorporated in France (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)

Sapiens Software Solutions (Australia) PTY. Ltd.(Former FIS- AU Pty Limited: incorporated in Australia (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)

Sapiens Software Solutions Denmark ApS: incorporated in Denmark (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)

Sapiens SA (PTY) Ltd.: incorporated in South Africa (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)

Sapiens Software Solutions (Norway) AS): incorporated in Norway (owned 100% by Sapiens (UK) Insurance Software Solutions Limited)

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Sapiens Software Solutions (Decision) Ltd., or Sapiens Decision (owned 92.89% by Sapiens Technologies (1982) Ltd.)

Sapiens (UK) Decision Limited (owned 100% by Sapiens Decision)

Sapiens Decision NA Inc. (owned 100% by Sapiens Decision)

Knowledge Partners International LLC, or KPI (owned 100% by Sapiens Decision NA Inc.)

Sapiens Technologies (1982) India Private Limited (formerly Ibexi Solutions Private Limited): incorporated in India (owned 98.12% by Sapiens Technologies (1982) Ltd.)

Sapiens Software Solutions (Singapore) PTE. LTD (formerly Ibexi Solutions Pte Limited): incorporated in Singapore (owned 100% by Sapiens Software Solutions (India) Private Limited)

Sapiens Software Solutions (Poland) Sp. z o.o. (formerly Insseco Sp. z o.o.): incorporated in Poland (owned 100% by Sapiens Technologies (1982) Ltd.)

Sapiens Software Solutions Istanbul YAZILIM HİZMETLERİ İÇ VE DIŞ TİCARET ANONİM ŞİRKETİ: incorporated in Turkey (owned 100% by Sapiens Technologies (1982) Ltd.)

LLC Sapiens Software Solutions (Latvia) (formerly KnowledgePrice.com): incorporated in Latvia (owned 100% by Sapiens Technologies (1982) Ltd.)

We are a member of the Formula Systems (1985) Ltd., or Formula, Group (NASDAQ: FORTY and TASE: FORT). Formula is a holding and managing company of (currently) three publicly traded companies that provide IT solutions worldwide, developing and implementing innovative, proprietary software, services and solutions, turnkey projects and outsourcing services, as well as software distribution and support. In addition, Formula holds interests in several private companies, including a software solution company, an IT staffing company and a company that provides various command and control, intelligence and knowledge management and other systems and solutions.

Based on information provided to the Company by Formula, Formula held 24,029,094 of our Common Shares, or approximately 48.1% of our outstanding Common Shares as of March 1, 2018. As of March 1, 2018, Asseco held 26.3% of the outstanding share capital of Formula. In addition, on October 4, 2017 Asseco entered into a shareholders agreement with our Chairman of the Board, under which agreement Asseco has been granted an irrecoverable proxy to vote an additional 1,971,973 ordinary shares of Formula, thereby effectively giving Asseco beneficial ownership (voting power) over an aggregate of 39.7% of Formula's outstanding ordinary shares. [

Based on the foregoing beneficial ownership by each of Formula and Asseco, each of Formula and Asseco may be deemed to directly or indirectly (as appropriate) control us.

D. Property, Plants and Equipment.

We lease office space, constituting our primary office locations, in the following countries: Israel, the United States, India, Poland, South Africa, the United Kingdom, Latvia, China, Canada and Denmark. The lease terms for the spaces that we currently occupy are generally five to eleven years. Based on our current occupancy, we lease (except for owned real property indicated below) the following amount of office space in the following locations, which constitute our primary locations:

Israel – approximately 128,419 square feet;

United States – approximately 87,229 square feet*;

India – approximately 82,157 square feet;

Poland – approximately 34,536 square feet;

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South Africa – approximately 42,269 square feet;

United Kingdom – approximately 21,326 square feet;

Latvia – approximately 8,548 square feet;

China – approximately 2,860 square feet;

Canada – approximately 1,407 square feet; and

Denmark – approximately 237 square feet.

* 10,243 square feet of such office space in the United States constitutes owned real property.

Our Israeli offices house our corporate headquarters, as well as our core delivery research and development activities. As of December 31, 2018, the lease at our Israeli facility is for a term of in excess of four remaining years, and we have an option to extend the term for an additional five years. In 2018, our rental costs totaled \$7.2 million, in the aggregate, for all of our leased offices. We believe that our existing facilities are adequate for our current needs.

Item 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere herein. Our financial statements have been prepared in accordance with U.S. GAAP. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. As a result of many factors, such as those set forth under Item 3.D “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements” in the Introduction to this annual report, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are a leading global provider of software solutions for the insurance industry, with an emerging focus on the broader financial services sector. We offer core software solutions for Life, Pension & Annuities (L&A) and Property & Casualty/General Insurance (P&C) providers, allowing them to manage policy administration, claims management and billing functions. In addition, we offer a variety of other technology-based solutions that enable organizations to deploy business logic and comply with policies and regulations across their organizations. Our solutions enable customers to respond to evolving market needs and regulatory changes, while improving the efficiency of their core operations, thereby increasing revenues and reducing costs. We also generate revenues from technology products, Decision and e-Merge from insurance and non-insurance industries.

We derive our revenues principally from the sale, implementation, maintenance and support of our solutions and from providing consulting and other services related to our products. Revenues are comprised primarily of revenues from services, including systems integration and implementation and product maintenance and support, and from licenses of our products.

Table of Contents**A. Operating Results.****Results of Operations**

The following tables set forth certain data from our results of operations for the years ended December 31, 2016, 2017 and 2018, as well as such data as a percentage of our revenues for those years. The data has been derived from our audited consolidated financial statements included in this annual report. The operating results for the below years should not be considered indicative of results for any future period. This information should be read in conjunction with the audited consolidated financial statements and notes thereto included in this annual report.

Statement of Income Data

(U.S. dollars, in thousands, except share and per share data)

	For the year ended December 31,		
	2016	2017	2018
Revenues	\$216,190	\$269,194	\$289,707
Cost of revenues	130,402	175,678	180,138
Gross profit	85,788	93,516	109,569
Operating expenses:			
Research and development	16,488	31,955	34,414
Selling, marketing, general and administrative	44,460	60,559	52,133
Total operating expenses	60,948	92,514	86,547
Operating income	24,840	1,002	23,022
Financial income (expense), net	533	(3,010)	(3,991)
Income (loss) before tax benefit (taxes on income)	25,373	(2,008	19,031
Tax benefit (taxes on income)	(5,772)	2,564	(5,031)
Net income	19,601	556	14,000
Attributed to non-controlling interests	(43)	(189)	215
Attributed to redeemable non-controlling interest	(135)	43	-
Adjustment to redeemable non-controlling interest	443	350	-
Net income attributable to Sapiens' shareholders	\$19,336	\$352	\$13,785

Statement of Income Data

(as a Percentage of Revenues)

	For the year ended		
	December 31,		
	2016	2017	2018
Revenues	100 %	100 %	100 %
Cost of revenues	60.3 %	65.3 %	62.2 %
Gross profit	39.7 %	34.7 %	37.8 %
Operating expenses:			
Research and development	7.6 %	11.9 %	11.9 %
Selling, marketing, general and administrative	20.6 %	22.5 %	18 %
Total operating expenses	28.2 %	34.4 %	29.9 %
Operating income	11.5 %	0.4 %	7.9 %
Financial income (expense), net	0.2 %	1.1 %	1.4 %
Income before tax benefit (taxes on income)	11.7 %	0.7 %	6.6 %
Tax benefit (taxes on income)	2.7 %	1.0 %	1.7 %
Net income	9.0 %	0.2 %	4.8 %
Attributed to non-controlling interests	0.0 %	0.1 %	0.1 %
Attributed to redeemable non-controlling interest	0.0 %	0.0 %	0.0 %
Adjustment to redeemable non-controlling interest	0.1 %	0.1 %	0.0 %
Net income attributable to Sapiens' shareholders	8.9 %	0.1 %	4.8 %

Table of Contents**Comparison of the years ended December 31, 2017 and 2018*****Revenues***

Please refer to “Critical Accounting Policies and Estimates” below in this Item 5.A for a description of our accounting policies related to revenue recognition.

Our overall revenues increased by \$20.5 million, or 7.6%, to \$289.7 million for the year ended December 31, 2018 from \$269.2 million for the year ended December 31, 2017, as shown in the table below:

	Year ended December 31, 2017	Year-over- year change	Year ended December 31, 2018
(\$ in thousands)	\$ 269,194	7.6	% \$ 289,707

Revenues are derived primarily from implementation of our solutions and post-implementation services such as ongoing support and maintenance and professional services as part of an overall solution that we offer to our customers. The net increase in revenues of approximately \$20.5 million for the year ended December 31, 2018 was attributable to additional revenues from acquired entities, which contributed \$32.9 million towards that increase, primarily from the acquisition of Knowledgeprice, which was completed on December 31, 2017, the acquisition of Adaptik, which was completed in March 2018, and the inclusion of StoneRiver’s revenues for the first two months of 2018, since StoneRiver was consolidated starting March 1, 2017. The increase is partially offset by decreases in revenues in an aggregate amount of \$17.8 million due to a material reduction in services ordered by a customer in South Africa, and to our downsizing of our non-insurance and financial services activities in Japan, which started in 2017 and continued into 2018.

Revenues by geographical region

The dollar amount and percentage of our revenues attributable to each of the geographical regions in which we conduct our operations for the years ended December 31, 2017 and 2018, respectively, as well as the percentage change between such periods, were as follows:

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(\$ in thousands)	Year ended December 31, 2017		Year-over- year change	Year ended December 31, 2018				
	Revenues	Percentage		Revenues	Percentage			
Geographical region								
North America*	\$ 109,560	40.7	% 24.6	%	136,477	47.1	%	
Europe**	120,926	44.9	% 6.3	%	128,513	44.4	%	
Asia Pacific	18,059	6.7	% (26.0	)%	13,371	4.6	%	
South Africa	20,649	7.7	% (45.1	)%	11,346	3.9	%	
Total	\$269,194	100	% 7.6	%	289,707	100	%	

Revenue amounts for North America that are shown in the above table consist of revenues from the United States, *plus approximately \$1.1 million and \$0.7 million of revenues generated in Canada in the years ended December 31, 2017 and 2018, respectively.

** Revenue amounts for Europe that are shown in the above table include revenues from the UK, the rest of Europe and Israel.

Our revenues in North America increased by \$26.9 million, or 24.6%, to \$136.5 million for the year ended December 31, 2018 from \$109.6 million for the year ended December 31, 2017. That increase was comprised primarily of an increase of \$28.9 million in revenues from newly-acquired entities.

Our revenues in Europe increased by \$7.6 million, or 6.2%, to \$128.5 million in the year ended December 31, 2018 from \$120.9 million in the year ended December 31, 2017. The increase was primarily attributable to revenues from a newly acquired entity, KnowledgePrice, which was acquired in December 2017.

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Our revenues in Asia Pacific, or APAC, decreased by \$4.7 million, or 26 %, to \$13.4 million in the year ended December 31, 2018 from \$18.0 million in the year ended December 31, 2017. The decrease was primarily attributable to our downsizing of non-insurance and financial services activities in Japan which started in 2017 and continued into 2018.

Our revenues in South Africa decreased by \$9.3 million, or 45%, to \$11.3 million in the year ended December 31, 2018 from \$20.1 million in the year ended December 31, 2017. That decrease was primarily attributable to a material reduction in services ordered by a customer in South Africa in 2018.

Effective as of January 1, 2018, we implement the provisions of Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”). ASC 606 supersedes the revenue recognition requirements in ASC Topic 605, “Revenue Recognition” (“ASC 605”)

The initial application of ASC 606 had no material impact on our revenues recognized during 2018.

Cost of Revenues

Our cost of revenues for the years ended December 31, 2017 and 2018, respectively (both in absolute terms and as a percentage of our overall revenues), as well as the percentage change between those years, are provided in the below table:

(\$ in thousands)	Year ended		Year ended	
	December 31, 2017	Year-over- year change	December 31, 2018	
Cost of revenues	\$ 175,678	2.5	% \$ 180,138	
Cost of revenues as a percentage of revenues	65.3	%	62.2	%

Cost of revenue consists primarily of costs associated with providing services to customers, including compensation expense to employees and subcontractors, travel expenses, as well as amortization of acquired technologies and depreciation. Our cost of revenues increased by \$4.5 million, or 2.5%, to \$180.1 million for the year ended December 31, 2018, as compared to \$175.6 million for the year ended December 31, 2017. The increase in absolute cost of revenues of \$4.5 million was primarily attributable to an increase in cost of revenues of acquired companies (i.e., those acquired in 2017 and 2018) totaling \$17.7 million, offset mainly by a decrease due to our cost reduction

program, which was implemented in 2017 in the United States, Israel and the UK (and which reduced cost of revenue in 2018), in addition to an increase in our offshore operations, which also reduced cost of revenues in 2018. Cost of revenues decreased as a percentage of our revenues during the year ended December 31, 2018, to 62.2%, as compared to 65.3% during the year ended December 31, 2017. The 3.1% decrease in the cost of revenues as a percentage of our revenues was primarily attributable to the above-described cost reduction program and increase in offshore activities, which further contributed to our cost efficiency.

Gross profit

Our gross profit for the years ended December 31, 2017 and 2018, respectively (both in absolute terms and as a percentage of our overall revenues), as well as the percentage change between those periods, are provided in the below table:

(\$ in thousands)	Year ended December 31, 2017	Year over- year change	Year ended December 31, 2018	
Gross profit	\$ 93,516	17.2	% \$ 109,569	
Gross profit as a percentage of revenues	34.7	%	37.8	%

Our gross profit increased by \$16.0 million, or 17.2%, to \$109.6 million for the year ended December 31, 2018, as compared to \$93.6 million for the year ended December 31, 2017. This increase was primarily attributable to the absolute increase in our revenues by \$20.5 million for the year ended December 31, 2018 compared to the year ended December 31, 2017, as well as an increase in gross margin by 3.1% from 2017 to 2018 that mainly was attributable to our cost reduction program, as well as the increase in our offshore activities in 2018. The increase in gross profit as a percentage of revenues for the year ended December 31, 2018 was due to the factors described above.

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The amount of each category of operating expense for the years ended December 31, 2017 and 2018, respectively, as well as the percentage change in each such expense category between such periods, and the percentage of our revenues constituted by our total operating expenses in each such period, is provided in the below table:

(\$ in thousands)	Year ended		Year-over-year change	Year ended	
	December 31, 2017			December 31, 2018	
Research and development, net	\$ 31,955	7.7	%	\$ 34,414	
Selling, marketing, general and administrative	60,559	(13.9)	)%	52,133	
Total operating expenses	\$ 92,514	6.4	%	\$ 86,547	
Percentage of total revenues	34.4	%		29.9	%

Research and development expense is primarily comprised of compensation expense to employees and subcontractors, net of capitalization of software development costs. Our gross research and development expenses (before capitalization of eligible software development costs) for the year ended December 31, 2018 totaled \$39.6 million compared to \$37.5 million in the year ended December 31, 2017. Such increase of 5.5% was attributable to the R&D investments in our newly acquired entities, mainly Adaptik. Additionally, our R&D expenses during 2018 included a full-year of StoneRiver's results, instead of only 10 months following the acquisition of StoneRiver on March 1, 2017. The increase was offset in part by a reduction in R&D investments in existing products, including StoneRiver's products. Capitalization of software development costs accounted for \$5.2 million of our research and development expenses, net for the year ended December 31, 2018, compared to \$5.6 million in the year ended December 31, 2017, constituting an insignificant change from 2017 to 2018.

Selling, marketing, general and administrative, or SG&A, expenses, which are primarily comprised of compensation expense to employees and subcontractors, were \$52.1 million for the year ended December 31, 2018 compared to \$60.6 million in the year ended December 31, 2017, representing a decrease of \$8.4 million. The decrease was primarily reflective of the non-recurring SG&A expense recognized in the second and fourth quarters of 2017 in an amount of \$8.1 million due to cost reduction and reorganization plans, which expense was not repeated in 2018. The aforementioned second phase of our cost reduction and reorganization plan further contributed to our reduction in 2018 SG&A expenses on a full-year basis. Those reductions in SG&A were offset in part by an increase in SG&A in an amount of \$6.8 million attributable to newly acquired entities. As a percentage of total revenues, our SG&A decreased from 22.5% in the year ended December 31, 2017, to 18.0% for the year ended December 31, 2018, primarily due to the cost reduction and reorganization program detailed above.

Operating income

Operating income and operating income as a percentage of total revenues for the years ended December 31, 2017 and 2018, respectively, as well as the percentage change in operating income between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2017	Year-over- year change	Year ended December 31, 2018	
Operating income	\$ 1,002	2,197.6	% \$ 23,022	
Percentage of total revenues	0.4	%	7.94	%

The increase in our operating income during the year ended December 31, 2018 relative to the year ended December 31, 2017 as an absolute amount, and the increase in operating income as a percentage of our revenues, as reflected in the above table, were attributable to the various gross profit and SG&A expenses trends described above, most significantly the cost reduction and reorganization plans implemented in 2017, which contributed to our profitability in 2018, and the increase in our offshore activities in 2018, which enhanced our improved gross margin.

Table of Contents***Financial expense, net***

The amount of our financial income, net, for the years ended December 31, 2017 and 2018, respectively, and the percentage of our revenues for those respective periods constituted by such amounts, as well as the percentage change in such amounts between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2017	Year-over- year change	Year ended December 31, 2018	
Financial expense, net	\$ 3,010	32.6	% \$ 3,991	
Percentage of total revenues	1.1	%	1.4	%

Financial expense, net, was \$4.0 million for the year ended December 31, 2018 compared to financial expense of \$3.0 million in the year ended December 31, 2017.

The increase in financial expenses in 2018 was primarily related to interest expenses on our outstanding debentures, which we initially issued and sold in September 2017 and which were outstanding throughout 2018 and which contributed towards the increase in financial expenses in an amount of \$2 million in 2018, offset, in part, by a decrease in financial expenses due to the repayment in 2017 of a long-term loan that was outstanding for a six-month period during 2017, and which contributed \$0.7 million towards financial expenses in 2017.

Taxes on income (tax benefit)

Taxes on income, both as a dollar value and as a percentage of income before taxes on income, for the years ended December 31, 2017 and 2018, respectively, as well as the percentage change in the amount of taxes on income between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2017	Year-over- year change	Year ended December 31, 2018	
Taxes on income (tax benefit)	\$ (2,564)	296.3	% \$ 5,031	
As a percentage of income before taxes on income	(127.7	)%	26.4	%

In 2018, we recognized a net tax expense of \$5.0 million resulting from our higher taxable income compared to 2017. In 2017, we had an income tax benefit which amounted to \$2.6 million,. The tax benefit in 2017 was primarily attributable to the one-time effect of \$3.8 million of tax benefit resulting from the remeasurement of our deferred tax liability in respect of our US subsidiaries due to a decrease in the federal corporate income tax rate following the enactment of the Tax Cuts and Jobs Act in the United States in December 2017.

Our effective income tax rate varies from period to period as a result of the various jurisdictions in which we operate, as each jurisdiction has its own system of taxation (not only with respect to the nominal rate, but also with respect to the allowance of deductions, credits and other benefits). We record a valuation allowance if we believe that it is more likely than not that the deferred income taxes regarding the loss carry forwards and other temporary differences, on which a valuation allowance has been provided, will not be realized in the foreseeable future. We do not recognize certain of the deferred tax assets relating to the net operating losses of certain of our subsidiaries worldwide due to the uncertainty of the realization of such tax benefits in the foreseeable future.

Table of Contents*Net income attributable to Sapiens shareholders*

The amount of net income attributable to Sapiens shareholders and such amount as a percentage of revenues for the years ended December 31, 2017 and 2018, respectively, as well as the percentage change in net income attributable to Sapiens shareholders between such periods, were as follows:

(\$ in thousands)	Year ended December 31, 2017	Year-over- year change	Year ended December 31, 2018
Net income attributable to Sapiens shareholders	\$ 352	3,816.2	% \$ 13,785
Percentage of total revenues	0.1	%	4.8 %

As a percentage of total revenues, our net income attributable to Sapiens shareholders increased from 0.1% in the year ended December 31, 2017 to 4.8% for the year ended December 31, 2018, reflecting the cumulative effect of all of the above-described line items from our statements of income.

Cost reduction and reorganization program implemented in 2017

Following the acquisition of StoneRiver, the cancellation of the project development process with a significant customer and downsizing of our non-insurance and financial services activities in Japan in 2017, we implemented a cost reduction and reorganization plan in the second and fourth quarters of 2017. The plan was intended to significantly reduce our cost base, restructure and realign our organization for better agility and productivity in utilization of our global workforce and improve our business performance, profitability and cash flow generation. We incurred \$8.1 million of cost reduction and reorganization program expenses in 2017 primarily related to costs of employee terminations and reduction in lease facilities globally.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our financial statements required us to make estimations and judgments that affect the reporting amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities within the reporting period. We have based our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the values of assets and liabilities

that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. More detailed descriptions of these policies are provided in Note 2 to our consolidated financial statements included under Item 18 of this annual report.

We believe that the following critical accounting policies affect the estimates and judgments that we made in preparing our consolidated financial statements:

Revenue Recognition

Marketable Securities

Business Combinations

Goodwill, long lived assets and other identifiable intangible assets

Taxes on Income

Revenue Recognition

Effective as of January 1, 2018, we implement the provisions of Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”). See Note 16 to our financial statements included in this annual report for further disclosures required under ASC 606.

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Revenues are recognized when control of the promised goods or services are transferred to the customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services.

We determine revenue recognition through the following steps:

identification of the contract with a customer;

identification of the performance obligations in the contract;

determination of the transaction price;

allocation of the transaction price to the performance obligations in the contract; and

recognition of revenue when, or as, the Company satisfies a performance obligation.

Most of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately, if they are distinct.

On most occasions, the Company generates revenues from sales of software licenses which include significant implementation services. Such software licenses and implementation services are not considered distinct performance obligations, and are accounted for as combined performance obligations. In addition, the Company generates revenues from post implementation consulting services and maintenance services.

Revenues from contracts (either fixed price or Time and Materials (T&M)) that involve significant implementation, customization, or integration of the Company's software license to customer-specific requirements are performance obligations that are satisfied over time. The underlying deliverable is owned and controlled by the customer, and does not create an asset with an alternative use to the Company. In addition, the entity has enforceable right to payment for performance completed to date. Accordingly, the Company recognizes revenue on such contracts over time, using the percentage of completion accounting method. The Company recognizes revenue and gross profit as the work is performed, based on a ratio between actual costs incurred compared to the total estimated costs for the contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses become probable, in the amount of the estimated loss on the entire contract.

When post implementation and consulting services do not involve significant customization, the Company accounts for such services as performance obligations satisfied over time, and revenues are recognized as the services are provided.

When the Company enters into a contract for the sale of software license which does not require significant implementation services, and the customer receives the rights to use the perpetual or term-based software license, the Company recognizes revenue from the sale of the software license at the time of delivery, when the customer receives control of the software license. The software license is considered a distinct performance obligation, as the customer can benefit from the software on its own.

The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices of software license are estimated using the residual approach, due to the lack of selling software licenses on a standalone basis, or the fact Company sells the license to different customers for a broad range of amounts. Standalone selling prices of services are determined by considering several external and internal factors including, but not limited to, transactions where the specific performance obligation is sold separately.

In addition to software license fees, contracts with customers may contain an agreement to provide for maintenance services. The Company considers the maintenance performance obligation as a distinct performance obligation that is satisfied over time, and recognized on a straight-line basis over the contractual period.

Sales commissions are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions paid for initial contracts, which are not commensurate with sales commissions paid for renewal contracts, are capitalized and amortized over an expected period of benefit. Sales commissions on initial contracts, which are commensurate with sales commissions paid for renewal contracts, are capitalized and then amortized correspondingly to the recognized revenue of the related initial contracts. Sales commissions for renewal contracts are capitalized and then amortized on a straight line basis over the related contractual renewal period. If the expected amortization period is one-year or less, the commission fee is expensed as incurred. Amortization expense related to these costs are included in sales and marketing expenses.

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Marketable Securities

We account for all our investments in debt securities in accordance with ASC 320, “Investments - Debt and Equity Securities”. We classify all debt securities as “available-for-sale”. All of our investments in available-for-sale securities are reported at fair value. Unrealized gains and losses are comprised of the difference between fair value and the amortized cost of such securities and are recognized, net of tax, in accumulated other comprehensive income (loss).

The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization together with interest on securities is included in “financial income, net”.

We recognize an impairment charge when a decline in the fair value of our investments in debt securities below the cost basis of such securities is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and our intent to sell, including whether it is more likely than not that we will be required to sell the investment before recovery of cost basis. For securities that are deemed other-than-temporarily impaired, the amount of impairment is recognized in “net gain on sale of marketable securities previously impaired” in the statements of income and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income.

Business Combinations

According to ASC 805 “Business Combination” we are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. In allocating the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, we developed the required assumptions underlying the valuation work. Critical estimates in developing such assumptions underlying the valuing of certain of the intangible assets include but are not limited to: future expected cash flows from customer contracts, acquired developed technologies and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, utilizing a market participant approach, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. We were assisted by third party valuers in applying the required economic models (such as income approach), in order to estimate the fair value of assets acquired and liabilities assumed in our business combination transactions.

Goodwill, long lived assets and other identifiable intangible assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350, "Intangibles - Goodwill and Other", goodwill is subject to an annual impairment test or more frequently if impairment indicators are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The company operates in a total of four reporting units: Emerge, L&A, Decision and P&C.

We applied the provisions of ASC 350 for our annual impairment test. Under the provisions, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required.

Based on our annual impairment test during the fourth quarter of each of 2016, 2017 and 2018 , no impairment to our goodwill was required.

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Nevertheless, it is possible that our determination that goodwill for a reporting unit is not impaired could change in the future if current economic conditions deteriorate or remain difficult for an extended period of time. We continue to monitor the relationship between our market capitalization and book value, as well as the ability of our reporting units to deliver current and income and cash flows sufficient to support the book values of the net assets of their respective businesses.

As of December 31, 2018, we had a total of \$231.3 million of goodwill and intangible assets, of which \$22.4 million were attributable to capitalized software development costs, and the remainder of which were acquired as part of our prior acquisitions.

In accordance with ASC 360, “Property, Plant and Equipment”, or ASC 360, our long-lived assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. In measuring the recoverability of assets, we are required to make estimates and judgments in assessing our forecast and cash flows and compare that with the carrying amount of the assets. Additional significant estimates used by management in the methodologies used to assess the recoverability of our long-lived assets include estimates of future cash-flows, future short-term and long-term growth rates, market acceptance of products and services, and other judgmental assumptions, which are also affected by factors detailed in our Risk Factors section in this annual report (see “Item 3.D. Key Information – Risk Factors”). If these estimates or the related assumptions change in the future, we may be required to record impairment charges for our long-lived assets.

We evaluate our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, in accordance with ASC 360 (as described above). In evaluating potential impairment of these assets, we specifically consider whether any indicators of impairment are present, including, but not limited to whether there:

has been a significant adverse change in the business climate that affects the value of an asset;

has been a significant change in the extent or manner in which an asset is used; and/or

is an expectation that the asset will be sold or disposed of before the end of its originally estimated useful life.

If indicators of impairment are present, we compare the estimated undiscounted cash flows that the specific asset is expected to generate to its carrying value. These estimates involve significant subjectivity. If such assets are

considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

Our policy for capitalized software costs determines the timing of our recognition of certain development costs. Software development costs incurred from the point of reaching technological feasibility until the time of general product release are capitalized. We define technological feasibility as the completion of a detailed program design. The determination of technological feasibility requires the exercise of judgment by our management. Since we sell our products in a market that is subject to rapid technological changes, new product development and changing customer needs, changes in circumstances and estimations may significantly affect the timing and the amounts of software development costs capitalized and thus our financial condition and results of operations.

Capitalized software development costs are amortized commencing with general product release by the straight-line method over the estimated useful life of the software product (primarily seven years). We assess the recoverability of this intangible asset on a regular basis by determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product sold.

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Taxes on Income

We account for income taxes in accordance with ASC 740 “Income Taxes”, or ASC 740. ASC 740 prescribes the use of the asset and liability method, whereby deferred tax assets and liability account balances are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future realization of our deferred tax assets ultimately depends on the existence of sufficient taxable income within the available carryback or carryforward periods. Sources of taxable income include future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. We record a valuation allowance to reduce our deferred tax assets to an amount we believe is more likely than not to be realized. Changes in our valuation allowance impact income tax expense in the period of adjustment. Our deferred tax valuation allowances require significant judgment and uncertainties, including assumptions about future taxable income that are based on historical and projected information.

ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, a company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We assess our income tax positions and record tax benefits based upon management’s evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we record the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit is recognized in the financial statements. We classify liabilities for uncertain tax positions as non-current liabilities unless the uncertainty is expected to be resolved within one year. We classify interest as financial expenses and penalties as selling, marketing, general and administration expenses.

As a global company, we use significant judgment to calculate and provide for income taxes in each of the tax jurisdictions in which we operate. In the ordinary course of our business, there are transactions and calculations undertaken whose ultimate tax outcome cannot be certain. Some of these uncertainties arise as a consequence of transfer pricing for transactions with our subsidiaries and tax credit estimates. In addition, the calculation of acquired tax attributes and the associated limitations are complex and although our income tax reserves are based on our best knowledge, we may be subject to unexpected audits by tax authorities in the various countries where we have subsidiaries, which may result in material adjustments to the reserves established in our consolidated financial statements and have a material adverse effect on our results of operations. We estimate our exposure to unfavorable outcomes related to these uncertainties and estimate the probability for such outcomes.

Although we believe our estimates are reasonable, no assurance can be given that the final tax outcome will not be different from what is reflected in our historical income tax provisions, returns, and accruals. Such differences, or

changes in estimates relating to potential differences, could have a material impact on our income tax provision and operating results in the period in which such a determination is made.

Recently Issued Accounting Pronouncements

For a description of our recently issued and recently adopted accounting pronouncements, see Note's 2(v) and 2(w) to our consolidated financial statements appearing elsewhere in this annual report.

Impact of Tax Policies and Programs on our Operating Results

Israeli Tax Considerations and Government Programs

Tax regulations have a material impact on our business, particularly in Israel where we have our headquarters and due to our election to be treated as an Israeli resident corporation for tax purposes. The following summary describes the current tax structure applicable to companies in Israel, with special reference to its effect on us.

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General Corporate Tax Structure

Generally, Israeli companies are subject to corporate tax on their taxable income. In 2017 the corporate tax rate was 24% and as of 2018 the corporate tax rate is 23%. However, the effective tax rate payable by a company that derives income from an AE, BE, PFE or a PTE, in each case, as defined and further discussed below, may be considerably lower. See “Law for the Encouragement of Capital Investments” in this Item 5.A below. In addition, Israeli companies are currently subject to regular corporate tax rate on their capital gains.

Besides being subject to the general corporate tax rules in Israel, certain of our Israeli subsidiaries have also, from time to time, applied for and received certain grants and tax benefits from, and participate in, programs sponsored by the Government of Israel, as described below.

Law for the Encouragement of Industry (Taxes), 1969

The Law for the Encouragement of Industry (Taxes), 5729-1969, or the Industry Encouragement Law, provides several tax benefits for an “Industrial Company”. Pursuant to the Industry Encouragement Law, a company qualifies as an Industrial Company if it is an Israeli resident company which was incorporated in Israel and at least 90% of its income in any tax year (other than income from certain government loans) is generated from an “Industrial Enterprise” that it owns and located in Israel. An “Industrial Enterprise” is defined as an enterprise whose major activity, in any given tax year, is industrial production.

An Industrial Company is entitled to certain tax benefits, including:

Deduction of the cost of the purchases of patents, or the right to use a patent or know-how or certain other intangible property rights (other than goodwill) that were purchased in good faith and are used for the development or promotion of the Industrial Enterprise, over an eight year period commencing on the year in which such rights were first exercised;

The right to elect, under certain conditions, to file a consolidated tax return together with Israeli Industrial Companies controlled by it; and

Expenses related to a public offering are deductible in equal amounts over three years beginning from the year of the offering.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We believe that certain of our Israeli subsidiaries currently qualify as Industrial Companies within the definition under the Industry Encouragement Law. We cannot assure you that we will continue to qualify as Industrial Companies or that the benefits described above will be available in the future.

Law for the Encouragement of Capital Investments, 5719-1959

The Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law, provides certain incentives for capital investments in a production facility (or other eligible assets). Generally, an investment program that is implemented in accordance with the provisions of the Investment Law, referred to an Approved Enterprise, or AE, a Benefited Enterprise, or BE, a Preferred Enterprise, or PFE, or a Preferred Technological Enterprise, or PTE, is entitled to benefits as discussed below. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the geographic location in Israel of the facility in which the investment is made. In order to qualify for these incentives, an AE, BE, PFE or PTE is required to comply with the requirements of the Investment Law.

The Investment Law has been amended several times over the recent years, with the three most significant changes effective as of April 1, 2005 (referred to as the 2005 Amendment), as of January 1, 2011 (referred to as the 2011 Amendment) and as of January 1, 2017 (referred to as the 2017 Amendment). Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law as in effect up to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and elect the benefits of the 2011 Amendment. The 2017 Amendment introduced new benefits for Technological Enterprises, alongside the existing tax benefits.

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Under the Investment Law prior to the 2005 Amendment, a company that wished to receive benefits on its investment program that is implemented in accordance with the provisions of the Investment Law (referred to as an AE), had to receive an approval from the Israeli Authority for Investments and Development of the Industry and Economy (referred to as the Investment Center). Each certificate of approval for an AE relates to a specific investment program, delineated both by the financial scope of the investment, including sources of funds, and by the physical characteristics of the facility or other assets— e.g., the equipment to be purchased and utilized pursuant to the program.

An AE may elect to forego any entitlement to the cash grants otherwise available under the Investment Law and, instead, participate in an alternative benefits program. Under the alternative benefits program, a company's undistributed income derived from an AE will be exempt from corporate tax for a period of between two (2) and ten (10) years from the first year of taxable income, depending on the geographic location within Israel of the AE, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year, as detailed below. The benefits period under AE status is limited to 12 years from the year in which the production commenced (as determined by the Investment Center), or 14 years from the year of receipt of the approval as an AE, whichever ends earlier. If a company has more than one AE program or if only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits available under any certificate of approval relate only to taxable income attributable to the specific program and are contingent upon meeting the criteria set out in the certificate of approval. Income derived from activity that is not integral to the activity of the AE will not enjoy tax benefits.

A company that has an AE program is eligible for further tax benefits, if it qualifies as a Foreign Investors' Company, or FIC. An FIC eligible for benefits is essentially a company with a level of foreign investment, as defined in the Investment Law, of more than 25%. The level of foreign investment is measured as the percentage of rights in the company (in terms of shares, rights to profits, voting and appointment of directors), and of combined share and loan capital, that are owned, directly or indirectly, by persons who are not residents of Israel. The determination as to whether or not a company qualifies as an FIC is made on an annual basis. An FIC that has an AE program will be eligible for an extension of the period during which it is entitled to tax benefits under its AE status (so that the benefits period may be up to ten years) and for further tax benefits if the level of foreign investment is 49% or more. If a company that has an AE program is a wholly owned subsidiary of another company, then the percentage of foreign investment is determined based on the percentage of foreign investment in the parent company.

The corporate tax rates and related levels of foreign investments with respect to an FIC that has an AE program are set forth in the following table:

Percentage of non-Israeli ownership

Corporate
Tax Rate

Over 25% but less than 49%	Up to 25 %
49% or more but less than 74%	20 %
74% or more but less than 90%	15 %
90% or more	10 %

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A company that has elected to participate in the alternative benefits program and that subsequently pays a dividend out of the income derived from the portion of its facilities that have been granted AE status during the tax exemption period will be subject to tax in respect of the amount of dividend distributed (grossed up to reflect such pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate that would have been otherwise applicable if such income had not been tax-exempted under the alternative benefits program. This rate generally ranges from 10% to 25%, depending on the level of foreign investment in the company in each year as explained above.

In addition, dividends paid out of income attributed to an AE (or out of dividends received from a company whose income is attributed to an AE) are generally subject to withholding tax at the rate of 15%, or at a lower rate provided under an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). The 15% tax rate is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. After this period, the withholding tax is applied at a rate of up to 30%, or at a lower rate under an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). In the case of an FIC, the 12-year limitation on reduced withholding tax on dividends does not apply.

The Investment Law also provides that an AE is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program in the first five years of using the equipment. This benefit is an incentive granted by the Israeli government regardless of whether the alternative benefits program is elected.

The benefits available to an AE are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations and the criteria in the specific certificate of approval with respect thereto, as described above. If a company does not meet these conditions, it would be required to refund the amount of tax benefits, adjusted to the Israeli consumer price index and interest, or other monetary penalty.

Under the terms of the AE program, income that is attributable to one of our Israeli subsidiaries was exempted from income tax for a period of two years commencing in 2014

Tax Benefits Subsequent to the 2005 Amendment

The 2005 Amendment applies to new investment programs commencing after 2004, but does not apply to investment programs approved prior to April 1, 2005. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment became effective (April 1, 2005) will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005

Amendment, the Investment Center will continue to grant AE status to qualifying investments. The 2005 Amendment, however, limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an AE.

An enterprise that qualifies under the new provisions is referred to as a BE, rather than AE. The 2005 Amendment provides that a certificate of approval from the Investment Center will only be necessary for receiving cash grants. As a result, it was no longer necessary for a company to obtain the advance approval of the Investment Center in order to receive the tax benefits previously available under the alternative benefits track. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment. A company that has a BE may, at its discretion, approach the Israel Tax Authority for a pre-ruling confirming that it is in compliance with the provisions of the Investment Law.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) which are generally required to derive more than 25% of their business income from export to specific markets with a population of at least 14 million in 2012 (such export criteria will further be increased in the future by 1.4% per annum). In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets certain conditions set forth in the amendment for tax benefits, including exceeding a minimum investment amount specified in the Investment Law. Such investment entitles a company to receive a BE status with respect to the investment, and may be made over a period of no more than three years ending in the end of the year in which the company chose to have the tax benefits apply to its BE. Where a company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered to be a BE and the company's effective tax rate will be the weighted average of the applicable rates. In such case, the minimum investment required in order to qualify as a BE must exceed a certain percentage of the value of the company's production assets before the expansion.

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The extent of the tax benefits available under the 2005 Amendment to qualifying income of a BE depends on, among other things, the geographic location within Israel of the BE. The location will also determine the period for which tax benefits are available. Such tax benefits include an exemption from corporate tax on undistributed income generated by the BE for a period of between two to ten years, depending on the geographic location of the BE within Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year, as explained above. The benefits period is limited to 12 or 14 years from the year the company first chose to have the tax benefits apply, depending on the location of the company within Israel.

A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income derived by its BE during the tax exemption period will be subject to deferred corporate tax in respect of the amount of the dividend distributed (grossed-up to reflect the pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate which would have otherwise been applicable. Dividends paid out of income attributed to a BE (or out of dividends received from a company whose income is attributed to a BE) are generally subject to withholding tax at source at the rate of 15% or at a lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). The reduced rate of 15% is limited to dividends and distributions out of income attributed to a Beneficiary Enterprise during the benefits period and actually paid at any time up to 12 years thereafter except with respect to an FIC, in which case the 12-year limit does not apply.

The benefits available to a BE are subject to the continued fulfilment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it would be required to refund the amount of tax benefits, adjusted to the Israeli consumer price index, and interest, or other monetary penalties.

Tax benefits under the 2011 Amendment that became effective on January 1, 2011

The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its PFE (as such terms are defined in the Investment Law) as of January 1, 2011. A Preferred Company is an industrial company, which is defined as either (i) a company incorporated in Israel which is not wholly owned by a governmental entity or (ii) a limited partnership that (a) was registered under the Israeli Partnerships Ordinance and (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, PFE status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to its preferred income (“**PFI**”) attributed to its PFE in 2011 and 2012, unless the PFE is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate was reduced to 12.5% and 7%, respectively, in 2013 and was increased to 16% and 9%, respectively, in 2014 until 2016. Pursuant to the 2017 Amendment, in 2017 and thereafter, the corporate tax rate for a PFE that is located in a specified development zone was decreased to 7.5%, while the reduced corporate tax rate for other development zones remains 16%. Income derived by a Preferred Company from a Special PFE (as such

term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or 5% if the Special PFE is located in a certain development zone. As of January 1, 2017, the definition for Special PFE includes less stringent conditions.

The classification of income generated from the provision of usage rights in know-how or software that were developed in a PFE, as well as royalty income received with respect to such usage, is subject, as PFE income, to the issuance of a pre-ruling from the Israel Tax Authority that stipulates that such income is associated with the productive activity of the PFE in Israel.

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Dividends paid out of PFI attributed to a PFE or to a Special PFE are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed from such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply). From 2017 to 2019, dividends paid out of PFI attributed to a PFE, directly to a foreign parent company, are subject to withholding tax at source at the rate of 5% (temporary provisions).

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an AE, which chose to receive grants, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; and (ii) the terms and benefits included in any certificate of approval that was granted to an AE, that had participated in an alternative benefits program, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met. As of December 31, 2015, some of our Israeli subsidiaries had filed a request to apply the new benefits under the 2011 Amendment.

New Tax benefits under the 2017 Amendment that became effective on January 1, 2017

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and is effective as of January 1, 2017. The 2017 Amendment provides new tax benefits for two types of Technology Enterprises, as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a PTE and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as Preferred Technology Income, or PTI, as defined in the Investment Law. The tax rate is further reduced to 7.5% for a PTE located in development zone A. In addition, a Preferred Technology Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain Benefited Intangible Assets (as defined in the Investment Law) to a related foreign company if the Benefited Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the National Authority for Technological Innovation (previously known as the Israeli Office of the Chief Scientist) (referred to as IIA).

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a Special PTE (an enterprise for which, among others, total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion) and will thereby enjoy a reduced corporate tax rate of 6% on PTI regardless of the company's geographic location within Israel. In addition, a Special PTE will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain "Benefited Intangible Assets" to a related foreign company if the Benefited Intangible Assets were either developed by an Israeli company or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from IIA. A Special PTE that acquires Benefited Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed by a PTE or a Special PTE, paid out of PTI, are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed from such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply). If such dividends are distributed to a foreign parent company holding at least 90% of the shares of the distributing company and other conditions are met, the withholding tax rate will be 4% (or a lower rate under a tax treaty, if applicable, subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate).

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We examined the impact of the 2017 Amendment and the degree to which we will qualify as a PTE or Special PTE, and the amount of PTI that we may have, or other benefits that we may receive, from the 2017 Amendment. Beginning in 2017, part of the Company's taxable income in Israel is entitled to a preferred 12% tax rate under the 2017 Amendment.

Tax Benefits for Research and Development

Israeli tax law allows, under certain conditions, a tax deduction for research and development expenditures, including capital expenditures, for the year in which they are incurred. Such expenditures must relate to scientific research and development projects, and must be approved by the relevant Israeli government ministry, determined by the field of research. Furthermore, the research and development must be for the promotion of the company's business and carried out by or on behalf of the company seeking such tax deduction. However, the amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved by the relevant Israeli government ministry, but otherwise qualifying for deduction, are deductible over a three-year period.

B. Liquidity and Capital Resources

To date, we have substantially satisfied our capital and liquidity needs through cash flows from operations and sales of our equity and debt securities.

Cash flows provided from operations were \$27.7 million and \$9.2 million during the years ended December 31, 2018 and 2017, respectively. We used \$25.6 million and \$73.2 million of cash in investing activities during the years ended December 31, 2018 and 2017, respectively. We used \$9.4 million of cash in financing activities during the year ended December 31, 2018, whereas during the year ended December 31, 2017, financing activities provided us with \$70 million of cash. As of December 31, 2018, and 2017, we had \$64.6 million and \$71.4 million, respectively, of cash, cash equivalents, and \$48.2 million and \$60.8 million, respectively, of working capital.

We expect that we will continue to generate positive cash flows from operations on an annual basis, although this may fluctuate significantly on a quarterly basis. We believe that based on our current operating forecast, the combination of existing working capital and expected cash flows from operations will be sufficient to finance our ongoing operations for the next twelve months.

Our future capital requirements will depend on many factors, including the rate of growth of our revenues, the expansion of our sales and marketing activities and the timing and extent of our spending to support our research and development efforts and expansion into other markets. We may determine to distribute dividends to our shareholders. See “Item 8. Financial Information - Dividend Policy”. We may also seek to invest in, or acquire complementary businesses, applications or technologies. To the extent that existing cash and cash equivalents, investments in marketable securities and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Israeli Public Offering and Private Placement of Debentures

In September 2017, we published with the Israeli Securities Authority, or the ISA, and the Tel Aviv Stock Exchange, or the TASE, a shelf offering report for an offering of a new series of debentures—Series B, unsecured, non-convertible debentures, or the Series B Debentures—in Israel, which offering included institutional and public bid processes. Pursuant to the offering, we offered, issued and sold a total of 234,144 units of Series B Debentures of principal amount of NIS 1,000 each for aggregate gross proceeds of approximately NIS 234.14 million (approximately \$66.2 million).

Immediately following the public offering, we entered into agreements with Israeli accredited investors for the private placement to those investors, in Israel, of an additional NIS 45.86 million (approximately \$12.96 million) principal amount of Series B Debentures. The Series B Debentures were sold in the private placement at a price of NIS 995.5 for each NIS 1,000 principal amount, thereby generating approximately NIS 45.65 million (\$12.9 million) of additional proceeds for our company.

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Upon the completion of the public offering and private placement of Series B Debentures, we had issued and sold the full NIS 280 million (approximately \$79.2 million) principal amount of Series B Debentures that we had offered in the Israeli public offering.

The Series B Debentures were offered as, and trade on the TASE as, 280,000 units of NIS 1,000 principal amount each. In the case of the privately placed Series B Debentures, resale by the purchasers was restricted for an initial period, in accordance with the Israeli Securities Law, 5728-1968, and the regulations thereunder.

The outstanding principal amount of the Series B Debentures is linked to the US dollar and bears interest at an annual rate of 3.37%, payable on a semi-annual basis (on January 1 and July 1 of 2018 through 2025, with one final interest payment on January 1, 2026). The principal of the Series B Debentures is payable in eight equal annual payments beginning on January 1, 2019, with the final payment due on January 1, 2026. The first installment, in an amount of \$9.9 million, was paid on January 1, 2019.

In connection with our offering of the Series B Debentures, we received from S&P Maalot (a subsidiary of S&P Global) a corporate credit rating and a rating for the Series B Debentures, which S&P Maalot has affirmed, as of July 31, 2018, as (i) iIA+, with stable outlook, and (ii) iIA+, respectively.

We have been using, and expect to continue to use, the net proceeds from the Series B Debentures for general corporate purposes, including repayment of our long-term loan that was outstanding during 2017, financing our operating and investment activities, and financing future acquisitions.

Cash Flows

Comparison of the years ended December 31, 2017 and 2018

The following tables summarize the sources and uses of our cash in the years ended December 31, 2016 and 2017:

Year ended	
December 31,	
2017	2018

	(in thousands US\$)	
Net cash provided from operating activities	\$9,248	\$27,700
Net cash used in investing activities	(73,201)	(25,581)
Net cash provided from (used in) financing activities	70,009	(9,428)

Operating Activities

We derived positive cash flows from operating activities of \$9.2 million and \$27.7 million during the years ended December 31, 2017 and 2018, respectively. This increase in cash flows provided from operating activities for the year ended December 31, 2018, relative to the year ended December 31, 2017 resulted primarily from an increase in net income of \$13.4 million, from \$0.6 million to \$14 million, which was due to the factors described above, and an increase in the amount of our non-cash expenses which reduce the net income, but do not impact operating cash flows, most notably an increase of \$4 million in depreciation and amortization expenses in 2018 compared to 2017. Such increase is attributable to the amortization of intangible assets of the entities acquired in 2017 and 2018.

Investing Activities

Net cash used in investing activities decreased to \$25.6 million for the year ended December 31, 2018, compared to \$73.2 million in the year ended December 31, 2017, primarily due to a decrease in use of cash, for the acquisition of businesses during 2018, which decreased to \$18.5 million, compared to \$100.4 million in 2017. The decrease in cash used for investing activities in the year ended December 31, 2018, was offset, in part, by sales of marketable securities in the year ended December 31, 2017, relative to the previous year. In 2017, we received \$35.4 million of cash, net, from sales (net of purchases) of marketable securities, whereas in 2018, we sold none, constituting an overall difference of \$35.4 million between the two years.

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Financing Activities

We used \$9.4 million of cash during the year ended December 31, 2018 for financing activities, as compared to generating \$70 million of cash in the year ended December 31, 2017. Cash provided from financing activities in the year ended December 31, 2017, was primarily attributable to our Series B Debentures offering, which generated \$78.2 million, which was offset in part by cash used for payment of a cash dividend in a total amount of approximately \$9.8 million. In the year ended December 31, 2018, cash used in financing activities was primarily attributable to payment of a cash dividend in a total amount of approximately \$10 million. Cash used in financing activities during the year ended December 31, 2018, and cash provided from financing activities during the year ended December 31, 2017 included \$0.9 million and \$2.5 million, respectively, of cash provided by stock option exercises during those respective years.

C. Research and Development, Patents and Licenses, etc.

See the caption titled “Research and Development” in part A. “Operating Results” of this Item 5 above for a description of our R&D policies and amounts expended thereon during the last two fiscal years.

D. Trend Information

There are various sales and marketing trends that influence our business. In the Gartner report (as cited above), Gartner forecasts that the global IT spending insurance market will grow by 3.7% in 2019, to \$220.7 billion in U.S. dollars (on a constant-currency basis). This industry is forecast to reach nearly \$244 billion by 2022, growing at a CAGR of 3.6% from 2017 through 2022.

According to the Celent reports “Insurance in Europe 2019—Business and its Priorities” (written by Nicolas Michellod, and published on February 27, 2019), and “Property/Casualty Insurer CIO Pressures and Priorities 2019- North American Edition” (written by Light, Donald and published on January 22, 2019), European insurance chief investment officers’ top business priority in 2019 will be to support growth and customer retention. In addition, North American Property & Casualty chief investment officers in all segments identify the business goal of growth and retention as the single most important influence on their IT plans.

According to the Celent report “Life CIO Pressures and Priorities, 2019 North American Edition” (written by Tom Scales and published on February 25, 2019), life insurance chief investment officers’ top business priority in 2019 will be meeting regulatory requirements, which surpassed growth and retention as the top priority. That trend reflects increased state-level oversight in key areas.

With the growing need for insurance, as people accumulate more property and live longer, the insurance industry has become more competitive. The competition for the customers' business requires insurers to improve customer experience, be faster to market with new products and offer innovative channels, such as social media and mobile. Innovative technology infrastructure is necessary to support these business initiatives.

In addition, insurers are faced with the increasing significance of regulatory changes to protect the policyholder in many markets, particularly large insurers that are considered important to the stability of the world economic system. Many insurers are integrating enterprise risk management as standard operating procedure, while spreading ownership of risk throughout the strategic decision-making process.

As customers become more sophisticated, the support of innovative products and distribution channels is mandatory. Insurers are identifying growth opportunities by attracting new customers and retaining current customers by seeking to reinvent the customer experience and provide quote and policy information to their customers upon request.

With today's strong trend of shifting attention to the end-customer experience and activities, there is an increasing focus on digital operations to support the increasing usage of the Internet for sales, recommendations and general communication. This affects the carriers' needs to innovate their product proposition through a flexible and modern solution. Another substantial trend is the increasing usage of data for decision-making, risk analysis, customers' evaluation and rating, which requires streamlined data flow and easy access to information from multiple sources.

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Increased global competition, the need to improve distribution channels and provide an enhanced customer experience, and efforts to expand into new countries and markets have required heavy investments from insurers, resulting in a trend towards consolidation. This has mainly included consolidation of applications, databases, development tools, hardware and data centers.

E. Off-Balance Sheet Arrangements

We have not engaged in nor been a party to any off-balance sheet transactions.

F. Contractual Obligations

The following table sets forth information on our short-term and long-term contractual obligations as at December 31, 2018.

	Payments due by period				
	Total	Less than 1 year	1 to 3 Years	3 to 5 years	Over 5 years
	(in thousands)				
Accrued severance pay, net ⁽¹⁾	\$923	-	-	-	\$923
Operating leases and other purchase obligations	45,282	8,018	15,673	10,926	10,665
Liability to the Innovation Authority ⁽²⁾	433	433	-	-	-
Series B Debentures ⁽³⁾	79,186	9,898	29,695	29,695	9,898
Contingent payment obligations – acquisitions ⁽⁴⁾	5,081	3,431	1,450	200	-
Total Contractual Cash Obligations	\$130,905	\$21,780	\$46,818	\$40,821	\$21,486

Accrued severance pay relates to accrued severance obligations mainly to our Israeli employees as required under Israeli labor law. We are legally required to pay severance upon certain circumstances, primarily upon termination of employment by our company, retirement or death of the respective employee. Our liability for all of our Israeli employees is fully provided for by monthly deposits with insurance policies and by an accrual.

⁽¹⁾ Does not include contingent liabilities to the Innovation Authority of approximately \$6.2 million as described in Note 11(a) to our consolidated financial statements contained elsewhere in this annual report.

⁽³⁾ Future principal payments for the Series B Debentures without interest.

(4) Contingent payment obligations for our acquisitions do not include contingent payments in an amount of up to \$5 million, in the aggregate, that are subject to continued employment by the recipients thereof.

The total amount of unrecognized tax benefits for uncertain tax positions was \$3.9 million as of December 31, 2018. Payment of these obligations would result from settlements with taxing authorities. Due to the uncertainties related to those tax matters, we are currently unable to make a reasonably reliable estimate of when cash settlement with a relevant tax authority will occur. See Note 12(i) to our consolidated financial statements contained elsewhere in this annual report, as of December 31, 2018.

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The following table and below biographies set forth certain information regarding the current executive officers and directors of the Company as of March 1, 2018.

Name	Age	Position
Guy Bernstein	51	Chairman of the Board of Directors
Roni Al Dor	58	President, Chief Executive Officer and Director
Naamit Salomon	55	Director
Yacov Elinav (1)	74	Director
Uzi Netanel (1)	83	Director
Eyal Ben Chlouche (1)	57	Director
Roni Giladi	48	Chief Financial Officer

(1) Member of Audit Committee

Guy Bernstein has served as a director of the Company since January 1, 2007 and was appointed Chairman of the Board of Directors on November 12, 2009. Mr. Bernstein has served as the chief executive officer of Formula, our parent company, since January 2008. From December 2006 to November 2010, Mr. Bernstein served as a director and the chief executive officer of Emblaze Ltd. or Emblaze, our former controlling shareholder. From April 2004 to December 2006, Mr. Bernstein served as the chief financial officer of Emblaze. He also served as a director of Emblaze from April 2004 until November 2010. Prior to joining Emblaze, Mr. Bernstein served as Chief Financial and Operations Officer of Magic Software, a position he held since 1999. Mr. Bernstein joined Magic Software from Kost Forer Gabbay & Kasierer, a member of EY Global, where he acted as senior manager from 1994 to 1997. Mr. Bernstein also serves as Chief Executive Officer of Magic Software and Chairman of the Board of Matrix IT Ltd. Mr. Bernstein is a Certified Licensed Public Accountant and holds a BA in Accounting and Economics from Tel Aviv University.

Roni Al Dor joined the Company as President and Chief Executive Officer in November 2005 and has served as a director of the Company since November 2005. Prior to joining the Company, Mr. Al Dor was one of the two founders of TTI Team Telecom International Ltd., or TTI, a global supplier of operations support systems to communications service providers and from August 1996 until 2004, Mr. Al Dor served as President of TTI. Prior to that, Mr. Al Dor served as TTI's Co-President from November 1995 until August 1996 and its Vice President from September 1992 to November 1995. During his service in the Israeli Air Force, Mr. Al Dor worked on projects relating to computerization in aircrafts. Mr. Al Dor is a graduate of the military computer college of the Israeli Air Force, studied computer science and management at Bar Ilan University and attended the Israel Management Center

for Business Administration.

Eyal Ben-Chlouche has served as a director of the Company since August 15, 2008, Mr. Ben-Chlouche served as the Commissioner of Capital Market Insurance and Savings at the Israeli Ministry of Finance from 2002 through 2005, where he was responsible for implementation of fundamental reforms in pension savings. Prior to that, he served as a Deputy Commissioner of Capital Market Insurance and Savings and as a Senior Foreign Exchange and Investment Manager in the Foreign Exchange Department of the Bank of Israel. He also served as an Investment Officer in the Foreign Exchange Department of the Bank of England, in London. Mr. Ben-Chlouche served as Chairman of the Board of Directors of the Shahar Group, Chairman of the Advisory Board of Directors of the Shekel Group until the end of 2007 and serves as a director of Matrix IT Ltd. and Migdal Holding Ltd. Mr. Ben-Chlouche also serves on the Board of Directors of several other private companies. Mr. Ben-Chlouche also serves as Chairman of the Advisory Board of the Caesarea Center for Capital Markets and Risk Management. In 2005, Mr. Ben-Chlouche served as a member of the Bachar Committee on Capital Market Reform in Israel. Mr. Ben-Chlouche is an independent director.

Naamit Salomon has served as a director of the Company since September 2003. She held the position of Chief Financial Officer of Formula from August 1997 until December 2009. Since January 2010 Ms. Salomon has served as a partner in an investment company. Ms. Salomon also serves as a director of Magic. From 1990 through August 1997, Ms. Salomon was a controller of two large, privately held companies in the Formula Group. Ms. Salomon holds a BA in economics and business administration from Ben Gurion University and an LL.M. from the Bar-Ilan University.

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Yacov Elinav has served as a director of the Company since March 2005. For over 30 years, Mr. Elinav served in various positions at Bank Hapoalim B.M., which is listed on the London and Tel Aviv Stock Exchanges, including over 10 years as a member of the Board of Management, responsible for subsidiary and related companies. From 1992 through 2006, Mr. Elinav served as Chairman of the Board of Directors of Diur B.P. Ltd., the real estate subsidiary of Bank Hapoalim. From August 2004 until 2009, Mr. Elinav served as Chairman of the Board of Directors of DS Securities and Investments, Ltd. From August 2004 through 2008, Mr. Elinav served as Chairman of the Board of Directors of DS Provident Funds Ltd., and from 2010 until August 2015, served as Chairman of the Board of Directors of Golden Pages Ltd.. Mr. Elinav also serves on the Board of Directors of several other public and private companies. Mr. Elinav is an independent director.

Uzi Netanel has served as a director of the Company since March 2005. He has served as chairman of the Board of Directors of Maccabi Enterprise Development & Management Ltd. since 2005, and as a director of Maccabi Health Services since 2005. He previously served as Chairman of Maccabi Group Holdings Ltd., from 2005 through 2011. From 2004 through 2007, Mr. Netanel served as Chairman of Board of Directors of M.L.L Software & Computers, and from 2000 through 2011 served as a director of Bazan and Carmel Olephine. From 2001 through 2003, Mr. Netanel served as partner in the FIMI Opportunity Fund. From 1993 through 2001, he served as Active Chairman of Israel Discount Capital Markets and Investments Ltd. From 1997 to 1999, Mr. Netanel served as Chairman of Poliziv Plastics Company (1998) Ltd. From 2005 through 2014, he served as director of Maman Group and from 2012 through 2014, he served as director of Gadot Biochemicals. Mr. Netanel also serves on the Board of Directors of Acme Trading, Assuta Health Centers and Dorcel (B.A.Z.) Ltd. Mr. Netanel is an independent director.

Roni Giladi joined the Company as Chief Financial Officer in July 2007. Prior to joining the Company, Mr. Giladi served as the Director of Finance at Emblaze from January 2007. Prior to joining Emblaze, Mr. Giladi served as Chief Financial Officer of RichFX, from August 2003 until November 2006, after serving as Corporate Controller from June 2002. Prior to RichFX, Mr. Giladi worked at EY Israel, from 1997-2002, as a manager in the high-tech practice group. Mr. Giladi is Certified Licensed Public Accountant and holds a BA in Business Management and Accounting from the College of Management in Israel.

Under our Articles, the Board of Directors must have a minimum of three, and may have a maximum of 24, directors. Directors of the Company are appointed by our General Meeting of Shareholders and hold office until the expiration of the term of their appointment by our General Meeting of Shareholders, or until they resign or are suspended or dismissed by the General Meeting of Shareholders. The Board of Directors may appoint up to four directors in addition to the directors elected by the General Meeting of Shareholders, subject to the maximum number of directors permitted, and any such appointment shall be effective until the next General Meeting of Shareholders. The Board of Directors may fill any vacancies on the Board of Directors, whether as a result of the resignation or dismissal of a director, or as a result of a decision of the Board of Directors to expand the Board of Directors.

Our executive officers are appointed by, and serve at the discretion of, our Board of Directors.

Our Chairman, Guy Bernstein, serves as the Chief Executive Officer of Formula and as a director of Asseco. In addition, Ms. Salomon, another Board member of ours, who served as an executive officer of Formula until December 2009, is a member of the Board of Directors of our affiliate Magic Software Enterprises Ltd. Formula directly owns (as of March 1, 2019) approximately 48.1% of our currently outstanding Common Shares, and Asseco holds 26.3% of the outstanding share capital of Formula, as well as the power to vote an additional 1,971,973 ordinary shares of Formula, thereby effectively giving Asseco beneficial ownership (voting power) over an aggregate of 39.7% of Formula's outstanding ordinary shares.

B. Compensation of Directors and Officers

The aggregate amount of compensation paid by us, or accrued by us, for all directors and executive officers as a group for services in all capacities with respect to the fiscal year ended December 31, 2018 was \$1.6 million, which includes amounts set aside or accrued to provide cash bonuses, pension, retirement or similar benefits.

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These compensation amounts do not include amounts expended by us for automobiles made available to our officers or expenses (including business travel and professional and business association dues) reimbursed to such officers. The foregoing amounts also exclude the value of stock option grants to our directors and officers pursuant to our 2011 Share Incentive Plan, which is described below.

We have employment agreements with our officers. We also enter into confidentiality agreements with our personnel and have entered into non-competition and confidentiality agreements with our officers and high-level technical personnel, in each case in the ordinary course of business. We do not maintain key person life insurance on any of our executive officers.

Board Fees and Expenses

We reimburse all members of our Board of Directors for reasonable out-of-pocket expenses incurred in connection with their attendance at meetings of the Board of Directors or its committees.

We paid with respect to 2018 fees of approximately \$140,000, in the aggregate, to all of our independent directors (except to our Chairman of the Board, as described below), in respect of their service on our Board of Directors, including for attending or participating in meetings of the Board of Directors and its committees, and for participating in Board action taken via unanimous written consent. Such fees were set in accordance with the rates paid to “external directors” under the Israeli Companies Law 5759-1999. Although we are not an Israeli company and are not subject to the Israeli Companies Law, we deem certain standards of that body of law (including compensation to Board members) relevant to a company such as ours. In addition to fees paid to our other independent directors, we also paid approximately \$25,000 to Formula in respect of the service of its Chief Executive Officer, Guy Bernstein, as our Chairman of the Board.

Stock Option and Incentive Plans

Prior Incentive Plans

In 1992, 2003 and 2005, our Board of Directors adopted (and our shareholders subsequently approved) our 1992 Stock Option and Incentive Plan, 2003 Share Option Plan, and Incentive Stock Option Plan, respectively, collectively referred to as our Prior Incentive Plans. These plans were administered by our Compensation Committee. Upon the approval of our 2011 Share Incentive Plan (as described below), our Board of Directors determined that no further

awards would be granted under the Prior Incentive Plans. Furthermore, the exercise period for all remaining outstanding options under the Prior Incentive Plans terminated in September 2015. Consequently, there are no remaining awards outstanding under any of the Prior Incentive Plans.

2011 Share Incentive Plan

In 2011, in connection with our acquisition of IDIT and FIS, our Board of Directors adopted our 2011 Share Incentive Plan, or the 2011 Plan, pursuant to which our employees, directors, officers, consultants, advisors, suppliers, business partners, customers and any other person or entity whose services are considered valuable are eligible to receive options, restricted shares, restricted share units and other share-based awards. The number of Common Shares available under the 2011 Plan was set at 4,000,000.

Options granted under the 2011 Plan may be ISOs or NQSOs within the meaning of Section 422 of the Code. In the case of Israeli grantees, we intend that options granted comply with, and benefit from, applicable tax laws and regulations in Israel. We are also eligible to grant restricted stock, restricted share units and other share-based compensation in addition to or in lieu of any other award under the 2011 Plan.

The 2011 Plan is administered by the Compensation Committee. Subject to the provisions of the 2011 Plan, the Compensation Committee determines the type of award, when and to whom awards will be granted and the number of shares covered by each award. The Compensation Committee also determines the terms, provisions, and kind of consideration payable (if any), with respect to awards. The Compensation Committee has discretionary authority to interpret the 2011 Plan and to adopt practices related thereto. In determining the persons to whom awards shall be granted and the number of shares covered by each award, the Compensation Committee takes into account their present and potential contributions to the success of the Company and such other factors as the Compensation Committee shall deem relevant in connection with accomplishing the purpose of the 2011 Plan.

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Under the 2011 Plan, an option may be granted on such terms and conditions as the Compensation Committee may approve, and generally may be exercised for a period of up to 6 years from the date of grant. Options granted under the 2011 Plan become exercisable in four equal, annual installments, beginning with the first anniversary of the date of the grant, or pursuant to such other schedule as the Compensation Committee may provide in the option agreement. The exercise price of such options generally will be not less than 100% of the fair market value per share of the Common Shares at the date of the grant. In the case of ISOs, certain limitations apply with respect to the aggregate value of option shares which can become exercisable for the first time during any one calendar year, and certain additional limitations apply to “Ten Percent Shareholders” (as defined in the 2011 Plan). The Compensation Committee may provide for the payment of the exercise price in cash, by delivery of other Common Shares having a fair market value equal to such option exercise price, by a combination thereof or by any method in accordance with the terms of the option agreements. The exercise price for each outstanding option to purchase one Common Share granted under the 2011 Plan is subject to reduction by the per share amount of any dividend that we declare from time to time while the option is outstanding. The 2011 Plan contains special rules governing the period during which options may be exercised in the case of death, disability, or other termination of employment. Options are not transferable except by will or pursuant to applicable laws of descent and distribution upon death of an employee, unless otherwise approved by our Board of Directors.

The 2011 Plan also provides for the granting of restricted share awards, which are awards of Common Shares that may not be disposed of, except by will or the laws of descent and distribution, for such period as the Compensation Committee determines (which we refer to as the restricted period). The Compensation Committee may also impose such other conditions and restrictions on the shares as it deems appropriate, including the satisfaction of performance criteria. The Compensation Committee may provide that such restrictions will lapse with respect to specified percentages of the awarded shares on successive anniversaries of the date of the award. During the restricted period, the grantee is entitled to receive dividends with respect to, and to vote the shares awarded to him or her. If, during the restricted period, the grantee’s continuous employment with the Company terminates for any reason, any shares remaining subject to restrictions will be forfeited. The Compensation Committee has the authority to cancel any or all outstanding restrictions prior to the end of the restricted period, including cancellation of restrictions in connection with certain types of termination of employment.

The 2011 Plan furthermore provides for the granting of restricted share units, which are awards that are settled by the issuance of a number of Common Shares. The grantee has no rights with respect to such Common Shares until they are actually issued to the grantee. The Compensation Committee may also grant other share-based awards under the 2011 Plan, such as share appreciation rights.

In February 2016, our Board of Directors approved the reservation of an additional 4,000,000 Common Shares for issuance under the 2011 Plan. As of December 31, 2018, 2,055,182 Common Shares were issuable upon the exercise of outstanding options under the 2011 Plan, at a weighted average exercise price of \$9.86 per share, of which options to purchase 2,023,254 Common Shares had vested. 1,120,000 of such Common Shares were issuable upon the exercise of outstanding options held by our directors and executive officers. As of December 31, 2018, 3,036,832 Common Shares were available for future grant under the 2011 Plan.

C. Board Practices

Members of our Board of Directors are elected by a vote at the annual general meeting of shareholders and serve for a term of one year, until the following year's annual meeting. Directors may serve multiple terms and are elected by a majority of the votes cast at the meeting. The Chief Executive Officer serves until his removal by the Board of Directors or resignation from office. Our non-employee directors do not have agreements with the Company for benefits upon termination of their service as directors.

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Audit Committee

The Audit Committee of our Board of Directors is comprised of three independent directors (such independence determination having been made by our Board of Directors, in accordance with the NASDAQ Listing Rules), who were nominated by the Board of Directors: Yacov Elinav, Uzi Netanel and Eyal Ben Chlouche. Mr. Elinav serves as the chairman of the committee. The Board of Directors has determined that Mr. Elinav meets the definition of an audit committee financial expert (as defined in paragraph (b) of Item 16A of Form 20-F promulgated by the SEC). The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing financial information, internal controls and the audit process. In addition, the Committee is responsible for oversight of the work of our independent auditors. The Committee meets at regularly scheduled quarterly meetings.

Compensation Committee

The Compensation Committee of our Board of Directors is comprised of three directors, nominated by the Board of Directors: Uzi Netanel, Naamit Salomon and Guy Bernstein. Mr. Bernstein serves as the chairman of the committee. The Compensation Committee is responsible for the review and approval of grants of options to our employees and other compensation matters as requested by the Board of Directors from time to time.

Corporate Governance Policies Adopted by Board

While not incorporated in Israel, our headquarter are located in Israel and we therefore voluntarily conform with corporate governance practices that are customary for an Israeli company whose shares are listed on the NASDAQ Stock Market. Accordingly, our Board of Directors has adopted various policies and procedures that apply to our employees and directors and that are meant to implement risk management on a company-wide level, including, among others, the following:

Code of Ethics— constitutes a guide of principles designed to help our employees conduct business honestly and with integrity (and which is referenced in Item 16B below).

Whistleblower Policy— enables the anonymous submission by our employees of reports regarding illegal or dishonest activities.

Insider Trading Policy— implements restrictions (including quarterly blackout periods) for our employees that reinforce legal prohibitions on their use of material inside information in effecting transactions in our securities.

Antifraud Policy— aimed at detecting and preventing fraud, misappropriations, and other irregularities by our employees, including any intentional, false representation or concealment of material facts for the purpose of inducing another to act upon it in connection with their activities with third parties on behalf of our company.

Related Party Transactions Policy— intended to ensure the proper disclosure to, and approval by (if approved), our Audit Committee of transactions between our company and any of its related parties (including officers, directors and Formula -our biggest shareholder) in an amount equal to or exceeding \$120,000 in order to ensure that any such transactions are in the best interest of our company and our shareholders. The policy provides that our General Counsel and CFO review and approve all related party transactions, and report such transactions to our Audit Committee, although only those transactions equal to or exceeding \$120,000 require approval of the Audit Committee.

Internal Auditor

Our Company has appointed an internal auditor.

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The role of the internal auditor is to provide assurance that the Company’s risk management, governance and internal control processes are operating effectively. This includes examining, among other things, our compliance with applicable law and orderly business procedures, including the implementation of proper internal controls in compliance with SOX requirements and our Related Party Transactions Policy.

NASDAQ Opt-Outs for a Foreign Private Issuer

We are a foreign private issuer within the meaning of NASDAQ Listing Rule 5005(a)(18), since we are governed by the laws of the Cayman Islands and we meet the other criteria set forth for a “foreign private issuer” under Rule 3b-4(c) under the Exchange Act.

Pursuant to NASDAQ Listing Rule 5615(a)(3), a foreign private issuer may follow home country practice in lieu of certain provisions of the NASDAQ Listing Rule 5600 series and certain other NASDAQ Listing Rules. Please see “Item 16G. Corporate Governance” below for a description of the manner in which we rely upon home country practice in lieu of certain of the NASDAQ Listing Rules.

D. Employees

As of December 31, 2018, we had a total of 2,378 employees, a 0.1% increase relative to the end of 2017.

The following table sets forth the number of our employees as of the end of each of the past three fiscal years, according to their geographic regions:

Geographic Region	Total Number of Employees as of December 31,		
	2016	2017	2018
Israel	862	864	726
UK and Europe	445	407	358
North America	175	511	527
Asia Pacific	446	594	767
Total Employees	1,928	2,376	2,378

E. Share Ownership

The number of our Common Shares beneficially owned by our directors and executive officers individually, and by our directors and executive officers as a group, as of March 1, 2019, is as follows:

	Shares Beneficially Owned	
	Number	Percent (1)
Roni Al Dor	1,374,781 ⁽²⁾	2.75 %
All directors and executive officers⁽³⁾	1,864,781 ⁽⁴⁾	3.73 %
as a group (7 persons, including Roni Al-Dor) ⁽³⁾		

Unless otherwise indicated below, the persons in the above table have sole voting and investment power with respect to all shares shown as beneficially owned by them. The percentages shown are based on 49,982,004

(1) Common Shares outstanding (which excludes 2,328,296 Common Shares held in treasury) as of March 1, 2019, plus such number of Common Shares as the relevant person or group had the right to receive upon exercise of options that are exercisable within 60 days of March 1, 2019.

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(2) Includes options to purchase 450,000 Common Shares under the 2011 Plan at an exercise price ranging between \$7.82 to \$11.45 per share expiring no later than May 2021, which are vested or will become vested within 60 days of March 1, 2019. See Item 6 - “Directors, Senior Management and Employees - Compensation of Directors and Officers”.

(3) Each of our directors and executive officers who is not separately identified in the above table beneficially owns less than 1% of our outstanding Common Shares (including options to purchase Common Shares held by each such party that are vested or will vest within 60 days of March 1, 2019) and has therefore not been separately identified.

(4) Includes options to purchase 720,000 Common Shares at exercise prices ranging from \$5.67 to \$11.45 per share, which are vested or will become vested within 60 days of March 1, 2019.

Item 7. Major Shareholders and Related Party Transactions**A. Major Shareholders.**

The following table sets forth, as of March 1, 2019, certain information with respect to the beneficial ownership of the Company’s Common Shares by each person known by the Company to own beneficially more than 5% of the outstanding Common Shares, based on information provided to us by the holders or disclosed in public filings of the shareholders with the Securities and Exchange Commission.

We determine beneficial ownership of shares under the rules of Form 20-F promulgated by the SEC and include any Common Shares over which a person possesses sole or shared voting or investment power, or the right to receive the economic benefit of ownership, or for which a person has the right to acquire any such beneficial ownership at any time within 60 days.

Name and Address	Shares Beneficially Owned		
	Number	Percent ⁽¹⁾	
Formula Systems (1985) Ltd. 5 HaPlada Street Or Yehuda 60218, Israel	24,029,094 ⁽²⁾	48.1	%
Harel Insurance Investments & Financial Services Ltd. Harel House; 3 Abba Hillel Street; Ramat Gan 52118, Israel	2,543,852 ⁽³⁾	5.1	%
Clal Insurance Enterprises Holdings Ltd. and affiliated entities ⁽⁴⁾ 36 Raul Walenberg St., Tel Aviv 66180, Israel	3,256,099 ⁽⁵⁾	6.5	%

- (1) The percentages shown are based on 49,982,004 Common Shares outstanding (which excludes 2,328,296 Common Shares held in treasury) as of March 1, 2019.

- The number of Common Shares shown as owned by Formula is based on information provided to the Company by Formula as of March 1, 2019. Also based on information provided to the Company, as of March 1, 2019, Asseco held 26.3% of the outstanding share capital of Formula. In addition, on October 4, 2017, Asseco entered into a
- (2) shareholders agreement with our Chairman of the Board, under which agreement Asseco has been granted an irrecoverable proxy to vote an additional 1,971,973 ordinary shares of Formula, thereby effectively giving Asseco beneficial ownership (voting power) over an aggregate of 39.7% of Formula's outstanding ordinary shares. The address of Asseco is Olchowa 14 35-322 Rzeszow, Poland.

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(3) Based on an amended Statement of Beneficial Ownership on Schedule 13G/A filed with the SEC on January 29, 2019. Of the 2,543,852 Common Shares reported as beneficially owned by Harel Insurance Investments & Financial Services Ltd., or Harel, (i) 2,417,291 Common Shares are held for members of the public through, among others, provident funds and/or mutual funds and/or pension funds and/or insurance policies and/or exchange traded funds, which are managed by subsidiaries of Harel, each of which subsidiaries operates under independent management and makes independent voting and investment decisions, (ii) 34,197 Common Shares are held by third-party client accounts managed by subsidiaries of Harel as portfolio managers, each of which subsidiaries operates under independent management and makes independent investment decisions and has no voting power in the securities held in such client accounts, and (iii) 92,364 Common Shares are beneficially held for Harel's own account.. Harel does not admit beneficial ownership of more than those 92,364 Common Shares.

(4) The Common Shares held by this shareholder and its affiliates include Common Shares held by (i) Clal Insurance Enterprises Holdings Ltd., or Clal, an affiliate of IDB Development Corporation Ltd., or IDB, an Israeli corporation, whose debentures are traded on the TASE, and (ii) Epsilon Investment House Ltd., or Epsilon, an indirect subsidiary of Discount Investment Corporation Ltd., an Israeli public corporation, or Discount Investment. Mr. Eduardo Sergio Elsztain holds indirectly through companies in his control (a) 100% of the shares of IDB, and (b) 78.22% of the shares of Discount Investment. IDB holds 25.3% of the shares of Clal, of which approximately 20.3% of the shares are held by a trustee. Discount Investment holds 100% of the shares of Koor Industries Ltd. which in turn holds 68.75% of the shares of Epsilon.

(5) Based on (i) an amended Statement of Beneficial Ownership on Schedule 13G/A filed by Clal with the SEC on February 14, 2019, and (ii) a Statement of Beneficial Ownership on Schedule 13G filed by IDB with the SEC on February 14, 2019. Consists of (a) 3,254,525 Common Shares held directly by Clal; and (b) 1,574 Common Shares held directly by Epsilon. As reported in the Schedule 13G/A filed by Clal, the 254,525 Common Shares held directly by Clal are held for members of the public through, among others, provident funds and/or pension funds and/or insurance policies, which are managed by subsidiaries of Clal, which subsidiaries operate under independent management and make independent voting and investment decisions. As reported in the Schedule 13G filed by IDB, the 1,574 Common Shares held by Epsilon are held by portfolio management and/or mutual funds, which are managed by Epsilon and/or Epsilon Mutual Funds Management (1991) Ltd. for the accounts of third-party clients. Each of Epsilon and Epsilon Mutual Funds Management (1991) Ltd. operates under independent management and makes independent investment decisions and has no voting power in the securities held in such client accounts.

To the best of our knowledge, each of the entities listed in the above table has sole voting and investment power with respect to all shares shown as beneficially owned by it, except to the extent described above.

Significant changes in holdings of major shareholders

From time to time, Formula has increased its beneficial shareholding in our Company through market purchases of additional Common Shares. Formula's beneficial ownership of our Common Shares constituted 50.2% of our outstanding share capital as of December 2014. That beneficial ownership has been diluted down to 48.1% as of

March 1, 2019, primarily as a result of various minor issuances related to stock options exercise of Common Shares that we have made.

Harel reported in an initial Schedule 13G filed on December 20, 2018 that it had become a significant shareholder of our company, having acquired 2,534,268 Common Shares, constituting 5.1% of our outstanding Common Shares, as of December 15, 2018. Its holdings have increased slightly to 2,543,852 Common Shares, also constituting 5.1% of our outstanding Common Shares, as of December 31, 2018, as reported in its amended Schedule 13G filed on January 29, 2019.

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Clal reported in an initial Schedule 13G filed on March 26, 2018 that it had become a significant shareholder, holding 2,719,363 Common Shares, constituting 5.2% of our outstanding Common Shares, as of March 16, 2018. Its holdings have increased to 3,254,525 Common Shares (exclusive of shares held by its affiliate, Epsilon, as described above), constituting 6.5% of our outstanding Common Shares, as of December 31, 2018, as reported in its amended Schedule 13G filed on February 14, 2019.

Our former significant shareholder, Yelin Lapidot Holdings Management Ltd. and its affiliates, collectively referred to as Yelin, held 2,765,424 Common Shares, or 5.6% of our outstanding Common Shares, as of December 31, 2017 (based on Amendment No. 1 to Schedule 13G filed by Yelin, Yair Lapidot and Dov Yelin on January 31, 2018). Subsequently, however, Yelin reported in Amendment No. 2 to Schedule 13G, filed on February 11, 2019, that its beneficial ownership has decreased once again below 5% as of December 31, 2018.

Our former significant shareholder, Migdal Insurance & Financial Holdings Ltd., or Migdal, acquired 2,468,836 Common Shares, or 5.0%, as of July 12, 2017, based on its Schedule 13G filed on August 28, 2017, thereby becoming a significant shareholder of our company. Since that time, its ownership fell slightly below 5%, then rose again above 5% and has now fallen again below 5% and stands at 2,418,367 Common Shares, or 4.86% of outstanding Common Shares, as of December 31, 2018, based on a Statement of Beneficial Ownership on Schedule 13G filed by Migdal with the SEC on February 14, 2019.

Voting rights of major shareholders

The major shareholders disclosed above do not have different voting rights than other shareholders with respect to the Common Shares that they hold.

Holders of record

As of March 1, 2019 there were 60 holders of record of our Common Shares, including 41 holders of record with addresses in the United States who held a total of 42,319,865 Common Shares (out of which 42,313,953 Common Shares are held of record by CEDE & Co), representing approximately 84.7% of our issued and outstanding Common Shares. The number of record holders in the United States is not representative of the number of beneficial holders, nor is it representative of where such beneficial holders are resident, because many of these Common Shares were held of record by nominees (including CEDE & Co., as nominee for a large number of banks, brokers, institutions and underlying beneficial holders of our Common Shares). In particular, Formula, which held (as of March 1, 2018 (in part as a record holder and in part as an underlying beneficial holder)) 24,029,094 Common Shares, representing 48.1% of our issued and outstanding shares, is not a United States company.

Control of the Company

Based on Formula's beneficial ownership of 48.1% of the outstanding Common Shares of the Company (as of March 1, 2018), and based on Asseco's beneficial ownership of 39.7% of the outstanding share capital of Formula (also as of that date), both Formula and Asseco may be deemed to control the Company. We are unaware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

B. Related Party Transactions

Registration Rights Agreement with Major Shareholders

The description of the Registration Rights Agreement set forth in Item 10.C "Material Contracts" is incorporated by reference herein.

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Fees Paid to Major Shareholder for Board Service of its Affiliate

We paid to our major shareholder, Formula, approximately \$25,000 in respect of our share of the director fees of Guy Bernstein, our Chairman, for the year ended December 31, 2018. Mr. Bernstein serves as the Chief Executive Officer of Formula and a director of Asseco. Formula directly owns (as of March 1, 2019) approximately 48.1% of our currently outstanding Common Shares.

Additional Agreements and Transactions with Affiliated Companies of Formula

During the year ended December 31, 2018, we paid to affiliated companies of Formula approximately \$4.4 million, in the aggregate, pursuant to services agreements that we have in place with those companies under which we receive services. In 2018, we also purchased from those affiliated companies an aggregate of approximately \$0.3 million of hardware and software. Please see Note 13 to our audited consolidated financial statements included in Item 18 of this annual report for further information.

Further, the Company paid to Formula approximately \$0.1 million in respect of its share of the D&O insurance for the period starting June 18, 2017 through December 17, 2018, and has paid an additional \$0.1 million in respect of that insurance for the period between December 18, 2018 and February 28, 2019.

Transactions Involving Asseco and Sapiens Poland

During 2018, Asseco provided back-office services, professional services and fixed assets to our wholly-owned subsidiary, Sapiens Poland, in an amount totaling approximately \$1 million. Please see Note 13 to our audited consolidated financial statements included in Item 18 of this annual report for further information. In September 2018, we moved out from one of the Asseco offices in Poland. This will reduce the back-office fee that will be paid to Asseco in 2019.

In addition, during 2018, Sapiens Poland performed services as a sub-contractor on behalf of Asseco for clients of Asseco in a total amount of approximately \$3.2 million. For historic reasons, Asseco issues invoices to those clients and then Sapiens in turn invoices Asseco on a back-to-back basis (with no margin to Asseco).

Trade Payables and Receivables

As of December 31, 2018, we had trade payables balances due to, and trade receivables balances due from, our related parties in amounts of approximately \$1.1 million and \$1 million, respectively.

C. Interests of Experts and Counsel.

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information.

Financial Statements

See the Consolidated Financial Statements and related notes in Item 18.

Export Sales

In 2018, 90% of our revenues originated from customers located outside of Israel. For information on our revenues breakdown by geographic region for the past three years, see Item 5.A, “Operating and Financial Review and Prospects— Operating Results— Comparison of the years ended December 31, 2017 and 2018, and Comparison of the years ended December 31, 2016 and 2017— Revenues by geographical region”.

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Legal Proceedings

From time to time, we are a party to various legal proceedings and claims that arise in the ordinary course of business. Currently, there are no such legal proceedings pending or threatened against us that we believe may have a significant effect on our financial condition or profitability.

Dividend Policy

We do not have a dividend policy. However, our Board of Directors will determine, on an annual basis, as to whether we will pay a dividend in the upcoming year. Such determination will be dependent upon our financial condition, recent and prospective results of operations, and cash requirements, among other relevant factors, and will be subject to the requirements of Cayman Islands law, the Memorandum and the Articles.

Upon review of our consolidated results of operations, financial condition, cash requirements, future prospects and other factors, on January 15, 2013, April 20, 2015, March 31, 2016, October 18, 2017 and September 16, 2018, our Board of Directors declared one-time cash interim dividends of \$0.15, \$0.15, \$0.20, \$0.20 and \$0.20 per Common Share (or \$5.8 million, \$7.2 million, \$10.0 million, \$9.8 million and \$10.0 million, in the aggregate, respectively), which were paid on February 22, 2013, June 1, 2015, June 1, 2016, December 14, 2017 and October 30, 2018, respectively. In the case of the dividends declared in the years 2013 through 2017, the dividends were approved by our shareholders prior to payment, in accordance with the requirements of our previous articles of association.

If our company continues to be profitable, our Board of Directors may decide to distribute additional dividends in the future as well. For more information about distribution of dividends, the related requirements of Cayman Islands law and various tax implications, see Item 10, “Additional Information— Memorandum and Articles of Association;” Item 10, “Additional Information— Exchange Controls,” and Item 10, “Additional Information— Taxation.”

B. Significant Changes

No significant change, other than as otherwise described in this annual report, has occurred in our operations since the date of our consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

The Company's Common Shares are listed on the NASDAQ Capital Market and on the TASE under the symbol "SPNS".

NASDAQ:

The table below sets forth the high and low daily closing prices (in U.S. dollars) for our Common Shares on the NASDAQ Capital Market (i) on an annual basis for the years 2014 through 2018, and the year 2019 (through February 28, 2019), (ii) on a quarterly basis for 2017, 2018 and the first quarter of 2019 (through February 28, 2019), and (iii) on a monthly basis during the most recent six-month period:

	HIGH	LOW
2019 (through February 28, 2019)	13.70	10.96
2018 (Annual)	13.42	8.14
2017 (Annual)	15.45	10.62
2016 (Annual)	15.64	9.47
2015 (Annual)	12.64	6.42
2014 (Annual)	8.46	6.73
2019		
First Quarter (through February 28, 2019)	13.70	10.96
2018		
First Quarter	12.49	8.53
Second Quarter	10.49	8.14
Third Quarter	13.21	9.66
Fourth Quarter	13.42	10.20
2017		
First Quarter	15.45	12.88
Second Quarter	13.73	11.09
Third Quarter	13.29	10.62
Fourth Quarter	14.10	11.24

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	HIGH	LOW
February 2019	13.70	12.54
January 2019	12.30	10.96
December 2018	12.06	10.20
November 2018	12.19	10.70
October 2018	13.42	10.98
September 2018	13.21	11.70

The daily closing price of our Common Shares on the NASDAQ Capital Market on March 12, 2019, being the last practicable date prior to publication of this annual report, was \$13.68.

TASE:

Our Common Shares began trading on the TASE effective March 6, 2003. Under current Israeli law, the Company satisfies its reporting obligations in Israel by furnishing to the applicable Israeli regulators those reports that the Company is required to file or submit in the United States.

The table below sets forth the high and low closing prices, in U.S. dollars, for our Common Shares on the TASE (i) on an annual basis for the years 2014 through 2018 and the year 2019 (through February 28, 2019), (ii) on a quarterly basis for the years 2017 and 2018, and for the first quarter of 2019 (through February 28, 2019), and on a monthly basis during the most recent six-month period. The conversion from NIS into US dollars for the following two tables is based on the average monthly, quarterly or yearly representative rate of exchange published by the Bank of Israel for the month, quarter or year (as appropriate) in which such high or low closing price per share was recorded.

	HIGH	LOW
2019 (through February 28, 2018)	13.75	10.59
2018 (Annual)	12.63	9.15
2017 (Annual)	15.01	10.52
2016 (Annual)	15.34	9.20
2015 (Annual)	12.70	6.48
2014 (Annual)	8.37	6.66
2019		
First Quarter (through February 28, 2019)	13.75	10.59
2018		
First Quarter	12.58	8.53
Second Quarter	10.38	8.04

Third Quarter	12.02	9.59
Fourth Quarter	12.41	10.16

2017

First Quarter	15.01	12.53
Second Quarter	13.59	11.14
Third Quarter	13.21	10.52
Fourth Quarter	13.93	11.35

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	HIGH	LOW
February 2019	12.32	10.59
January 2019	13.75	10.59
December 2018	12.02	11.35
November 2018	13.81	11.73
October 2018	13.93	13.01
September 2018	13.21	11.06

The closing price of our Common Shares on the TASE on March 12, 2019, being the last practicable date prior to publication of this annual report, was \$13.59 (as converted from NIS based on the closing representative exchange rate as of March 12, 2019).

B. Plan of Distribution.

Not applicable.

C. Markets.

Our Common Shares are listed on the NASDAQ Capital Market and on the TASE under the symbol “SPNS”.

D. Selling Shareholders.

Not applicable.

E. Dilution.

Not applicable.

F. Expenses of the Issue.

Not applicable.

Item 10. Additional Information

A. Share Capital.

Not applicable.

A. Memorandum and Articles of Association.

Migration of Legal Domicile from Curaçao to Cayman Islands

On August 21, 2018, we completed the process of migrating the legal domicile of our company from Curaçao to the Cayman Islands. That migration and the accompanying adoption of charter documents suitable for a Cayman Islands exempted company under the Companies Law (as revised) of the Cayman Islands—our Memorandum and our Articles—required shareholder approval under Curaçao law, which approval was obtained at our annual general meeting of shareholders that was held on November 29, 2017. As part of our completion of the migration, we received (i) a ruling that the migration will not constitute a taxable event for our shareholders under Israeli tax law (being the jurisdiction of our residency for tax purposes) and (ii) approval that the migration will not constitute a taxable event for our shareholders under Curacao tax law.

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We have provided herein descriptions related to our status as a Cayman Islands company. Copies of our Memorandum and Articles, which serve as exhibits to this annual report, were annexed as Appendix A to the proxy statement for our 2017 annual general meeting of shareholders, which was appended as Exhibit 99.1 to our Report of Foreign Private Issuer on Form 6-K furnished to the SEC on October 26, 2017. A table comparing certain Curacao law provisions to Cayman Islands law provisions was annexed as Appendix B to that same proxy statement.

1. *Registration and Purposes.*

The Company is registered and existing under the laws of the Cayman Islands. Its registered number is 341242.

As set out in Article II of our Memorandum of Association, the objects and purpose for which the Company is established are unrestricted, and the Company has full power and authority to exercise all functions of a natural person of full capacity, including (without limitation):

to establish, participate in or have any other interest in business enterprises concerned with the development and commercial operation of software;

to finance directly or indirectly the activities of the Company, its subsidiaries and affiliates;

to borrow and to lend moneys;

to engage in the purchase and sale of securities, futures, real estate, business debts, commodities and intellectual property;

to undertake, conduct and promote research and development;

to guarantee, pledge, mortgage or otherwise encumber assets as security for the obligations of the Company or third parties; and

to do all that may be useful or necessary for the attainment of the above purposes.

2. Board of Directors.

A director who knows or ought to understand that in a certain instance there is mention of a conflicting interest between the Company and him acting privately or ex officio, will timely inform the Board of Directors of such conflict of interest. No conflict of interest will be deemed to exist between the Company and one or more of its directors in case of a contract or transaction between the Company and such director(s) or the Company and any other corporation, partnership, association, or other organization in which such director(s) are directors or officers, or have a financial interest, solely for that reason, or solely because such director(s) are present or participates in the meeting of the Board of Directors or Committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (a) the material facts of the interest or relationship are disclosed or are known to the Board of Directors or the Committee, and the Board of Directors or Committee in good faith authorizes the relevant contract or transaction by the affirmative votes of a majority of the disinterested directors, even though such disinterested directors may be less than a quorum, or (b) the material facts of the interest or relationship are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of such shareholders; or (c) the contract or transaction is fair as to the Company as of the time it is authorized, approved or ratified by the Board of Directors, a Committee thereof or the shareholders and, for such purposes, interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a Committee that authorizes such contract or transaction. The Articles provide that the directors shall receive such compensation as the Board of Directors may from time to time prescribe. Members of the Board of Directors have the power to vote compensation to themselves, even if they lack an independent quorum.

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The Articles do not require directors to resign at a certain age or to purchase a certain number of Common Shares. The Articles do not grant borrowing powers to directors; nor do they require directors to resign at a certain age or to purchase a certain number of Common Shares.

3. *Rights and Preferences.*

The Company has only one class of shares of common stock authorized and outstanding-- the Common Shares. All previous issuances of preferred shares have been converted into Common Shares. The rights and preferences of the holders of Common Shares are summarized below.

(a) Common Shares

Holders of the Common Shares are entitled to one vote for each whole share on all matters to be voted upon by shareholders, including the election of directors. Holders of the Common Shares do not have cumulative voting rights in the election of directors. All Common Shares are equal to each other with respect to liquidation and dividend rights. Holders of the Common Shares are entitled to receive dividends out of funds legally available under Cayman Islands law, if and when declared by the Board of Directors in accordance with the Memorandum and Articles. See “Dividend Policy” below. In the event of the liquidation of the Company, all assets available for distribution to the holders of the Common Shares are distributable among them according to their respective holdings. Holders of the Common Shares have no preemptive rights to purchase any additional, unissued Common Shares. The foregoing summary of the Common Shares does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the Memorandum and Articles.

(b) Dividend Policy

We do not have a dividend policy. However, our Board of Directors will determine, on an annual basis, as to whether we will pay a dividend in the upcoming year. Such determination will be dependent upon various financial criteria, among other relevant factors. If our company continues to be profitable, our Board of Directors may decide to distribute a dividend, as it has done in the recent past. Please see “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy” above for further information concerning the factors that help to determine whether and under what circumstances we may distribute dividends.

Our ability to pay dividends is subject to the limitations of the Companies Law (as revised) of the Cayman Islands, the Memorandum and the Articles. In direct connection with the approval of our annual accounts, the Board of Directors shall decide on the distribution of the profits. Profits can either be reserved or distributed to the shareholders in

accordance with the Articles. Our Board of Directors has the right to reserve the profits at its discretion. Our Board of Directors may at any time resolve to make any interim distributions, if justified by the anticipated profits of our company. The Companies Law and the Articles further provide that a (interim) distribution of dividends can only occur if, at the moment of distribution, the equity of our company equals at least the nominal capital of our company and, as a result of the distribution, it will not fall below the nominal capital. Nominal capital is the sum of the par values of all of the issued shares of our company's capital stock at any moment in time.

4. *Changing the Rights of the Shareholders.* The general meeting of shareholders decides upon any change in the Memorandum and/or Articles. A resolution to amend the Memorandum and/or Articles generally requires the approval of two-thirds of the voting rights of shares present (in person or by proxy) and voting at a meeting of shareholders called for the purpose of approving such an amendment. An increase in our authorized share capital, however, merely requires approval by at least a simple majority of the votes actually cast at a meeting of shareholders at which a quorum is present.

5. *General Meetings.* At least one general meeting of shareholders must be held each year. Pursuant to the Articles, general meetings may be held in or outside of the Cayman Islands. Special general meetings of shareholders may be called at any time by the Chairman of the Board, the Co-Chairman, the Board of Directors or the holders of Common Shares representing at least ten percent (10%) of the total voting rights attached to the issued and outstanding Common Shares who shall have requisitioned the Board of Directors to convene such meeting to be held within a period of ten weeks after such request has been made. Written notice of no less than 12 nor more than 60 calendar days must be provided to the Company's shareholders prior to any general meeting. Every shareholder has the right to attend any meeting of shareholders in person or by proxy and to address the meeting. No action may be taken at any meeting of shareholders unless a quorum consisting of holders of at least one-half of the shares outstanding and entitled to vote are present at the meeting in person or by proxy. If a quorum is not present at the originally-called shareholder meeting, a second shareholder meeting, is held within two months. At that second meeting, valid resolutions may be adopted with respect to any matter stated in the notice of the original meeting and also in the notice of such second meeting or which by law is required to be brought before the shareholders (subject to certain exceptions), despite the absence of a quorum.

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6. *Limitations to Own Securities.* The Articles contain no limits on the right to own securities.

7. *Change of Control.* The Articles contain no provisions that would prevent or delay a change of control of the Company. For more information regarding provisions of the Cayman Companies Law that may impact a change of control of the Company, please see the table that was annexed as Appendix B to the proxy statement for our 2017 annual general meeting of shareholders, which was appended as Exhibit 99.1 to our Report of Foreign Private Issuer on Form 6-K furnished to the SEC on October 26, 2017.

8. *Disclosure of Ownership.* The Articles contain no provisions requiring a shareholder to disclose his or her interest at a certain time; however, holders of our shares are subject to the reporting provisions of the SEC. In addition, the Companies Law (as revised) of the Cayman Islands contains provisions requiring the disclosure of certain beneficial interests; however, such provisions do not apply to the Company, its shareholders or ultimate beneficial owners for so long as the Company's Common Shares are listed on an "approved stock exchange" (as defined in the Companies Law (as revised) of the Cayman Islands, which currently includes NASDAQ and the Tel Aviv Stock Exchange).

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B. Material Contracts

We are not party to any material contract within the two years prior to the date of this annual report, other than contracts entered into in the ordinary course of business, or as otherwise described below:

Share Purchase Agreement for Acquisition of StoneRiver

In the first quarter of 2017, we entered into a share purchase agreement with StoneRiver Group L.P., or the StoneRiver Seller, and StoneRiver, Inc., or StoneRiver, for the acquisition of all of the issued and outstanding share capital of StoneRiver. We consummated the acquisition later in the first quarter of 2017. StoneRiver is a Denver, Colorado- based provider of technology solutions and services to the insurance industry.

The acquisition consideration was approximately \$100 million in cash, subject to certain adjustments based on working capital, transaction expenses, unpaid debt and certain litigation matters.

Immediately prior to closing, we purchased a representations and warranties insurance policy covering certain indemnifiable damages under the agreement, which we refer to as the StoneRiver Insurance. The StoneRiver Insurance provides for coverage of \$12,500,000 in the aggregate and its term is in general three years (except with respect to certain fundamental representations and warranties, as to which the term of the StoneRiver Insurance is six years).

Deed of Trust in Favor of Series B Debenture Holders

In connection with our Israeli public offering and private placement of NIS 280 million (approximately US \$79.2 million) principal amount of our Series B Debentures, in the aggregate, in September 2017 (which debentures are traded on the TASE), we entered into a deed of trust with a trustee in favor of the debenture holders. In the deed of trust, we have agreed to repay the principal amount of the debentures in eight equal payments that will be paid once a year on January 1 of each of the years 2019 through 2026 (included). We made the first such principal payment on January 1, 2019. The outstanding principal amount bears interest at an annual rate of 3.37%, payable in half-yearly payments on January 1 and July 1 of each of the years 2018 through 2026 (included). The principal and interest are payable in NIS, subject to adjustment in accordance with fluctuations in the exchange rate between the U.S. dollar and the NIS.

Under the deed of trust, we have undertaken to maintain a number of conditions and limitations on the manner in which we can operate our business, including limitations on our ability to undergo a change of control, distribute dividends, incur a floating charge on our assets, or undergo an asset sale or other change that results in a fundamental change in our operations. The deed of trust also requires us to comply with certain financial covenants, as described below. The deed of trust furthermore provides for an upwards adjustment in the interest rate payable under the debentures in the event that our debentures' rating is downgraded below a certain level. A breach of the financial covenants for more than two successive quarters or a substantial downgrade in the rating of the debentures (below BBB-) could result in the acceleration of our obligation to repay the debentures.

The deed of trust includes the following provisions:

a negative pledge, subject to certain exceptions;

a covenant not to distribute dividends unless (i) our shareholders' equity (not including minority interests) shall not be less than \$160 million, (ii) our net financial indebtedness (financial indebtedness net of cash, marketable securities, deposits and other liquid financial instruments) does not exceed 65% of net CAP (which is defined as financial indebtedness, net, plus shareholders equity, including minority interest), (iii) the amount of the dividend does not exceed our profits for the year ended December 31, 2016 and the first three quarters of the year ended December 31, 2017, plus 75% of our profits as of September 1, 2017 and up to the date of distribution, and (iv) no event of default shall have occurred; and

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financial covenants, including (i) the equity attributable to the shareholders of Sapiens (not including minority interests), as reported in our annual or quarterly financial statements, will not be less than \$120 million, and (ii) Sapiens' net financial indebtedness (financial indebtedness net of cash, marketable securities, deposits and other liquid financial instruments) shall not exceed 65% of net CAP (which is defined as financial indebtedness, net, plus shareholders equity, including minority interest).

As of December 31, 2018, we were in compliance with the foregoing financial covenants.

We also agreed to standard events of default under the deed of trust, together with the following specific events of default (among others):

cross default, including following an immediate repayment initiated in relation to other indebtedness (other than non-recourse debt) in an amount that exceeds 5% of our total balance sheet;

suspension of trading of the debentures on the TASE over a period of 60 days, or the delisting of the debentures from the TASE;

failure to have the debentures rated over a period of 60 days;

if the rating of the debentures is less than BBB- by Standard and Poors Maalot or less than Baa3 by Midroog Ltd. or drops below an equivalent rating of another rating agency (as of July 31, 2018, Standard and Poors Maalot has affirmed a rating of ilA+ for the debentures);

if there is a change in control without consent of the rating agency (a change of control is deemed to occur if Formula ceases to be the controlling shareholder of our company, whether directly or indirectly. Formula will be considered a controlling shareholder for so long as it continues to hold at least 25% of the means of control of our company (within the meaning of the Israeli Securities Law) and there is no other person or entity holding a higher percentage. To the extent that Formula holds such controlling interest jointly with others, it will be deemed to remain our controlling shareholder if it maintains the highest percentage ownership among such other shareholders);

the existence and continuation of a bankruptcy event involving our company, or the liquidation of our company or writing off of our assets;

our failure to comply with the above-described financial covenants for two consecutive quarters;

there has been a material adverse change in the business of our company compared to the position of our company shortly before the issuance of the debentures and there is a material concern that we will not be able to pay our obligations under the debentures on time;

if we distribute a dividend contrary to the above-described limitations on dividends;

breach of our undertakings regarding the issuance of additional Series B Debentures;

the sale of 25% or more of our assets, or a change in the main sphere of our activity as a company; and failure to comply with the negative pledge covenant.

Registration Rights Agreement

In connection with our acquisitions of each of IDIT and FIS, which were consummated in the third quarter of 2011, we granted the shareholders of IDIT (or the IDIT Selling Shareholders), the shareholders of FIS (or the FIS Selling Shareholders, to which we refer, together with the IDIT Selling Shareholders, as the Holders) and Formula certain registration rights under a Registration Rights Agreement. Under the Registration Rights Agreement, the Holders and Formula are entitled to piggyback registration rights in connection with any registration statement that we file (subject to customary exceptions). The Holders also agreed to execute a lock-up agreement if requested by the representative of the underwriters in any underwritten offering. Based on information that we have received from our transfer agent, we do not believe that the IDIT Selling Shareholders and the FIS Selling Shareholders still hold a significant number of Common Shares that are entitled to the foregoing registration rights under the Registration Rights Agreement as of the current time.

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D. Exchange Controls

There are no exchange control or currency regulations in the Cayman Islands that would affect the payment of dividends, interest or other payments to non-resident holders of the Company's securities, including the Common Shares. Other jurisdictions in which the Company conducts operations may have various currency or exchange controls. In addition, the Company is subject to the risk of changes in political conditions or economic policies which could result in new or additional currency or exchange controls or other restrictions being imposed on the operations of the Company. As to the Company's securities, Cayman Islands law and the Memorandum and Articles impose no limitations on the right of non-resident or foreign owners to hold or vote such securities.

E. Taxation

Israeli Taxation Considerations for Our Shareholders

The following is a short summary of the material provisions of the tax environment to which shareholders may be subject. This summary is based on the current provisions of tax law. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts.

The summary does not address all of the tax consequences that may be relevant to all purchasers of our Common Shares in light of each purchaser's particular circumstances and specific tax treatment. For example, the summary below does not address the tax treatment of residents of Israel and traders in securities who are subject to specific tax regimes. As individual circumstances may differ, holders of our Common Shares should consult their own tax adviser as to the United States, Israeli, Cayman Islands or other tax consequences of the purchase, ownership and disposition of Common Shares. The following is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations. Each individual should consult his or her own tax or legal adviser.

Tax Consequences Regarding Disposition of Our Common Shares

Overview

Israeli law generally imposes a capital gain tax on the sale of capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares of Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the seller's country of residence provides otherwise. The Ordinance distinguishes between "Real Capital Gain" and "Inflationary Surplus". The Inflationary Surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The Real Capital Gain is the excess of the total capital gain over the Inflationary Surplus.

Capital gain

Israeli Resident Shareholders

As of January 1, 2012, the tax rate applicable to Real Capital Gain derived by Israeli individuals from the sale of shares, whether or not listed on a stock exchange, is 25%, unless such shareholder claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares, in which case the gain will generally be taxed at a rate of 30%. However, if such shareholder is considered a Substantial Shareholder (*i.e.*, a person who holds, directly or indirectly, alone or together with another person who collaborates with such person on a permanent basis, 10% or more of any of the company's "means of control" (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director)) at the time of sale or at any time during the preceding 12-month period, such gain will be taxed at the rate of 30%. Individual shareholders dealing in securities in Israel are taxed at their marginal tax rates applicable to business income (up to 47% in 2018 and thereafter).

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Under current Israeli tax legislation, the tax rate applicable to Real Capital Gain derived by Israeli resident corporations from the sale of shares of an Israeli company is the general corporate tax rate. As described above, the corporate tax rate was 24% in 2017, and as of 2018 the corporate tax rate is 23%.

Non-Israeli Residents Shareholders

Israeli capital gain tax is imposed on the disposal of capital assets by a non-Israeli resident if such assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company; or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller's country of residence provides otherwise. As mentioned above, Real Capital Gain is generally subject to tax at the corporate tax rate (24% in 2017 and 23% in 2018 and thereafter) if generated by a company, or at the rate of 25% or 30%, if generated by an individual. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation and a marginal tax rate of up to 47% for an individual in 2018 and thereafter).

Notwithstanding the foregoing, shareholders who are non-Israeli residents (individuals and corporations) are generally exempt from Israeli capital gain tax on any gains derived from the sale, exchange or disposition of shares publicly traded on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel, provided, among other things, that (i) such gains are not generated through a permanent establishment that the non-Israeli resident maintains in Israel, (ii) the shares were purchased after being listed on a recognized stock exchange, and (iii) with respect to shares listed on a recognized stock exchange outside of Israel, such shareholders are not subject to the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985. However, non-Israeli corporations will not be entitled to the foregoing exemptions if Israeli residents (a) have a controlling interest of more than 25% in such non-Israeli corporation, or (b) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

In addition, a sale of shares may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. For example, under the U.S.-Israel Tax Treaty, or the U.S-Israel Treaty, the sale, exchange or disposition of shares of an Israeli company by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Treaty) holding the shares as a capital asset is exempt from Israeli capital gain tax unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting rights during any part of the 12-month period preceding such sale, exchange or disposition; (ii) the shareholder, if an individual, has been present in Israel for a period or periods of 183 days or more in the aggregate during the applicable taxable year; (iii) the capital gain arising from such sale are attributable to a permanent establishment of the shareholder which is maintained in Israel; (iv) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel; (v) the capital gain arising from such sale, exchange or disposition is attributed to royalties; or (vi) the shareholder is a U.S. resident (for purposes of the U.S.-Israel Treaty) and is not holding the shares as a capital asset. In each case, the sale, exchange or disposition of such shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Treaty, a U.S.

resident would be permitted to claim a credit for the Israeli tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S-Israel Treaty does not provide such credit against any U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the Israel Tax Authority may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the Israel Tax Authority to confirm their status as non-Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

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Taxes Applicable to Dividends

Israeli Resident Shareholders

Israeli residents who are individuals are generally subject to Israeli income tax for dividends paid on our common shares (other than bonus shares or share dividends) at 25%, or 30% if the recipient of such dividend is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period. However, dividends distributed from taxable income accrued during the benefits period of an AE are subject to withholding tax at the rate of 15% (if the dividend is distributed during the tax benefits period under the Investment Law or within 12 years after such period) or 20% with respect to PFE. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved/ Preferred income).

Israeli resident corporations are generally exempt from Israeli corporate tax for dividends paid on shares of Israeli resident corporations (like our common shares). However, dividends distributed from taxable income accrued during the benefits period of an AE are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefits period under the Investment Law or within 12 years after such period.

Non-Israeli Resident Shareholders

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on ordinary shares, like our common shares, at the rate of 25% or 30% (if the dividend recipient is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period) or 15% if the dividend is distributed from income attributed to our AE or 20% with respect to PFE. Such dividends are generally subject to Israeli withholding tax at a rate of 25% so long as the shares are registered with a Nominee Company (whether the recipient is a Substantial Shareholder or not), and 15% if the dividend is distributed from income attributed to an AE or 20% if the dividend is distributed from income attributed to a PFE, unless a reduced rate is provided under an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). For example, under the U.S-Israel Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our common shares who is a U.S. resident (for purposes of the U.S.-Israel Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by our AE, that are paid to a U.S. corporation holding at least 10% or more of our outstanding voting capital from the start of the tax year preceding the distribution of the dividend through (and including) the distribution of the dividend, is 12.5%, provided that no more than 25% of our gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an AE are subject to a withholding tax rate of 15% for such a U.S. corporation shareholder, provided that the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. The aforementioned rates will not apply if the dividend income was generated through a permanent establishment of the U.S. resident which is

maintained in Israel. If the dividend is attributable partly to income derived from an AE, or a PFE, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for U.S. federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in United States tax legislation.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed and (iii) the taxpayer is not obliged to pay excess tax (as further explained below).

Excess Tax

Individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax for income exceeding a certain level. For 2017 and onwards, the additional tax is at a rate of 3% on annual income exceeding NIS 640,000, which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

Estate and Gift Tax

Israeli law presently does not impose estate or gift taxes.

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Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation, and there is no taxation in the nature of inheritance tax or estate duty or withholding tax that will be applicable to us or to any holder of our Common Shares. There are currently no other taxes that are material to us or our shareholders levied by the Government of the Cayman Islands except for stamp duties that may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands exempted companies except those that hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

U.S. Federal Income Tax Considerations

Subject to the limitations described herein, this discussion summarizes certain U.S. federal income tax consequences of the purchase, ownership and disposition of our Common Shares to a U.S. holder. A U.S. holder is a holder of our Common Shares who is:

an individual who is a citizen or resident of the U.S. for U.S. federal income tax purposes;

a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any political subdivision thereof, or the District of Columbia;

an estate, the income of which may be included in gross income for U.S. federal income tax purposes regardless of its source; or

a trust (i) if, in general, a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) an electing trust that was in existence on August 19, 1996 and was treated as a domestic trust on that date.

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Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. holder (which we refer to as a non-U.S. holder) and considers only U.S. holders that will own our Common Shares as capital assets (generally, for investment).

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, or the Code, current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to change, possibly with a retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder's particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, individual retirement and tax-deferred accounts, certain former citizens or long-term residents of the U.S., tax-exempt organizations, financial institutions, "financial service entities" or who own, directly, indirectly or constructively, 10% or more of the vote or value of the our outstanding shares, U.S. holders holding our Common Shares as part of a hedging, straddle or conversion transaction, U.S. holders whose functional currency is not the U.S. dollar, U.S. holders that acquired our Common Shares upon the exercise of employee stock options or otherwise as compensation, and U.S. holders who are persons subject to the alternative minimum tax, who may be subject to special rules not discussed below.

Additionally, the tax treatment of persons who are, or hold our Common Shares through a partnership or other pass-through entity is not considered, nor is the possible application of U.S. federal estate or gift taxes or any aspect of state, local or non-U.S. tax laws.

You are advised to consult your tax advisor with respect to the specific U.S. federal, state, local and foreign tax consequences of purchasing, holding or disposing of our Common Shares.

Taxation of Distributions on Common Shares

Subject to the discussion below under "Tax Consequences if We Are a Passive Foreign Investment Company," a distribution paid by us with respect to our Common Shares to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes.

Dividends that are received by U.S. holders that are individuals, estates or trusts generally will be taxed at the rate applicable to long-term capital gains, provided those dividends meet the requirements of “qualified dividend income.” The maximum long-term capital gains rate is 20% for individuals with annual taxable income that exceeds certain thresholds. In addition, under the Patient Protection and Affordable Care Act, higher income taxpayers must pay an additional 3.8 percent tax on net investment income to the extent certain threshold amounts of income are exceeded. See “Tax on Net Investment Income” in this Item below. For this purpose, qualified dividend income generally includes dividends paid by a foreign corporation if certain holding period and other requirements are met and either (a) the stock of the foreign corporation with respect to which the dividends are paid is “readily tradable” on an established securities market in the U.S. (e.g., the NASDAQ Capital Market) or (b) the foreign corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. Dividends that fail to meet such requirements and dividends received by corporate U.S. holders are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (i) if the U.S. holder held the Common Share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made (and not closed) a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such Common Share (or substantially identical securities); or (ii) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the Common Share with respect to which the dividend is paid. If we were to be a “passive foreign investment company” (as such term is defined in the Code), or PFIC, for any taxable year, dividends paid on our Common Shares in such year or in the following taxable year would not be qualified dividends. See the discussion below regarding our PFIC status under “Tax Consequences if We Are a Passive Foreign Investment Company.” In addition, a non-corporate U.S. holder will be able to take qualified dividend income into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend income will be taxed at ordinary income rates.

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The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder's tax basis in our Common Shares to the extent thereof, and then as capital gain from the deemed disposition of the Common Shares. Corporate holders will not be allowed a deduction for dividends received in respect of the Common Shares.

Distributions of current or accumulated earnings and profits paid in foreign currency to a U.S. holder will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate on the day the distribution is received. A U.S. holder that receives a foreign currency distribution and converts the foreign currency into U.S. dollars subsequent to receipt may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

Taxation of the Disposition of Common Shares

Subject to the discussion below under "Tax Consequences if We Are a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our Common Shares, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's tax basis in our Common Shares. The gain or loss recognized on the disposition of the Common Shares will be long-term capital gain or loss if the U.S. holder held the Common Shares for more than one year at the time of the disposition and would be eligible for a reduced rate of taxation for certain non-corporate U.S. holders. The maximum long-term capital gains rate is 20% for individuals with annual taxable income that exceeds certain thresholds. In addition, under the Patient Protection and Affordable Care Act, higher income taxpayers must pay an additional 3.8 percent tax on net investment income to the extent certain threshold amounts of income are exceeded. See "Tax on Net Investment Income" in this Item below. Capital gain from the sale, exchange or other disposition of Common Shares held for one year or less is short-term capital gain and taxed as ordinary income. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of our Common Shares generally will be treated as U.S. source income or loss. The deductibility of capital losses is subject to certain limitations.

A U.S. holder that uses the cash method of accounting calculates the dollar value of the proceeds received on the sale as of the date that the sale settles. However, a U.S. holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss. A U.S. holder that uses the accrual method may avoid realizing foreign currency gain or loss by electing to use the settlement date to determine the proceeds of sale for purposes of calculating the foreign currency gain or loss. In addition, a U.S. holder that receives foreign currency upon disposition of its Common Shares and converts the foreign currency into dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of sale) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

Tax Consequences if We Are a Passive Foreign Investment Company

We would be a passive foreign investment company, or PFIC, for a taxable year if either (1) 75% or more of our gross income in the taxable year is passive income; or (2) the average percentage (by value determined on a quarterly basis) in a taxable year of our assets that produce, or are held for the production of, passive income is at least 50%. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we would be treated for purposes of the foregoing tests as owning our proportionate share of the other corporation's assets and as directly earning our proportionate share of the other corporation's income. As discussed below, we believe that we were not a PFIC for 2018.

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If we were a PFIC, each U.S. holder would (unless it made one of the elections discussed below on a timely basis) be taxable on gain recognized from the disposition of our Common Shares (including gain deemed recognized if our Common Shares are used as security for a loan) and upon receipt of certain excess distributions (generally, distributions that exceed 125% of the average amount of distributions in respect to such shares received during the preceding three taxable years or, if shorter, during the U.S. holder's holding period prior to the distribution year) with respect to our Common Shares as if such income had been recognized ratably over the U.S. holder's holding period for the shares. The U.S. holder's income for the current taxable year would include (as ordinary income) amounts allocated to the current taxable year and to any taxable year prior to the first day of the first taxable year for which we were a PFIC. Tax would also be computed at the highest ordinary income tax rate in effect for each other taxable year to which income is allocated, and an interest charge on the tax as so computed would also apply. The tax liability with respect to the amount allocated to the taxable year prior to the taxable year of the distribution or disposition cannot be offset by any net operating losses. Additionally, if we were a PFIC, U.S. holders who acquire our Common Shares from decedents (other than nonresident aliens) would be denied the normally-available step-up in basis for such shares to fair market value at the date of death and, instead, would have a tax basis in such shares equal to the lesser of the decedent's basis or the fair market value of such shares on the decedent's date of death.

As an alternative to the tax treatment described above, a U.S. holder could elect to treat us as a "qualified electing fund" (a QEF), in which case the U.S. holder would be taxed, for each taxable year that we are a PFIC, on its pro rata share of our ordinary earnings and net capital gain (subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge). Special rules apply if a U.S. holder makes a QEF election after the first taxable year in its holding period in which we are a PFIC. We have agreed to supply U.S. holders with the information needed to report income and gain under a QEF election if we were a PFIC. Amounts includable in income as a result of a QEF election will be determined without regard to our prior year losses or the amount of cash distributions, if any, received from us. A U.S. holder's basis in its Common Shares will increase by any amount included in income and decrease by any amounts not included in income when distributed because such amounts were previously taxed under the QEF rules. So long as a U.S. holder's QEF election is in effect with respect to the entire holding period for its Common Shares, any gain or loss realized by such holder on the disposition of its Common Shares held as a capital asset generally will be capital gain or loss. Such capital gain or loss ordinarily would be long-term if such U.S. holder had held such Common Shares for more than one year at the time of the disposition and would be eligible for a reduced rate of taxation for certain non-corporate U.S. holders. The maximum long-term capital gains rate is 20% for individuals with annual taxable income that exceeds certain thresholds. The QEF election is made on a shareholder-by-shareholder basis, applies to all Common Shares held or subsequently acquired by an electing U.S. holder and can be revoked only with the consent of the IRS. The QEF election must be made on or before the U.S. holder's tax return due date, as extended, for the first taxable year to which the election will apply.

As an alternative to making a QEF election, a U.S. holder of PFIC stock that is "marketable stock" (e.g., "regularly traded" on the NASDAQ Capital Market) may, in certain circumstances, avoid certain of the tax consequences generally applicable to holders of stock in a PFIC by electing to mark the stock to market as of the beginning of such U.S. holder's holding period for our Common Shares. Special rules apply if a U.S. holder makes a mark-to-market election after the first year in its holding period in which we are a PFIC. As a result of such an election, in any taxable year that we are a PFIC, a U.S. holder would generally be required to report gain or loss to the extent of the difference between the fair market value of the Common Shares at the end of the taxable year and such U.S. holder's tax basis in such shares at that time. Any gain under this computation, and any gain on an actual disposition of our Common Shares in a

taxable year in which we are PFIC, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of our Common Shares in a taxable year in which we are PFIC, would be treated as ordinary loss to the extent of the cumulative net-mark-to-market gain previously included. Any remaining loss from marking our Common Shares to market will not be allowed, and any remaining loss from an actual disposition of our Common Shares generally would be capital loss. A U.S. holder's tax basis in its Common Shares is adjusted annually for any gain or loss recognized under the mark-to-market election. There can be no assurances that there will be sufficient trading volume with respect to our Common Shares for the Common Shares to be considered "regularly traded" or that our Common Shares will continue to trade on the NASDAQ Capital Market. Accordingly, there are no assurances that our Common Shares will be marketable stock for these purposes. As with a QEF election, a mark-to-market election is made on a shareholder-by-shareholder basis, applies to all Common Shares held or subsequently acquired by an electing U.S. holder and can only be revoked with consent of the IRS (except to the extent our Common Shares no longer constitute "marketable stock").

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Based on an analysis of our assets and income, we believe that we were not a PFIC for 2018. We currently expect that we will not be a PFIC in 2019. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC in any future taxable years. U.S. holders who hold our Common Shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to certain exceptions for U.S. holders who made QEF, mark-to-market or certain other special elections. U.S. holders are urged to consult their tax advisors about the PFIC rules, including the consequences to them of making a mark-to-market or QEF election with respect to our Common Shares in the event that we qualify as a PFIC.

Tax on Net Investment Income

A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from the tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. holder's net investment income generally will include its dividends on our Common Shares and net gains from dispositions of our Common Shares, unless those dividends or gains are derived in the ordinary course of the conduct of trade or business (other than trade or business that consists of certain passive or trading activities). Net investment income, however, may be reduced by deductions properly allocable to that income. A U.S. holder that is an individual, estate or trust is urged to consult its tax adviser regarding the applicability of the Medicare tax to its income and gains in respect of its investment in the Common Shares.

Non-U.S. holders of Common Shares

Except as provided below, a non-U.S. holder of our Common Shares will not be subject to U.S. federal income or withholding tax on the receipt of dividends on, or the proceeds from the disposition of, our Common Shares, unless, in the case of U.S. federal income taxes, that item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country which has an income tax treaty with the United States, such item is attributable to a permanent establishment in the United States or, in the case of an individual, a fixed place of business in the United States. In addition, gain recognized on the disposition of our Common Shares by an individual non-U.S. holder will be subject to tax in the United States if the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Information Reporting and Backup Withholding

A U.S. holder generally is subject to information reporting and may be subject to backup withholding at a rate of up to 28% with respect to dividend payments on, or receipt of the proceeds from the disposition of, our Common Shares. Backup withholding will not apply with respect to payments made to exempt recipients, including corporations and tax-exempt organizations, or if a U.S. holder provides a correct taxpayer identification number, certifies that such holder is not subject to backup withholding or otherwise establishes an exemption. Non-U.S. holders are not subject to information reporting or backup withholding with respect to dividend payments on, or receipt of the proceeds from the disposition of, our Common Shares in the U.S., or by a U.S. payor or U.S. middleman, provided that such non-U.S. holder provides a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a holder, or alternatively, the holder may be eligible for a refund of any excess amounts withheld under the backup withholding rules, in either case, provided that the required information is furnished to the IRS.

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Information Reporting by Certain U.S. Holders

U.S. citizens and individuals taxable as resident aliens of the United States that own “specified foreign financial assets” with an aggregate value in a taxable year in excess of certain threshold (as determined under Treasury regulations) and that are required to file a U.S. federal income tax return generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our Common Shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be “specified foreign financial assets”. Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. A U.S. Holder is urged to consult his tax adviser regarding his reporting obligation.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our Common Shares. You should consult your tax advisor concerning the tax consequences of your particular situation.

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display.

We are currently subject to the information and periodic reporting requirements of the Exchange Act that are applicable to foreign private issuers. Although as a foreign private issuer we are not required to file periodic information as frequently or as promptly as United States companies, we generally do publicly announce our quarterly and year-end results promptly and file periodic information with the United States Securities and Exchange Commission under cover of Form 6-K. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal

shareholders are exempt from the reporting and other provisions in Section 16 of the Exchange Act. Our SEC filings are filed electronically on the EDGAR reporting system and may be obtained through that medium. You may inspect without charge and copy at prescribed rates such filings, including any exhibits and schedules, at the public reference facilities maintained by the SEC, 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of such materials from the SEC at prescribed rates. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of this web site is <http://www.sec.gov>. You may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The Exchange Act file number for our Securities and Exchange Commission filings is 000-20181.

Information about Sapiens is also available on our website at <http://www.sapiens.com>. Such information on our website is not part of this annual report.

I.Subsidiary Information.

Not applicable.

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Item 11. Quantitative and Qualitative Disclosure about Market Risk.

Market risks relating to our operations result primarily from changes in exchange rates, interest rates or weak economic conditions in the markets in which we sell our products and services. We have been and we are actively monitoring these potential exposures. To manage the volatility relating to these exposures, we may enter into various forward contracts or other hedging instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates and interest rates.

Foreign Currency Risk. We conduct our business in various foreign currencies, primarily those of Israel and the United Kingdom, and to a lesser extent of Europe and Canada. A devaluation of the NIS, GBP and Euro in relation to the US Dollar has the effect of reducing the US Dollar amount of any of our expenses or liabilities which are payable in those currencies (unless such expenses or payables are linked to the US dollar) while reducing the US Dollar amount of any of our revenues which are payable to us in those currencies.

Because exchange rates between the NIS, GBP and Euro and against the US dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations will have an impact on our revenue and profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reflected as financial expenses in our consolidated financial statements. A hypothetical 10% movement in foreign currency rates (primarily the NIS, GBP Euro) against the US dollar, with all other variables held constant on the expected sales, would have resulted in a decrease or increase in 2018 sales revenues of maximum \$10.6 million, or an effect of 3.7% on total revenues.

We monitor our foreign currency exposure and, from time to time, may enter into currency forward contracts or put/call currency options to hedge balance sheet exposure. We may use such contracts to hedge exposure to changes in foreign currency exchange rates associated with balance sheet balances denominated in a foreign currency and anticipated costs to be incurred in a foreign currency.

Market Risk. We currently do not invest in, or otherwise hold, for trading or other purposes, any financial instruments subject to market risk.

Interest Rate Risk. We pay interest on our credit facilities based on the prime interest rate in Israel for some of our NIS-denominated loans. As a result, changes in the general level of interest rates directly affect the amount of interest payable by us under these facilities. However, we expect our exposure to risk from changes in interest rates to be minimal and not material. Therefore, no quantitative tabular disclosures are required.

Item 12. Description of Securities Other than Equity Securities.

Not applicable.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

Item 15. Controls and Procedures

A. Disclosure Controls and Procedures.

Our management, including our President and Chief Executive Officer, and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2018. Based on such evaluation, the President and Chief Executive Officer, and the Chief Financial Officer, have concluded that, as of December 31, 2018, the Company's disclosure controls and procedures are effective.

B. Management's Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management, including our President and Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of the end of the period covered by this report. Such evaluation did not cover the internal controls of Adaptik, since it was acquired during the first quarter of 2018.

Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018. Notwithstanding the foregoing, there can be no assurance that our internal control

over financial reporting will detect or uncover all failures of persons within the Company to comply with our internal procedures, as all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

C. Attestation Report of Registered Public Accounting Firm.

The attestation report of Kost Forer Gabbay & Kasierer, a member of EY Global, an independent registered public accounting firm in Israel, on our management's assessment of our internal control over financial reporting as of December 31, 2018 is provided on page F-3, as included under Item 18 of this annual report.

Changes in Internal Control Over Financial Reporting.

Based on the evaluation conducted by our President and Chief Executive Officer and our Chief Financial Officer pursuant to Rules 13a-15(d) and 15d-15(d) under the Exchange Act, our management has concluded that there was no change in our internal control over financial reporting that occurred during the year ended December 31, 2018 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

Item 16A. Audit Committee Financial Expert.

Our Board of Directors has determined that Mr. Yacov Elinav, a member of our Audit Committee, meets the definition of an "audit committee financial expert," as defined under the applicable rules promulgated by the SEC. All members of our Audit Committee, including Mr. Elinav, are "independent", as defined under the NASDAQ Listing Rules.

Item 16B. Code of Ethics.

We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer and corporate controller, as well as to our directors and other employees. The Code of Ethics is publicly available on our website at www.sapiens.com. Written copies are available upon request. If we make any substantive amendments to the Code of Ethics or grant any waivers, including any implicit waiver, from a provision of such Code to our principal executive officer, principal financial officer or corporate controller, we will disclose the nature of such amendment or waiver on our website.

Table of Contents**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.****Policies and Procedures**

Our Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by our independent auditors, Kost Forer Gabbay & Kasierer, a member of EY Global. The policies generally require the Audit Committee's pre-approval of the scope of the engagement of our independent auditors or additional work performed on an individual basis. The policy prohibits retention of the independent auditors to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act of 2002 or the rules of the SEC and also provides that the Audit Committee consider whether proposed services are compatible with the independence of the public auditors.

Fees Paid to Independent Auditors

Fees billed or expected to be billed by Kost Forer Gabbay & Kasierer, a member of EY Global and other members of EY Global for professional services for each of the last two fiscal years were as follows:

	Year ended December 31, 2017 2018 (in thousands)	
Audit Fees	\$369	\$400
Tax Fees	\$83	\$162
other	\$244	\$99
Total	\$696	\$661

(1) Audit Fees consist of fees billed for the annual audit and the quarterly reviews of the Company's consolidated financial statements and consist of services that would normally be provided in connection with statutory and regulatory filings or engagements, including services that generally only the independent auditors can reasonably provide.

(2) Tax Fees are for professional services rendered by our auditors for tax compliance, tax advice on actual or contemplated transactions, tax consulting associated with international transfer prices and global mobility.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE.

We are exempt from a number of the requirements under the NASDAQ Listing Rules based on our status as a “foreign private issuer.” See Item 6.C above “Board Practices— NASDAQ Opt-Outs for a Foreign Private Issuer.”

We have elected to follow our home country practice in lieu of the requirements set forth in NASDAQ Listing Rule 5250(d)(1), which require a domestic United States company to make available to its shareholders a copy of its annual report containing its audited financial statements in one of three specific ways. Instead of distributing copies of our annual report by mail, furnishing an annual report in accordance with Rule 14a-16 under the Exchange Act or posting our annual report on our website and undertaking to provide a hard copy thereof free of charge upon request, we simply make our annual report available to shareholders via our website (<http://www.sapiens.com/Annual-Reports/>).

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We have also elected to follow our home country practice in lieu of the requirements of NASDAQ Listing Rules 5605(b), (d) and (e) which require:

The majority of the company's board of directors must qualify as independent directors, as defined under NASDAQ Listing Rule 5605(a)(2) and that the independent directors have regularly scheduled meetings at which only independent directors are present.

The compensation of the chief executive officer and all other executive officers must be determined, or recommended to the board of directors for determination, either by (i) a majority of the independent directors or (ii) a compensation committee comprised solely of independent directors (subject to limited exceptions).

Director nominees must either be selected or recommended for the board of directors' selection, either by (a) a majority of independent directors or (b) a nominations committee comprised solely of independent directors (subject to limited exceptions).

The company must certify that it has adopted a formal written charter or board resolution, as applicable, addressing the nominations process and such related matters as may be required under US federal securities laws.

We have also elected to follow our home country practice in lieu of the requirements set forth in of NASDAQ Listing Rule 5635, which require a domestic United States company to obtain shareholder approval for certain dilutive events, such as:

the establishment or amendment of certain equity based compensation plans and arrangements;

an issuance that will result in a change of control of the company;

certain transactions other than a public offering involving issuances of a 20% or more interest in the company; and

certain acquisitions of the stock or assets of another company.

We have submitted to NASDAQ a written statement from our independent Cayman Islands counsel that certified that our practice of not making the annual report available in accordance with NASDAQ rules, but rather making it available on our website, our not complying with the requirements of NASDAQ Listing Rules 5605(b), (d) and (e) and not obtaining the shareholder approvals required under NASDAQ Listing Rule 5635 are not prohibited by Cayman Islands law.

ITEM 16H. MINE SAFETY DISCLOSURE.

Not applicable.

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PART III

Item 17. Financial Statements.

We have elected to provide financial statements and related information pursuant to Item 18.

Item 18. Financial Statements.

The Consolidated Financial Statements and related notes required by this Item are contained on pages F-1 through F-48 hereof.

Item 19. Exhibits

Please see the exhibit index incorporated herein by reference.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**SAPIENS INTERNATIONAL
CORPORATION N.V.**

Date: March 27, 2019 By: /s/ Roni Al Dor
Roni Al Dor
President & Chief Executive Officer

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EXHIBIT INDEX

Exhibit No.	Exhibit Description
1.1	<u>Memorandum of Association of Sapiens International Corporation N.V. (incorporated by reference to Appendix A to the Company's proxy statement with respect to its 2017 Annual General Meeting of Shareholders, annexed as Exhibit 99.1 to the Company's Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on October 26, 2017)</u>
1.2	<u>Articles of Association of Sapiens International Corporation N.V. (incorporated by reference to Appendix A to the Company's proxy statement with respect to its 2017 Annual General Meeting of Shareholders, annexed as Exhibit 99.1 to the Company's Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on October 26, 2017)</u>
4.1	Sapiens International Corporation N.V. 1992 Stock Option and Incentive Plan, as amended and restated (incorporated by reference to Exhibit 28.1 to the Company's Registration Statement on Form S-8 (SEC File No. 333-64208), filed with the SEC on June 9, 1993, and to the Company's Registration Statement on Form S-8 (SEC File No. 333-10622), filed with the SEC on July 22, 1999)
4.2	<u>Sapiens International Corporation N.V. 2003 Share Option Plan (incorporated by reference to Exhibit 4(c)2 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006, filed with the SEC on June 28, 2007)</u>
4.3	<u>Sapiens International Corporation N.V. 2005 Special Incentive Share Option Plan (incorporated by reference to Exhibit 4(c)3 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006, filed with the SEC on June 28, 2007)</u>
4.4	<u>Sapiens International Corporation N.V. 2011 Share Incentive Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (SEC File No. 333-177834), filed with the SEC on November 9, 2011)</u>
4.5	<u>Form of Registration Rights Agreement, dated August 21, 2011, by and among Sapiens International Corporation N.V. and certain of its shareholders (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form F-3 (SEC File No. 333-187185), filed with the SEC on March 11, 2013)</u>
4.6	<u>Share Purchase Agreement, dated as of February 12, 2017, by and among Sapiens International Corporation N.V., StoneRiver, Inc. and StoneRiver Group L.P. (incorporated by reference to Exhibit 4.6 to the Company's Annual Report on Form 20-F for the year ended December 31, 2017, filed with the SEC on April 10, 2018)</u>
8.1	<u>List of Subsidiaries*</u>
12.1	<u>Certification by Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act*</u>

- 12.2 Certification by Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act*
- 13.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
- 15.1 Consent of Kost Forer Gabbay & Kasierer, a member of EY Global, independent registered public accounting firm*
- 101 The following financial information from Sapiens International Corporation N.V.'s Annual Report on Form 20-F for the year ended December 31, 2018 formatted in XBRL (eXtensible Business Reporting Language):
(i) Consolidated Balance Sheets at December 31, 2017 and 2018;
(ii) Consolidated Statements of Income for the years ended December 31, 2016, 2017 and 2018;
(iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2017 and 2018;
(iv) Consolidated Statements of Changes in Equity for the years ended December 31, 2016, 2017 and 2018;
(v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2017 and 2018; and
(vi) Notes to the Consolidated Financial Statements, tagged as blocks of text. *

* Filed herewith

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SAPIENS INTERNATIONAL CORPORATION N.V.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of SAPIENS INTERNATIONAL CORPORATION N.V.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Sapiens International Corporation N.V. (“the Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 27, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

We have served as the Company's auditor since at least 1994, but we are unable to determine the specific year.

Tel-Aviv, Israel
March 27, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of SAPIENS INTERNATIONAL CORPORATION N.V.

Opinion on Internal Control over Financial Reporting

We have audited Sapiens International Corporation N.V.'s (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Adaptik Corporation, which was acquired in March 2018 and constituted approximately two percent of the Company's total assets as of December 31, 2018 and approximately five percent of the Company's total revenue for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Adaptik Corporation. In our opinion, Sapiens International Corporation N.V. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2018 consolidated financial statements of the Company and our report dated March 27, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm

registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Tel-Aviv, Israel

March 27, 2019

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Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands**

	December 31,	
	2017	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$71,467	\$64,628
Trade receivables (net of allowance for doubtful accounts of \$415 and \$455 at December 31, 2017 and 2018, respectively)	41,708	38,953
Unbilled receivables	11,518	20,206
Other receivables and prepaid expenses	6,280	6,224
<u>Total</u> current assets	130,973	130,011
LONG-TERM ASSETS:		
Capitalized software development costs, net	23,761	22,434
Other intangible assets, net	41,409	42,820
Property and equipment, net	10,695	8,515
Goodwill	158,559	166,094
Severance pay fund	4,547	4,699
Other long-term assets	3,675	4,292
<u>Total</u> long-term assets	242,646	248,854
<u>Total</u> assets	\$373,619	\$378,865

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

Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****CONSOLIDATED BALANCE SHEETS****U.S. dollars in thousands (except share data)**

	December 31,	
	2017	2018
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$7,044	\$6,149
Employees and payroll accruals	23,039	21,837
Accrued expenses and other liabilities	23,573	25,162
Current maturities of Series B Debentures	-	9,898
Deferred revenues	16,513	18,057
<u>Total</u> current liabilities	70,169	81,103
LONG-TERM LIABILITIES:		
Series B Debentures, net of current maturities	78,281	68,577
Deferred tax liabilities	9,171	11,681
Other long-term liabilities	8,271	9,398
Accrued severance pay	5,500	5,622
<u>Total</u> long-term liabilities	101,223	95,278
COMMITMENTS AND CONTINGENT LIABILITIES		
REDEEMABLE NON-CONTROLLING INTEREST	1,353	-
EQUITY:		
Sapiens International Corporation N.V. Shareholders' equity:		
Share capital:		
Common shares of € 0.01 par value: Authorized:		
70,000,000 shares at December 31, 2017 and 2018, respectively; Issued: 52,086,730 and 52,310,300 shares at December 31, 2017 and 2018, respectively; Outstanding: 49,758,434 and 49,982,004 shares at December 31, 2017 and 2018, respectively	689	695
Additional paid-in capital	221,175	214,918
Treasury shares, at cost - 2,328,296 Common shares at December 31, 2017 and 2018	(9,423)	(9,423)
Accumulated other comprehensive income (loss)	528	(7,820)
Retained earnings (accumulated deficit)	(12,926)	2,674

<u>Total</u> Sapiens International Corporation N.V. shareholders' equity	200,043	201,044
Non-controlling interests	831	1,440
<u>Total</u> equity	200,874	202,484
<u>Total</u> liabilities and equity	\$373,619	\$378,865

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

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Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****CONSOLIDATED STATEMENTS OF INCOME****U.S. dollars in thousands (except per share data)**

	Year ended December 31,		
	2016	2017	2018
Revenues	\$216,190	\$269,194	\$289,707
Cost of revenues	130,402	175,678	180,138
Gross profit	85,788	93,516	109,569
Operating expenses:			
Research and development	16,488	31,955	34,414
Selling, marketing, general and administrative	44,460	60,559	52,133
<u>Total</u> operating expenses	60,948	92,514	86,547
Operating income	24,840	1,002	23,022
Financial income (expense), net	533	(3,010)	(3,991)
Income (loss) before tax benefit (taxes on income)	25,373	(2,008)	19,031
Tax benefit (taxes on income)	(5,772)	2,564	(5,031)
Net income	19,601	556	14,000
Attributed to non-controlling interests	(43)	(189)	215
Attributed to redeemable non-controlling interest	(135)	43	-
Adjustment to redeemable non-controlling interest	443	350	-
Net income attributable to Sapiens' shareholders	\$19,336	\$352	\$13,785
Net earnings per share attributable to Sapiens' shareholders			
Basic	\$0.40	\$0.01	\$0.28
Diluted	\$0.40	\$0.01	\$0.28

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

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Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****U.S. dollars in thousands**

	Year ended		
	December 31,		
	2016	2017	2018
Net income	\$19,601	\$556	\$14,000
Other comprehensive income (loss):			
Foreign currency translation adjustments	476	11,589	(8,370)
Unrealized gains arising from marketable securities during the period, net of tax	41	146	-
	517	11,735	(8,370)
Total comprehensive income	20,118	12,291	5,630
Comprehensive income (loss) attributed to non-controlling interests	(38)	(149)	193
Comprehensive income (loss) attributed to redeemable non-controlling interest	(135)	43	-
Comprehensive income adjustment to redeemable non-controlling interest	443	350	-
Comprehensive income attributable to Sapiens' shareholders	\$19,848	\$12,047	\$5,437

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

Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****U.S. dollars in thousands (except of share data)**

	Common stock		Additional paid-in	Treasury	Accumulated other comprehensive income (loss)	Accumulated	Non-controlling	Total
	Shares	Amount	capital	shares		deficit	interests	equity
Balance as of January 1, 2016	48,759,781	\$ 678	\$ 233,980	\$(9,423)	\$(11,679)	\$(32,614)	\$ 867	\$ 181,809
Stock-based compensation	-	-	1,701	-	-	-	40	1,741
Employee stock options exercised (cash and cashless)	276,170	3	887	-	-	-	-	890
Distribution of dividend	-	-	(9,786)	-	-	-	(73)	(9,859)
Other comprehensive income	-	-	-	-	512	-	5	517
Redeemable non-controlling interest	-	-	-	-	-	(308)	-	(308)
Net income	-	-	-	-	-	19,644	(43)	19,601
Balance as of December 31, 2016	49,035,951	681	226,782	(9,423)	(11,167)	(13,278)	796	194,391
Stock-based compensation	-	-	1,799	-	-	-	184	1,983
Employee stock options exercised (cash and cashless)	722,483	8	2,445	-	-	-	-	2,453
Distribution of dividend	-	-	(9,851)	-	-	-	-	(9,851)
Other comprehensive income	-	-	-	-	11,695	-	40	11,735
Redeemable non-controlling	-	-	-	-	-	(393)	-	(393)

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interest								
Net income	-	-	-	-	-	745	(189)	556
Balance as of December 31, 2017	49,758,434	689	221,175	(9,423)	528	(12,926)	831	200,874
Cumulative effect adjustment resulting from adoption of new accounting pronouncement, net	-	-	-	-	-	1,815	-	1,815
Stock-based compensation	-	-	1,796	-	-	-	146	1,942
Employee stock options exercised (cash and cashless)	223,570	6	889	-	-	-	-	895
Expiration of redeemable non-controlling interests	-	-	1,036	-	-	-	317	1,353
Distribution of dividend	-	-	(9,978)	-	-	-	(47)	(10,025)
Other comprehensive loss	-	-	-	-	(8,348)	-	(22)	(8,370)
Net income	-	-	-	-	-	13,785	215	14,000
Balance as of December 31, 2018	49,982,004	\$ 695	\$ 214,918	\$(9,423)	\$(7,820)	\$ 2,674	\$ 1,440	\$ 202,484

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

Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.**

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2016	2017	2018
<u>Cash flows from operating activities:</u>			
Net income	\$19,601	\$556	\$14,000
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	10,021	15,871	19,862
Stock-based compensation	1,955	2,035	1,942
Accretion of discount on Series B Debentures	-	52	194
Amortization of premium and accrued interest on marketable securities	(516)	509	-
Net changes in operating assets and liabilities			
Trade receivables, net and unbilled receivables	(5,435)	(5,253)	(7,588)
Other operating assets	(3,309)	3,688	509
Deferred tax assets, net	1,664	(8,840)	(1,567)
Trade payables	1,101	(1,388)	(1,870)
Other operating liabilities	2,223	806	(174)
Deferred revenues	(1,035)	1,249	2,349
Accrued severance pay, net	(231)	(37)	43
Net cash provided by operating activities	26,039	9,248	27,700
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment	(4,664)	(2,622)	(1,914)
Capitalized software development costs	(5,545)	(5,567)	(5,160)
Net cash paid for acquisitions (b)	(4,382)	(100,381)	(18,507)
Investment in marketable securities	(9,017)	-	-
Proceeds from sales of marketable securities	13,898	35,369	-
Net cash used in investing activities	\$(9,710)	\$(73,201)	\$(25,581)

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

Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****CONSOLIDATED STATEMENTS OF CASH FLOWS****U.S. dollars in thousands**

	Year ended December 31,		
	2016	2017	2018
<u>Cash flows from financing activities:</u>			
Proceeds from employee stock options exercised	\$890	\$2,453	\$895
Distribution to ultimate parent for a business acquisition under common control (c)	(1,440)	-	-
Repayment of loans	(824)	(56)	(237)
Issuance of Series B Debentures, net (*)	-	78,229	-
Distribution of dividend	(9,786)	(9,851)	(9,978)
Payments of contingent considerations	-	(766)	(61)
Dividend to non-controlling interest	(73)	-	(47)
Net cash provided by (used in) financing activities	(11,233)	70,009	(9,428)
Effect of exchange rate changes on cash	68	4,503	470
Increase (decrease) in cash, and cash equivalents and restricted cash	5,164	10,559	(6,839)
Cash, cash equivalents and restricted cash at beginning of year	55,744	60,908	71,467
Cash and cash equivalents and restricted cash at end of year	\$60,908	\$71,467	\$64,628
Supplemental cash flow activities:			
(a) <u>Cash paid during the year for:</u>			
Interest paid, net	\$48	\$713	\$2,067
Income taxes	\$1,196	\$2,705	\$2,853
(b) <u>Net cash paid for acquisitions:</u>			
Fair value of assets acquired and liabilities assumed at the date of acquisition:			
Working capital, net (excluding cash and cash equivalents)	\$1,547	\$4,816	\$2,317
Other long-term assets	(2,089)	(1,336)	(186)
Other long-term liabilities	1,420	16,599	3,766
Goodwill and other intangible assets	(5,260)	(120,460)	(24,404)
	\$(4,382)	\$(100,381)	\$(18,507)

(c) Non-cash transactions:

Disposal of property	\$-	\$-	\$(155)
Property and equipment purchase incurred but unpaid at period end	\$116	\$247	\$76

*)Net of \$956 of debt discount and issuance costs

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

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1: GENERAL

a. General:

Sapiens International Corporation N.V. (“Sapiens”) and its subsidiaries (collectively, the “Company”), a member of the Formula Systems (1985) Ltd. Group, is a global provider of software solutions for the insurance industry, with an emerging focus on the broader financial services sector. The Company’s offerings include policy administration, billing and claims; underwriting, illustration and electronic application; reinsurance; and decision management software. Sapiens’ digital suite features customer and agent portals, and an advanced analytics solution.

Sapiens global services includes program management, project delivery and implementation of the Company’ software solutions, business services and managed services.

The Company operates in North America, Europe, Asia Pacific and South Africa.

On August 21, 2018, Sapiens completed the process of migrating the legal domicile of the Company from Curaçao, where Sapiens was incorporated since its inception, to the Cayman Islands.

b. Acquisition of Adaptik Corporation

On March 7, 2018 (the “acquisition date”), Sapiens completed the acquisition of all outstanding shares of Adaptik Corporation (“Adaptik”), a New-Jersey company engaged in the development of software solutions for P&C insurers, (including policy administration, rating, billing, customer and task management and product design), for a total cash consideration of \$18,179 (of which \$17,979 were paid in March 2018 and \$200 will be paid in March 2022). In

addition, the seller has performance based payments relating to achievements of revenue targets over three years (2018-2020) of up to \$3,700. Such payments are subject to continued employment and therefore were not included in the purchase price. Acquisition related costs were approximately \$0.3 million. Unaudited pro forma condensed results of operations for the years ended December 31, 2017 and 2018 were not presented, since the acquisition is immaterial. The result of Adaptik's operations have been included in the consolidated financial statements since March 2018. An amount of \$339 which was deposited in Escrow at closing, was recognized in short-term other receivables and prepaid expenses, as the Company expects to receive this amount.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date:

Net liabilities	\$(2,697)
Intangible assets	12,936
Deferred taxes	(3,528)
Goodwill	11,468
 Net assets acquired	 \$18,179

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1: GENERAL (Cont.)

e. Acquisitions in previous years:

1. Acquisition of StoneRiver:

On February 28, 2017, the Company completed the acquisition of all of the outstanding shares of StoneRiver, Inc. (“StoneRiver”), a provider of technology solutions and services to the insurance industry for \$101,351. The Company related acquisition costs of \$1,348 is presented in general and administrative expenses.

The acquisitions of StoneRiver and Adaptik expanded Sapiens presence and scale in the North American insurance market, and allows the Company to offer its customers and partners a more extensive product portfolio in the industry.

The acquisition was accounted for by the acquisition method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of StoneRiver. The results of StoneRiver’s operations have been included in the consolidated financial statements since February 28, 2017.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

Current assets	\$16,785
Property and equipment	1,088
Goodwill	77,013
Intangible assets	38,146
Other long-term assets	78

Total assets acquired	\$133,110
Current liabilities	\$10,595
Deferred revenues	5,742
Deferred tax liabilities	15,071
Other long-term liabilities	351
Total liabilities acquired	31,759
Total purchase price	\$101,351

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1: GENERAL (Cont.)

The following table sets forth the components of intangible assets associated with the acquisition:

	Fair value
Developed technology	\$34,039
Customer relationships	3,333
Backlog	773
 Total intangible assets	 \$38,145

Revenues of StoneRiver for the period since the acquisition date through December 31, 2017, which are included in the consolidated financial statements, amounted to \$67,805.

Pro Forma information:

The following represents the unaudited pro forma condensed results of operations for the years ended December 31, 2017 and 2016, assuming that the acquisition of StoneRiver occurred on January 1, 2016. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisitions been consummated on this date, nor does it purport to represent the results of operations for future periods.

**Year ended
December 31,**

	2016	2017
	Unaudited	
Revenues	\$295,698	\$283,605
Net income (loss)	\$15,556	\$(89)

2. Acquisition of KnowledgePrice:

On December 27, 2017, the Company entered into an agreement to purchase all of KnowledgePrice.com's ("KnowledgePrice") total shares outstanding. KnowledgePrice, a Latvian company, specializes in digital insurance services and consulting. The fair value of the total consideration amounted to \$5,720, including a cash consideration of \$4,068, and a contingent obligation valued at \$1,652 at the acquisition date. In addition, the seller has performance based payments relating to achievements of revenue and profitability targets over three years (2018-2020) and retention payment of up to \$1,116 that is subject to continued employment, and therefore not part of the purchase price. Unaudited pro forma condensed results of operations for the years ended December 31, 2017 was not presented, since the acquisition is immaterial.

Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 1: GENERAL (Cont.)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, as of the acquisition date:

Net assets	\$780
Intangible assets	2,417
Deferred taxes	(363)
Goodwill	3,195
Net assets acquired	\$6,029

3. Acquisition of Maximum Processing:

On May 26, 2016, the Company entered into an agreement to purchase 100% of Maximum Processing Inc.'s (MaxPro) total shares outstanding. MaxPro specializes in providing business and technology solutions across the insurance industry. The Company paid cash consideration of \$4,278. In addition, the seller has performance based payments relating to achievements of revenue and profitability targets that are also subject to continued employment, and therefore were not part of the purchase price.

4. Acquisition of 4Sight business intelligence:

On June 7, 2016, the Company entered into an agreement to purchase 100% of 4Sight Business Intelligence Inc.'s ("4Sight") total shares outstanding. 4sight's system provides analytics software for the insurance industry. The Company paid cash consideration of \$330. In addition, the seller has performance based payments relating to achievements of revenue and profitability targets that are also subject to continued employment, and therefore are not part of the purchase price.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in United States (“U.S. GAAP”).

a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company’s management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in United States dollars:

The currency of the primary economic environment in which the operations of Sapiens and certain subsidiaries are conducted is the U.S. dollar (“dollar”); thus, the dollar is the functional currency of Sapiens and certain subsidiaries.

Sapiens and certain subsidiaries’ transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars in accordance with ASC 830, “Foreign Currency Matters”. All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statements of income as financial income or expenses, as appropriate.

For those subsidiaries, whose functional currency has been determined to be their local currency, assets and liabilities are translated at year-end exchange rates and statement of income items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in equity.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

Non-controlling interests of subsidiaries represent the non-controlling shareholders’ share of the total comprehensive income (loss) of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The

non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

Redeemable non-controlling interests are classified as mezzanine equity, separate from permanent equity, on the consolidated balance sheets and measured at each reporting period at the higher of their redemption amount or the non-controlling interest book value, in accordance with the requirements of Accounting Standards Codification (“ASC”) 810 “Consolidation” and ASC 480-10-S99-3A, “Distinguishing Liabilities from Equity”.

In August 1, 2014, the Company completed the acquisition of all of the outstanding shares of Knowledge Partners International (KPI), a pioneer and recognized leader in decision management consultancy, services and training, in consideration of \$ 2,380. According to the agreement, the sellers had the right to sell their minority interests to the Company 48 months following the acquisition date, and the Company had a corresponding call option. Since the mutual option expired on August 2018, the Company reclassified the redeemable non-controlling interests associated with the aforementioned option into permanent equity.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash, with original maturities of three months or less at acquisition.

e. Property and equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and peripheral equipment	20 - 33
Office furniture and equipment	6 - 33
Buildings	2.5

Leasehold improvements are amortized using the straight-line method over the term of the lease (including option terms that are deemed to be reasonably assured) or the estimated useful life of the improvements, whichever is shorter.

g. Research and development costs:

Research and development costs incurred in the process of software production before establishment of technological feasibility are charged to expenses as incurred. Costs incurred to develop software to be sold are capitalized after technological feasibility is established in accordance with ASC 985-20, "Software - Costs of Software to be Sold

Leased, or Marketed". Based on the Company's product development process, technological feasibility is established upon completion of a detailed program design.

Costs incurred by the Company between completion of the detailed program design and the point at which the product is ready for general release, have been capitalized.

Capitalized software development costs are amortized by the straight-line method over the estimated useful life of the software products (primarily seven years).

h. Business combinations:

The Company accounts for its business acquisitions in accordance with Accounting Standards Codification ASC No. 805, "Business Combinations". The Company uses its best estimates and assumptions as part of the purchase price allocation process to value assets acquired and liabilities assumed at the business combination date. The total purchase price allocated to the tangible assets acquired is assigned based on the fair values as of the date of the acquisition.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Other intangible assets, net:

Technology and patents acquired are amortized over their estimated useful life on a straight-line basis. The acquired customer relationships are amortized over their estimated useful lives in proportion to the economic benefits realized or the straight-line method. The weighted average annual rates for other intangible assets are as follows:

	%
Technology	13 - 26
Customer relationships	7 - 23
Patent	10

j. Impairment of long-lived assets:

The Company's long-lived assets and identifiable intangibles that are subject to amortization are reviewed for impairment in accordance with ASC 360 "Property, Plant, and Equipment", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During 2016, 2017 and 2018, no impairment losses have been identified.

k. Goodwill:

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350, "Intangibles- Goodwill and Other" ("ASC 350"), goodwill is subject to an annual impairment test at December 31 of each year or more frequently if impairment indicators are present. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The Company operates in four reporting units: Emerge, L&A, Decision and P&C.

The Company applied the provisions of ASC 350 for the Company's annual impairment test. Under the provisions, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. During 2016, 2017 and 2018, no impairment losses have been identified.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Revenue recognition:

Effective as of January 1, 2018, the Company implements the provisions of Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”). See Note 16 for further disclosures required under ASC 606.

Revenues are recognized when control of the promised goods or services are transferred to the customers, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services.

The Company determines revenue recognition through the following steps:

- identification of the contract with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

Most of the Company’s contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately, if they are distinct.

On most occasions, the Company generates revenues from sales of software licenses which include significant implementation services. Such software licenses and implementation services are not considered distinct performance

obligations, and are accounted for as combined performance obligations. In addition, the Company generates revenues from post implementation consulting services and maintenance services.

Revenues from contracts (either fixed price or Time and Materials (T&M)) that involve significant implementation, customization, or integration of the Company's software license to customer-specific requirements are performance obligations that are satisfied over time. The underlying deliverable is owned and controlled by the customer, and does not create an asset with an alternative use to the Company. In addition, the entity has enforceable right to payment for performance completed to date. Accordingly, the Company recognizes revenue on such contracts over time, using the percentage of completion accounting method. The Company recognizes revenue and gross profit as the work is performed, based on a ratio between actual costs incurred compared to the total estimated costs for the contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses become probable, in the amount of the estimated loss on the entire contract.

When post implementation and consulting services do not involve significant customization, the Company accounts for such services as performance obligations satisfied over time, and revenues are recognized as the services are provided.

When the Company enters into a contract for the sale of software license which does not require significant implementation services, and the customer receives the rights to use the perpetual or term-based software license, the Company recognizes revenue from the sale of the software license at the time of delivery, when the customer receives control of the software license. The software license is considered a distinct performance obligation, as the customer can benefit from the software on its own.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices of software license are estimated using the residual approach, due to the lack of selling software licenses on a standalone basis. Standalone selling prices of services are determined by considering several external and internal factors including, but not limited to, transactions where the specific performance obligation is sold separately.

In addition to software license fees, contracts with customers may contain an agreement to provide for maintenance services. The Company considers the maintenance performance obligation as a distinct performance obligation that is satisfied over time, and recognized on a straight-line basis over the contractual period.

Sales commissions are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions paid for initial contracts, which are not commensurate with sales commissions paid for renewal contracts, are capitalized and amortized over an expected period of benefit. Sales commissions on initial contracts, which are commensurate with sales commissions paid for renewal contracts, are capitalized and then amortized correspondingly to the recognized revenue of the related initial contracts. Sales commissions for renewal contracts are capitalized and then amortized on a straight line basis over the related contractual renewal period. If the expected amortization period is one-year or less, the commission fee is expensed as incurred. Amortization expense related to these costs are included in sales and marketing expenses. As of December 31, 2018, the deferred contract costs are \$684 and the amortization expense for the year ended December 31, 2018 was \$509.

m. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This topic prescribes the use of the asset and liability method, whereby deferred tax asset and liability account balances are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted

tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

The Company implements a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement.

The Company classifies interest as financial expenses and penalties as selling, marketing, general and administrative expenses.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Concentrations of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, trade receivables, and foreign currency derivative contracts.

The Company's cash and cash equivalents are invested in bank deposits mainly in dollars and NIS. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Generally, these banks deposits may be redeemed upon demand and therefore bear minimal risk.

The Company's trade receivables are generally derived from sales to large and solid organizations located mainly in North America, Europe, Asia Pacific and South Africa.

The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. In certain circumstances, the Company may require prepayment.

An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. Provisions for doubtful accounts are recorded in selling, marketing, general and administrative expenses.

The Company entered into forward contracts, and option contracts intended to protect against the increase in value of forecasted non-dollar currency cash flows. The derivative instruments hedge a portion of the Company's non-dollar

currency exposure.

No off-balance sheet concentrations of credit risk exist.

o. Accrued severance pay and retirement plans:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israel's Severance Pay Law based on the most recent monthly salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company's liability is fully provided by monthly deposits with insurance policies and severance pay funds and by an accrual.

The deposited funds include profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or employment agreements. The value of the deposited funds is based on the cash surrendered value of these policies and recorded as an asset in the Company's consolidated balance sheets.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In addition, the Company signed a collective agreement with certain employees, according to which the Company's contributions for severance pay shall be in lieu of severance compensation and that upon release of the policy to the employee, no additional payments shall be made by the Company to the employee. Generally, the Company, under its sole discretion, pays to these employees the entire liability, irrespective of the collective agreement described per above. Therefore, the net obligation related to those employees is stated on the balance sheet as accrued severance pay.

The Company's agreements with certain employees in Israel are in accordance with Section 14 of the Severance Pay Law, 1963, whereas, the Company's contributions for severance pay shall be in lieu of its severance liability. Upon contribution of the full amount of the employee's monthly salary, and release of the policy to the employee, no additional calculations shall be conducted between the parties regarding the matter to severance pay and no additional payments shall be made by the Company to the employee. Further, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as they are legally released from obligation to employees once the deposit amounts have been paid.

Severance expense for the years 2016, 2017 and 2018 amounted to \$4,094, \$4,346 and \$4,542, respectively.

The Company has a 401(k) retirement savings plan for most of its U.S. employees. Each eligible employee may elect to contribute a portion of its employee's compensation to the plan. The Company has a discretionary employer match. In 2018, this match ranges from 1-3% if an employee contributed between 2-6%.

p. Basic and diluted net earnings per share:

Basic net earnings per share are computed based on the weighted average number of common shares outstanding during each year. Diluted net earnings per share are computed based on the weighted average number of common shares outstanding during each year plus dilutive potential equivalent common shares considered outstanding during the year, in accordance with ASC 260, "Earnings Per Share".

q. Stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC 718"), which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made. ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of income.

Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company uses the Binomial Lattice (“Binomial model”) option-pricing model to estimate the fair value for any options granted. The Binomial model takes into account variables such as volatility, dividend yield rate, and risk-free interest rate and also allows for the use of dynamic assumptions and considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option.

Stock-based compensation cost is measured at the grant date, based on the fair value of the award. The Company recognizes compensation expense for the value of its awards, which have graded vesting, based on the straight-line basis over the requisite service period of the award, net of estimated forfeitures.

The fair value of each option granted in 2016, 2017 and 2018 using the Binomial model, was estimated on the date of grant with the following assumptions:

	Year ended December 31,		
	2016	2017	2018
Contractual life	6 years	6 years	6 years
Expected exercise factor	2-2.8	2-2.8	2-2.8
Dividend yield	0%	0%	0%
Expected volatility (weighted average)	34.9%-42.4%	28.9%-34.2%	30%-31.7%
Risk-free interest rate	1.3%-1.7%	1.8%-2.1%	2.6%-3.1%

The risk-free interest rate assumption is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term as of the Company’s employee stock options. Since dividend payment is applied to reduce the exercise price of the option, the effect of the dividend protection is reflected by using an expected dividend assumption of zero.

The expected life of options granted is derived from the output of the option valuation model and represents the period of time the options are expected to be outstanding. The expected exercise factor is based on industry acceptable rates since no actual historical behavior by option holders exists. Expected volatility is based on the historical volatility of the Company.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Fair value of financial instruments:

ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”), defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level
3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company measures its foreign currency derivative instruments at fair value.

Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the short-term maturities of such instruments.

s. Derivatives and hedging:

The Company enters into option contracts and forward contracts to hedge certain transactions denominated in foreign currencies. The purpose of the Company's foreign currency hedging activities is to protect the Company from risk that the eventual dollar cash flows from international activities will be adversely affected by changes in the

exchange rates. The Company's option and forward contracts do not qualify as hedging instruments under ASC 815, "Derivatives and hedging". Changes in the fair value of option strategies are reflected in the consolidated statements of income as financial income or expense.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In 2016, 2017 and 2018, the Company entered into option contracts in the notional amounts of \$26,336, \$31,111 and \$40,871, respectively, and in 2016, 2017 and 2018 the Company entered into forward contracts in the notional amounts of \$17,668, \$9,600 and \$17,731, respectively, in order to protect against foreign currency fluctuations.

As of December 31, 2016, 2017 and 2018, the Company had outstanding options and forward contracts, in the notional amount of \$0, \$0 and \$4,950, respectively.

In 2016, 2017 and 2018, the Company recorded income (expense) of \$849, (\$300) and \$(869) respectively, with respect to the above transactions, presented in the statements of income as financial income.

t. Treasury shares:

Repurchased common shares are held as treasury shares. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity.

u. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income". Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

The components of accumulated other comprehensive income (loss), of \$528 and \$(7,820) at December 31, 2017 and 2018, respectively, were comprised from foreign currency translation differences only.

v. Recently adopted accounting pronouncements:

In May 2014, the FASB issued ASU 2014-09 establishing Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers" (ASC 606). ASC 606 establishes a comprehensive new revenue recognition model designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to be entitled to receive in exchange for those goods or services and requires significantly enhanced revenue disclosures. The Company adopted the standard effective January 1, 2018 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018, were presented under Topic 606, while prior period amounts were not adjusted and were reported in accordance with the Company's historic accounting practices, under legacy revenue recognition standards.

See Note 16 to the financial statements for further information regarding the initial application of ASC 606.

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NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15 “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (ASU 2016-15). ASU 2016-15 provides specific guidance on eight cash flow classification issues, including debt prepayment, payments of contingent liabilities as part of business combinations, or debt extinguishment costs and distributions received from equity method investees, to reduce diversity in practice. ASU 2016-15 is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this standard during 2018, with no material impact on its financial statements.

As a result of the adoption of ASU 2016-15, the Company adjusted the previously reported consolidated statement of cash flows for the years ended December 31, 2017 as follows:

	Year Ended December 31, 2017		
	As previously reported	Adjustments	As Adjusted
Net cash provided by financing activities	70,775	(766)	70,009
Net cash provided by operating activities	8,482	766	9,248

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company retrospectively adopted ASU 2016-18 on January 1, 2018 and accordingly included restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. Prior to adoption of this new guidance, the Company reported changes in restricted cash as cash flows from investing activities.

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As a result of the adoption of ASU 2016-18, the Company adjusted the previously reported consolidated statement of cash flows for the years ended December 31, 2016 as follows:

	Year Ended December 31, 2016		
	As previously reported	Adjustments	As Adjusted
Restricted cash, net	\$1,393	\$ (1,393)	\$ -
Net cash used in investing activities	(8,317)	(1,393)	(9,710)
Increase in cash, cash equivalents and restricted cash	6,557	(1,393)	5,164
Cash, cash equivalents and restricted cash at the beginning of the year	54,351	1,393	55,744

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In January 2017, FASB issued ASU 2017-01, Business Combinations (Topic 805) Clarifying the Definition of Business. ASU 2017-01 clarifies the definition of a business with the objective of adding standard to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update to the standard is effective for interim and annual periods beginning after December 15, 2017, and applied prospectively. The Company adopted this standard during 2018, with no material impact on its financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”), which gives direction on which changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting in Accounting Standard Codification (“ASC”) Topic 718. In general, entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period.

The Company adopted this standard during 2018, with no material impact on its financial statements.

w. Recently issued accounting pronouncements:

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842), whereby, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset (“ROU”), which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new standard, lessor accounting is largely unchanged. A modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements must be applied. The modified retrospective approach would not be required applying the new standard to all leases existing at the date of initial application. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. The Company adopted this standard at January 1, 2019 (“the Transition Date”), using the modified retrospective approach.

As permitted by the amended guidance, The Company elected to retain the original lease classification and historical accounting for existing or expired contracts of lessees and lessors so that we will not be required to reassess whether such contracts contain leases, the lease classification, or the initial direct costs. Additionally, the Company intends to elect an accounting policy, by class of underlying asset to combine, lease and non-lease components.

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company expects the adoption of the standard to have a material impact on its consolidated balance sheets which will result in the recognition of ROU and lease liabilities of approximately \$30,000 to \$35,000 at the Transition Date. The most significant impact from recognition of ROU assets and lease liabilities relates to the Company's leased office space. However, the Company does not anticipate that the adoption of this standard will have a material impact on the operating expenses in its consolidated statements of operations since the expense recognition under this new standard will be similar to current practice.

In June 2016, the FASB Issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard requires financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The standard will be effective for the Company beginning January 1, 2020, with early adoption permitted. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 (ASU 2017-04): Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. ASU 2017-04 is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company is evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

x. Reclassification:

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

NOTE 3: OTHER LONG-TERM ASSETS

	December 31,	
	2017	2018
Deferred tax assets	\$2,620	\$2,965
Other	1,055	1,327
	\$3,675	\$4,292

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Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 4: PROPERTY AND EQUIPMENT, NET**

	December 31,	
	2017	2018
Cost:		
Computers and peripheral equipment	\$31,435	\$32,349
Office furniture, equipment and other	5,858	5,602
Buildings and leasehold improvements	6,702	6,472
	43,995	44,423
Accumulated depreciation:		
Computers and peripheral equipment	27,011	29,328
Office furniture, equipment and other	4,017	4,013
Buildings and leasehold improvements	2,272	2,567
	33,300	35,908
Depreciated cost	\$10,695	\$8,515

Depreciation expense totaled \$2,835, \$3,804 and \$3,766 for the years 2016, 2017 and 2018, respectively.

NOTE 5: CAPITALIZED SOFTWARE DEVELOPMENT COSTS, NET

The changes in capitalized software development costs during the years ended December 31, 2017 and 2018 were as follows:

Year
ended December 31,

	2017	2018
Balance at the beginning of the year	\$ 20,755	\$ 23,761
Capitalization	5,567	5,160
Amortization	(4,824)	(4,859)
Functional currency translation adjustments	2,263	(1,628)
Balance at year end	\$ 23,761	\$ 22,434

Amortization of capitalized software development costs for 2016, 2017 and 2018, were \$4,929, \$4,824 and \$4,859, respectively. Amortization expense is included in cost of revenues.

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NOTE 6: OTHER INTANGIBLE ASSETS, NET

a. Other intangible assets, net, are comprised of the following:

	Weighted average remaining useful life (years)	December 31,	
		2017	2018
Original amounts:			
Customer relationships	8	\$19,344	\$21,980
Technology	4.9	62,585	71,428
Patent	5.5	1,385	1,280
		83,314	94,688
Accumulated amortization:			
Customer relationships		9,889	11,705
Technology		31,543	39,597
Patent		473	566
		41,905	51,868
Other intangible assets, net		\$41,409	\$42,820

b. Amortization of other intangible assets was \$2,257, \$7,243 and \$11,237 for 2016, 2017 and 2018, respectively.

c. Estimated amortization expense for future periods:

For the year ended December 31.

2019	\$9,840
2020	9,395
2021	8,396
2022	5,668
2023 and thereafter	9,521
	\$42,820

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Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 7: GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2018 are as follows:

	Year ended December 31,	
	2017	2018
Balance at the beginning of the year	\$73,597	\$158,559
Acquisition of subsidiaries	79,884	11,468
Functional currency translation adjustments	5,078	(3,933)
Balance at year end	\$158,559	\$166,094

NOTE 8: ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2017	2018
Government authorities	\$6,486	\$7,033
Accrued expenses	16,051	16,362
Accrued interest – Series B Debentures	782	1,334
Accrued royalties to the IIA (Note 10a)	254	433
	\$23,573	\$25,162

NOTE 9: SERIES B DEBENTURES, NET OF CURRENT MATURITIES

	December 31,	
	2017	2018
Series B Debentures	\$79,185	\$79,185
Less: Current maturities	-	(9,898)
Less: Unamortized debt discounts and issuance costs	(904)	(710)
	\$78,281	\$68,577

In September 2017, the Company issued Series B Debentures in the aggregate principal amount of NIS 280 million (approximately \$79.2 million), linked to US dollars, payable in eight equal annual payments of \$9,898, on January 1 of each of the years 2019 through 2026. The outstanding principal amount of the Series B Debentures will bear a fixed interest rate of 3.37% per annum, payable on January 1 and July 1 of each of the years 2018 through 2025, with one final interest payment on January 1, 2026. Debt discount and issuance costs were approximately \$956, allocated to the Series B Debentures discount and are amortized as financial expenses over the term of the Series B Debentures due in 2026. The first installment, in the amount of \$9,898, was paid in January 1, 2019.

The Series B Debentures are listed for trading on the Tel-Aviv Stock Exchange.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 9: SERIES B DEBENTURES, NET OF CURRENT MATURITIES (Cont.)

The Series B Debentures are unsecured and non-convertible. The Series B Debentures interest may be increased in the event that the debentures' rating is downgraded below a certain level. The Company has undertaken to maintain a number of conditions and limitations on the manner in which it operates its business, including limitations on its ability to undergo a change of control, distribute dividends, incur a floating charge on the Company's assets, or undergo an asset sale or other change that results in a fundamental change in the Company's operations.

In accordance with the indenture for the Series B Debentures, the Company is required to meet the following financial covenants: (1) Target shareholders' equity (excluding minority interest)- above \$120 million – as of December 31, 2018, total shareholders' equity was \$202 million; and (2) Target ratio of net financial indebtedness to net capitalization (in each case, as defined under the indenture for the Company's Series B Debentures) below 65% - as of December 31, 2018 the ratio of net financial indebtedness to net capitalization was 6.97%. (3) Target ratio of net financial indebtedness to EBITDA (accumulated calculation for the four last quarters) is below 5.5. As of December 31, 2018, the Target ratio of net financial indebtedness to EBITDA was 0.35. As of December 31, 2018, Sapiens is in compliance with all of its financial covenants.

During the years ended December 31, 2018 and 2017, the Company recorded \$782 and \$2,862, respectively of interest expense and \$52 and \$194, respectively as amortization of debt issuance costs and discount in respect of the Series B Debentures.

NOTE 10: COMMITMENTS AND CONTINGENT LIABILITIES

a. Sapiens Technologies (1982) Ltd. ("Sapiens Technologies"), a subsidiary incorporated in Israel, was partially financed under programs sponsored by the Israel Innovation Authority ("IIA"), formerly the Office of the Chief Scientist, for the support of certain research and development activities conducted in Israel. In exchange for participation in the programs by the IIA, the Company agreed to pay 3.5% of total net consolidated license and maintenance revenue

and 0.35% of the net consolidated consulting services revenue related to the software developed within the framework of these programs based on an understanding with the IIA reached in January 2012.

The royalties will be paid up to a maximum amount equaling 100%-150% of the grants provided by the IIA, linked to the dollar, and for grants received after January 1, 1999, bear annual interest at a rate based on LIBOR.

Royalty expense amounted to \$503, \$488 and \$414 in 2016, 2017 and 2018, respectively, and are included in cost of revenues.

As of December 31, 2018, the Company had a contingent liability to pay royalties of \$6,204.

Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)**

NOTE 10: COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

b. Lease and other commitments:

The Company leases office space, office equipment and various motor vehicles under operating leases, which also include renewal options. In addition, the Company has purchase obligations as part of its ongoing course of business, mainly licensing of software from various vendors.

1. The Company's office space and office equipment are rented under several operating leases. Future minimum lease commitments under operating leases for the years ended December 31, were as follows:

	Lease of premises	Other purchase obligations	Total
2019	\$ 5,868	\$ 2,150	\$ 8,018
2020	4,825	1,920	6,745
2021	4,327	325	4,652
2022	4,055	220	4,275
2023 and thereafter	20,932	660	21,592
	\$ 40,007	\$ 5,275	\$ 45,282

Rent expense for the years ended December 31, 2016, 2017 and 2018 was \$6,284 \$7,357 and \$7,236, respectively.

2. The Company leases its motor vehicles under cancelable operating lease agreements.

The minimum payment under these operating leases, upon cancellation of these lease agreements was \$112 as of December 31, 2018.

Lease expenses for motor vehicles for the years 2018, 2017 and 2016 were \$1,017, \$1,044 and \$1,187, respectively.

The Company provided bank guarantees in the amount of \$848 as security for the rent to be paid for its leased offices. The bank guarantees are valid through February 2019 and thereafter will be renewed for the same amount through February 2020. As of December 31, 2018, the Company provided bank guarantees of \$465 as security for the performance of various contracts with customers and suppliers.

In addition, as of December 31, 2018, the Company had no restricted bank deposits in favor of the bank guarantees.

In accordance with the indenture for the Series B Debentures, the Company is required to meet certain financial covenants. See Note 9 above.

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NOTE 11: TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax rates in Israel:

The Israeli corporate income tax rate was 25% in 2016, 24% in 2017 and 23% in 2018.

2. Tax benefits under the Israel Law for the Encouragement of Capital Investments, 1959 (“the Law”):

Certain of the Company’s Israeli subsidiaries have been granted “Approved Enterprise” Status under the Law. The above Israeli subsidiaries have elected the alternative benefits program, waiver of grants in return for tax exemptions. Pursuant thereto, the income of the Company derived from the “Approved Enterprise” program is tax-exempt for two years and may enjoy a reduced tax rate of 10%-25% for up to a total of eight years (subject to an adjustment based upon the foreign investors’ ownership of the Company). Under the terms of the Approved Enterprise program, income that is attributable to one of the Company’s Israeli subsidiaries was exempt from income tax for a period of two years commencing 2014.

If a dividend is distributed out of tax exempt profits, as above, the Company will become liable for tax at the rate applicable to its profits from the approved enterprise in the year in which the income was earned, as if it was not under the Approved Enterprise track. The Company’s policy is not to distribute such a dividend.

Entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder and the letters of approval for the specific investments in “approved enterprises”. In the event of failure to comply with these conditions, the benefits may be cancelled, and the Company may be

required to refund the amount of the benefits, in whole or in part, including interest and CPI linkage.

On December 29, 2010, the Knesset approved an additional amendment to the Law for the Encouragement of Capital Investments, 1959 (“2011 Amendment”). According to the 2011 Amendment, a reduced uniform corporate tax rate for exporting industrial enterprises (over 25%) was established. The reduced tax rate will not be program dependent and will apply to the “Preferred Enterprise’s” (as such term is defined in the Investment Law) entire income. Pursuant to the 2011 Amendment, a “Preferred Enterprise” is entitled to a reduced corporate tax rate of 16%.

As of December 31, 2015, some of the Company Israeli subsidiaries filed a notice to the Israeli tax authorities to apply for the new benefits under the 2011 Amendment and therefore subjected to the amended tax rate of 16%, which was used for 2014-2016 tax years

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SAPIENS INTERNATIONAL CORPORATION N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 11: TAXES ON INCOME (Cont.)

The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

New Amendment- Preferred Technology Enterprise:

In December 2016, the Israeli Knesset passed Amendment 73 to the Investment Law which included a number of changes to the Investments Law regimes. Certain changes were scheduled to come into effect beginning January 1, 2017, provided that regulations are promulgated by the Finance Ministry to implement the "Nexus Principles" based on OECD guidelines recently published as part of the Base Erosion and Profit Shifting (BEPS) project. The regulations have been approved on May 1, 2017 and accordingly, these changes have come into effect. Applicable benefits under the new regime include:

Introduction of a benefit regime for "Preferred Technology Enterprises" granting a 12% tax rate in central Israel – on income deriving from Intellectual Property, subject to a number of conditions being fulfilled, including a minimal amount or ratio of annual R&D expenditure and R&D employees, as well as having at least 25% of annual income derived from exports. Preferred Technology Enterprise ("PTE") is defined as an enterprise which meets the aforementioned conditions and for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion.

A 12% capital gains tax rate on the sale of a preferred intangible asset to a foreign affiliated enterprise, provided that the asset was initially purchased from a foreign resident at an amount of NIS 200 million or more.

A withholding tax rate of 20% or lower, under an applicable tax treaty, for dividends paid from PTE income (with an exemption from such withholding tax applying to dividends paid to an Israeli company).

Starting 2017, part of the Company's taxable income in Israel is entitled to a preferred 12% tax rate under Amendment 73 to the Investment Law.

3. Foreign Exchange Regulations:

Under the Foreign Exchange Regulations, some of the Company's Israeli subsidiaries calculate their tax liability in U.S. Dollars according to certain orders. The tax liability, as calculated in U.S. Dollars is translated into NIS according to the exchange rate as of December 31 of each year.

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NOTE 11: TAXES ON INCOME (Cont.)

b. Income taxes on non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of residence. Deferred income taxes were provided in relation to undistributed earnings of non-Israeli subsidiaries, which the Company intends to distribute in the near future.

The Company intends to permanently reinvest undistributed earnings in the foreign subsidiaries in which earnings arose, in the vast majority of its subsidiaries. If the earnings, for which deferred taxes were not provided, were distributed in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and non-Israeli withholding taxes.

The amount of undistributed earnings of foreign subsidiaries that are considered to be reinvested as of December 31, 2018 was \$23,592 and the amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries that were essentially permanent in duration as of December 31, 2018 was \$1,015.

c. Tax Reform - United States of America:

The U.S. Tax Cuts and Jobs Act of 2017 (“TCJA”) was approved by US Congress on December 20, 2017 and signed into law by US President Donald J. Trump on December 22, 2017. This legislation makes complex and significant changes to the U.S. Internal Revenue Code. Such changes include a reduction in the corporate tax rate and limitations on certain corporate deductions and credits, among other changes.

The TCJA reduces the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. In addition, the TCJA makes certain changes to the depreciation rules and implements new limits on the deductibility of certain expenses and deduction.

The Company's subsidiaries in the United States do not have any foreign subsidiaries and, therefore, the international tax provisions of the Act have no material impact on the Company's results of operations.

The Company re-measured its U.S. deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future. The tax benefit recorded related to the re-measurement of the net deferred taxes was \$3.8 million for the year ended December 31, 2017.

In March 2018, FASB issued Accounting Standards Update No. 2018-05, "Income Taxes Topic (740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" ("ASU 2018-05") to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA.

Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 11: TAXES ON INCOME (Cont.)**

The Company completed the accounting treatment related to the tax effects of the TCJA. As a result, the Company recognizes its accounting for changes in the US federal rate and deferred tax impact for the rate change to be complete.

d. Net operating losses carry forward:

As of December 31, 2018, certain subsidiaries had tax loss carry-forwards totaling approximately \$26,250. Most of these carry-forward tax losses have no expiration date.

e. Deferred tax assets and liabilities:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Significant components of the Company deferred tax assets and liabilities are as follows:

	December 31,	
	2017	2018
Deferred tax assets:		
Net operating losses carry forward	\$8,786	\$7,262
Research and development	1,534	1,473
Other	2,959	3,678
Deferred tax assets before valuation allowance	13,279	12,413

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Valuation allowance	(7,486)	(7,001)
Deferred tax assets	5,793	5,412
Deferred tax liabilities:		
Capitalized software development costs	(2,738)	(3,211)
Acquired intangibles	(9,060)	(10,000)
Property and equipment	(489)	(270)
Undistributed earnings	-	(437)
Other	(57)	(210)
Deferred tax liabilities	(12,344)	(14,128)
Deferred tax liabilities, net	\$(6,551)	\$(8,716)

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NOTE 11: TAXES ON INCOME (Cont.)

	December 31,	
	2017	2018
Deferred tax assets, net	\$2,620	\$2,965
Deferred tax liabilities, net	(9,171)	(11,681)
Deferred tax liabilities, net	\$(6,551)	\$(8,716)

Deferred tax assets, net are included in other long-term assets. Deferred tax liabilities, net are included in other long-term liabilities.

The Company has provided valuation allowances in respect of certain deferred tax assets resulting from operating losses carry forwards and other reserves and allowances due to uncertainty concerning realization of these deferred tax assets.

f. Income (loss) before taxes on income is comprised as follows:

	Year ended December 31,		
	2016	2017	2018
Domestic (Israel)	\$13,701	\$(3,849)	\$17,149
Foreign	11,672	1,841	1,882
	\$25,373	\$(2,008)	\$19,031

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate g. applicable to income for an Israeli company, and the actual tax expense as reported in the statements of income is as follows:

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	Year ended December 31,					
	2016		2017		2018	
Income (loss) before taxes on income (tax benefit), as reported in the statements of income	\$25,373		\$(2,008)		\$19,031	
Statutory tax rate in Israel	25	%	24	%	23	%
Theoretical taxes on income (tax benefit)	\$6,343		\$(482)	)	\$4,377	
Increase (decrease) in taxes resulting from:						
Effect of foreign tax rates	(382)	)	(67)	)	315	
Effect of "Approved, Beneficiary, Preferred or Preferred Technological Enterprise" status	(1,338)	)	(252)	)	(1,233))
Effect of the TCJA	-		(3,795)		-	
Utilization of carry forward tax losses for which valuation allowance was provided	-		(153)	)	(582))
Non-deductible expenses	584		892		1,276	
Losses and temporary differences for which valuation allowance was provided	377		1,050		(485))
Increase in uncertain tax positions	395		240		1,653	
Others	(207)	)	3		(290))
Taxes on income (tax benefit), as reported in the statements of income	\$5,772		\$(2,564)		\$5,031	

h. Taxes on income (tax benefit) are comprised as follows:

	Year ended December 31,		
	2016	2017	2018
Current	\$4,122	\$2,459	\$6,839
Deferred	1,650	(5,023)	(1,808)

\$5,772 \$(2,564) \$5,031

	Year ended December 31,		
	2016	2017	2018
Domestic (Israel)	\$2,824	\$(314)	\$4,081
Foreign	2,948	(2,250)	950
	\$5,772	\$(2,564)	\$5,031

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Table of Contents**SAPIENS INTERNATIONAL CORPORATION N.V.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands (except share and per share data)****NOTE 11: TAXES ON INCOME (Cont.)**

i. Uncertain tax benefits:

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	December 31,	
	2017	2018
Balance at the beginning of the year	\$1,987	\$2,293
Increase in tax positions	375	1,851
Decrease in tax positions	(135)	(198)
Acquisition of subsidiary	66	-
Balance at the end of the year	\$2,293	\$3,946

As of December 31, 2017, and 2018, accrued interest related to unrecognized tax benefits amounted to \$572 and \$783, respectively.

Although the Company believes that it has adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement, there is no assurance that the final tax outcome of its tax audits will not be different from that which is reflected in the Company's income tax provisions. Such differences could have a material effect on the Company's income tax provision, cash flow from operating activities and net income in the period in which such determination is made.

Tax assessments filed by part of the Company's Israeli subsidiaries through the year ended December 31, 2012 are considered to be final.

NOTE 12: EQUITY

a. The common shares of the Company are traded on the NASDAQ and on the Tel-Aviv Stock Exchange.

Common shares confer upon their holders voting rights, the right to receive cash dividends and the right to share in excess assets upon liquidation of the Company.

b. Stock option plans:

In 2011, the Company's board of directors approved its 2011 Share Incentive Plan (the "2011 Plan") pursuant to which the Company's employees, directors, officers, consultants, advisors, suppliers, business partners, customers and any other person or entity whose services are considered valuable are eligible to receive awards of share options, restricted shares, restricted share units and other share-based awards. Options granted under the 2011 Plan may be exercised for a period of up to six years from the date of grant and become exercisable in four equal, annual installments, beginning with the first anniversary of the date of the grant, or pursuant to such other schedule as may provide in the option agreement.

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SAPIENS INTERNATIONAL CORPORATION N.V.

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NOTE 12: EQUITY (Cont.)

The total number of Common Shares available under the 2011 Plan was set at 4,000,000. Upon the approval of the 2011 Plan, the board of directors determined that no further awards would be issued under the Company's previously existing share incentive plans.

In February 2016, our Board of Directors approved the reservation of an additional 4,000,000 Common Shares for issuance under the 2011 Plan.

As of December 31, 2018, 3,036,832 common shares of the Company were available for future grant under the 2011 Plan. Any options granted under the 2011 Plan which are forfeited, cancelled, terminated or expired, will become available for future grant under the 2011 Plan.

In March 2018, the Company's Board of Directors approved a re-pricing of some of the Company's stock options held by some of the Company's senior employees. As a result of the re-pricing, 170,000 stock options at an exercise price range of \$ 11.5 to \$ 12.2 were re-priced to 141,229 stock options at an exercise price of \$ 10.0 per share. The Company accounted for the re-pricing of the options above in accordance with ASC 718, as a modification. The Company used the Binomial valuation model to calculate the incremental fair value for the re-priced options. Since there was no incremental value as a result of the modification, no additional expense was recorded in respect of the re-pricing of the respective options.

A summary of the stock option activities in 2018 is as follows:

Year ended December 31, 2018

	Amount of options	Weighted average exercise	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding at January 1, 2018	2,107,413	9.67	4.25	\$ 4,084
Granted	317,000	10.20		
Exercised	(223,570)	4.40		
Expired and forfeited	(145,661)	10.79		
Outstanding at December 31, 2018	2,055,182	9.86	3.80	\$ 2,594
Vested and expected to vest	2,023,254	9.85	3.78	\$ 2,570
Exercisable at December 31, 2018	829,133	8.31	2.47	\$ 2,134

In 2016, 2017 and 2018, the Company granted 310,000, 920,910 and 317,000 stock options to employees and directors, respectively.

The weighted average grant date fair values of the options granted during the years ended December 31, 2016, 2017 and 2018 were \$4.30, \$4.17 and \$3.43, respectively.

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NOTE 12: EQUITY (Cont.)

The total intrinsic value of options exercised during the years ended December 31, 2016, 2017 and 2018 was \$2,304, \$5,739 and \$1,641, respectively.

The options outstanding under the Company's stock option plans as of December 31, 2018 have been separated into ranges of exercise prices as follows:

Ranges of exercise price	Options outstanding as of December 31, 2018	Weighted Average remaining contractual Term (Years)	Weighted average exercise price \$	Options Exercisable as of December 31, 2018	Weighted Average Exercise price of Options Exercisable \$
0.88-1.48	25,703	1.18	1.08	25,703	1.08
4.12-5.67	103,000	0.83	5.62	103,000	5.62
6.32-6.91	45,750	1.47	6.67	38,250	6.74
7.82	300,000	2.34	7.82	300,000	7.82
8.67-9.18	95,000	3.48	9.10	40,000	9.18
9.33-9.80	413,229	4.33	9.53	157,180	9.44
10.18-10.81	217,500	3.45	10.46	112,500	10.40
11.43-12.53	810,000	4.78	11.54	33,750	12.27
12.62-13.5	45,000	3.78	12.91	18,750	12.80
	2,055,182	3.80	9.86	829,133	8.31

The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2016, 2017 and 2018, was \$1,955, \$2,035 and \$1,942 respectively.

c. As of December 31, 2018, there was \$3,761 of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a period of up to four years.

d. During 2017, 29,500 of the 88,500 restricted shares of Sapiens Decision, the Company's majority-owned subsidiary that were granted to one of the former shareholders of KPI in 2014 vested, thereby reducing the Company's percentage ownership of Sapiens Decision from 94.25% to 92.89%. During 2017, Sapiens Decision granted 122,730 options to certain of its employees to purchase shares of Sapiens Decision.

e. Dividend:

On September 20, 2018, the Company's extraordinary general meeting of shareholders approved the distribution of a cash dividend of \$0.20 per common share for a total amount of \$9,978 that was paid during October 2018.

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SAPIENS INTERNATIONAL CORPORATION N.V.

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NOTE 13: RELATED PARTIES TRANSACTIONS

Agreements with controlling shareholder and its affiliates:

The Company has in effect services agreements with certain companies that are affiliated with Formula Systems (1985) Ltd. (“Formula”), Sapiens’ parent company (most recently since December 23, 2014 and thereafter), pursuant to which the Company has received services amounting to approximately \$6,100, \$5,050 and \$4,455, in aggregate for the years ended December 31, 2016, 2017 and 2018. In addition, during the years ended December 31, 2016, 2017 and 2018, the Company purchased from those affiliated companies an aggregate of approximately \$1,000, \$930 and \$320 of hardware and software.

On August 18, 2015, Sapiens completed the acquisition from Asseco Poland S.A. (“Asseco”) of all issued and outstanding shares of Insseco. Asseco is the ultimate parent company of Sapiens, through its holdings in Formula.

Under the share purchase agreement for that acquisition, Asseco committed to assign all customer contracts to Insseco that relate to the intellectual property that the Company acquired as part of the acquisition. In the event that Asseco cannot obtain the consent of any customer to the assignment of its contract to Insseco, Asseco will hold that customer’s contract in trust for the benefit of Insseco. Under that arrangement, in 2016, Insseco invoiced Asseco in a back-to-back manner for all invoices issued by Asseco on Insseco’s behalf to customers under those contracts that were not yet assigned by Asseco to Insseco.

During the years ended December 31, 2016, 2017 and 2018, Asseco provided back office and professional services and fixed assets to Insseco in an amount totaling approximately \$1,900, \$1,600 and \$980, respectively.

As of December 31, 2017, and 2018, the Company had trade payables balances due to its related parties in amount of approximately \$790 and \$1,100, respectively. In addition, as of December 31, 2017 and 2018, the Company had trade receivables balances due from its related parties in amount of approximately \$1,500 and \$1,000, respectively.

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NOTE 14: BASIC AND DILUTED NET EARNINGS PER SHARE

	Year ended December 31,		
	2016	2017	2018
Numerator (thousands):			
Net income attributed to Sapiens' shareholders	\$19,336	\$352	\$13,785
Adjustment to redeemable non-controlling interest	443	350	-
Net income used for earnings per share	\$19,779	\$702	\$13,785
Denominator (thousands):			
Denominator for basic earnings per share - weighted average number of common shares, net of treasury stock	48,947	49,170	49,827
Stock options	833	756	279
Denominator for diluted net earnings per share - adjusted weighted average number of shares	49,780	49,926	50,106

The weighted average number of shares related to outstanding anti-dilutive options excluded from the calculations of diluted net earnings per share was 250,809, 1,282,305 and 1,369,514 for the years 2016, 2017 and 2018, respectively.

NOTE 15: GEOGRAPHIC INFORMATION

The Company operates in a single reportable segment as a provider of software solutions. See Note 1 for a brief a.description of the Company's business. The data below is presented in accordance with ASC 280, "Segment Reporting".

b. Geographic information:

The following table sets forth revenues by country based on the billing address of the customer. Other than as shown below, no other country accounted for more than 10% of the Company's revenues during the years ended December 31, 2016, 2017 and 2018.

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NOTE 15: GEOGRAPHIC INFORMATION (Cont.)

	Year ended December 31,		
	2016	2017	2018
1. Revenues:			
North America*	\$74,455	\$109,560	\$136,477
Europe**	107,134	120,926	128,513
Asia Pacific	30,223	18,059	13,371
South Africa	4,378	20,649	11,346
	\$216,190	\$269,194	\$289,707

Revenue amounts for North America consist primarily of revenues from the United States, except for approximately *)\$854, \$1,056 and \$649 of revenues derived from Canada during the years ended December 31, 2016, 2017 and 2018, respectively.

**.) Revenue amounts for Europe include UK, Europe and Israel.

	December 31,	
	2017	2018
2. Property and equipment:		
Israel	\$5,957	\$4,149
North America	2,913	2,514
Others	1,825	1,852
	\$10,695	\$8,515

c. Major customer data:

The following table sets forth revenues from major customers during the years ended December 31, 2016, 2017 and 2018.

	Year ended December 31,		
	2016	2017	2018
Customer A	14%	2%	-

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SAPIENS INTERNATIONAL CORPORATION N.V.

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NOTE 16: REVENUE RECOGNITION

The Company adopted ASC 606 on January 1, 2018, and applied the standard using modified retrospective approach, with the cumulative effect recognized as an adjustment to the opening retained earnings balance of \$1,815 as of January 1, 2018. Specifically, under the legacy revenue standard, the Company recognizes both the term license (which does not involve significant customization) and post contract support revenues ratably over the contract period whereas under the current revenue standard, term license revenues are recognized upfront, upon delivery, and the associated post contract support revenues are recognized over the contract period. The impact on revenues for the year ended December 31, 2018 was an increase of \$2,498 as a result of adopting ASC 606, with most of the amount impacting the Company's operating profit and net income. There was no material impact on other line items of statement of income.

Remaining performance obligations represent contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. The aggregate amount of consideration allocated to performance obligations either not satisfied or partially unsatisfied from fixed price projects and post contract support services was approximately \$83 million as of December 31, 2018. The Company expects to recognize approximately 60% in 2019 from remaining performance obligations as of December 31, 2018 and the remainder thereafter. Remaining performance obligations include the remaining non-cancelable, committed and fixed portion of these contracts for their entire duration, the remaining performance obligations related to professional services contracts that are on a T&M basis were excluded, as the Company elected to apply the practical expedients in accordance with ASC 606.

Disaggregation of revenue:

The following table provides information about disaggregated revenue by type of contract, and timing of revenue recognition (in thousands):

	Year ended December 31, 2018 Total
Type of contract	
T&M contracts	\$ 169,416
Fixed-priced contracts	120,291
Total	\$ 289,707
Timing of revenue recognition	
Products transferred at a point in time	6,521
Products and services transferred over time	283,186
Total	\$ 289,707

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NOTE 16: REVENUE RECOGNITION (Cont.)

Contract balances:

The following table provides information about trade receivables, contract assets (unbilled receivables) and contract liabilities (deferred revenues) from contracts with customers (in thousands):

	December 31,	
	2017	2018
Trade receivables	41,708	38,953
Unbilled receivables	11,518	20,206
Deferred revenues (short-term contract liabilities)	16,513	18,057
Deferred revenues (long-term contract liabilities) *)	-	702

*) Included in other long-term liabilities in the consolidated balance sheets

Trade receivable are recorded when the right to consideration becomes unconditional, and an invoice is issued to the customer. Unbilled receivables related to the Company's contractual right to consideration for services performed and not yet invoiced.

Billing terms and conditions generally vary by contract type. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., monthly or quarterly) or upon achievement of contractual milestones.

In accordance with the new standard, unbilled accounts receivables were reclassified in the consolidated balance sheets as of December 31, 2018 and 2017, none of which resulted in a change to total current assets or total current liabilities. No impairment loss was recognized in respect of the Company's outstanding contract assets during the year ended December 31, 2018.

Deferred revenues represent contract liabilities, and include unearned amounts received under contracts with customers and not yet recognized as revenues.

During the year ended December 31, 2018, the amount which was unrecognized as revenue, and included in deferred revenues at December 31, 2017, was immaterial.

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NOTE 17: SELECTED STATEMENTS OF OPERATIONS DATA

a. Research and development expenses, net:

	Year ended December 31,		
	2016	2017	2018
Total costs	\$22,033	\$37,522	\$39,574
Less - capitalized software development costs	(5,545)	(5,567)	(5,160)
Research and development expenses, net	\$16,488	\$31,955	\$34,414

b. Financial income, net:

	Year ended December 31,		
	2016	2017	2018
Financial income:			
Interest	\$784	\$525	\$181
Foreign currency translation	191	309	867
Derivatives gains	849	-	-
	1,824	834	1,048
Financial expenses:			
Foreign currency translation, bank charges and other	1,021	1,990	1,059
Interest	270	1,688	3,225
Derivatives losses	-	166	755
	(1,291)	(3,844)	(5,039)
Financial income (expense), net	\$533	\$(3,010)	\$(3,991)

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