

ZUR SHAMIR HOLDINGS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 2007

UNAUDITED

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The Board of Directors
Zur Shamir Holdings Ltd.

Dear Sirs,

Re: Review report of unaudited interim consolidated financial statements
for the three month period ended March 31, 2007

At your request, we have reviewed the interim consolidated balance sheet of Zur Shamir Holdings Ltd. (hereunder – the Company) as at March 31, 2007, and the related consolidated statement of profit and loss, statement of changes in shareholders' equity and consolidated statement of cash flows for the period of three months then ended. Our review was made in accordance with the procedures established by the Institute of Certified Public Accountants in Israel and included, among other things, reading the aforementioned financial statements, reading minutes of the meetings of the shareholders and of the Board of Directors and its committees and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim consolidated financial statements of certain subsidiaries, whose assets constitute approximately 6.3% of the total consolidated assets as at March 31, 2007 and whose revenues constitute approximately 2% of the total consolidated revenues for the three month period then ended.

Since the review performed was limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said interim consolidated financial statements.

Based on our review and the review reports of the other accountants, as mentioned above, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles and with the Securities Regulations (Periodical and Immediate Statements), 1970, taking into account that data regarding subsidiaries, which are insurance companies, are prepared according to generally accepted accounting and reporting principles prescribed by the Supervision of Financial Services (Insurance) Law, 1981.

Tel-Aviv,
May 31, 2007

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

CONSOLIDATED BALANCE SHEETS

	March 31		December 31	Convenience translation into U.S.\$ in thousands [see Note 1(b)]
	2007	2006	2006	
	Unaudited		Audited	
	Reported NIS in thousands			
CURRENT ASSETS				
Cash and cash equivalents	375,789	222,719	158,756	90,443
Short term investments	19,809	24,564	25,051	4,768
Customers	19,837	36,855	16,704	4,774
Insurance companies – other accounts	54,263	56,395	56,557	13,060
Outstanding premiums	252,015	176,449	241,256	60,652
Debtors and receivables	75,699	53,909	60,106	18,219
	<u>797,412</u>	<u>570,891</u>	<u>558,430</u>	<u>191,916</u>
INVESTMENTS AND LONG TERM LOANS				
Investments of insurance companies	1,604,397	1,539,737	1,606,120	386,136
Reinsurers' share in insurance reserves and outstanding claims	137,183	111,719	135,499	33,016
Investment in affiliates and others	943	943	943	227
Loans	4,163	28,192	4,122	1,002
	<u>1,746,686</u>	<u>1,680,591</u>	<u>1,746,684</u>	<u>420,381</u>
FIXED ASSETS				
Cost	289,894	280,075 *)	297,108 *)	69,770
Less accumulated depreciation	90,664	107,764 *)	104,888 *)	21,820
	<u>199,230</u>	<u>172,311</u>	<u>192,220</u>	<u>47,950</u>
INVESTMENT PROPERTY, NET	<u>1,928,480</u>	<u>1,466,300 *)</u>	<u>1,355,594 *)</u>	<u>464,135</u>
DEFERRED ACQUISITION COSTS AND OTHER ASSETS, NET				
Other assets and deferred expenses, net	178,355	178,764 *)	181,411 *)	42,925
Deferred acquisition costs in insurance companies	129,619	115,249	125,392	31,196
Deferred taxes	64,800	48,589	64,341	15,596
	<u>372,774</u>	<u>342,602</u>	<u>371,144</u>	<u>89,717</u>
	<u><u>5,044,582</u></u>	<u><u>4,232,695</u></u>	<u><u>4,224,072</u></u>	<u><u>1,214,099</u></u>

*) Reclassified.

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

CONSOLIDATED BALANCE SHEETS

	March 31		December 31	Convenience translation into U.S.\$ in thousands [see Note 1(b)]
	2007	2006	2006	
	Unaudited		Audited	
	Reported NIS in thousands			
CURRENT LIABILITIES				
Credit from banking institutions	276,983	158,969	148,930	66,663
Suppliers and service providers	52,670	38,055	64,850	12,676
Insurance companies	18,011	16,359	17,670	4,335
Creditors and payables	238,356	172,595	217,230	57,366
Current maturities of debentures convertible into subsidiary shares	5	6	5	1
Current maturities of debentures of subsidiary	39,300	-	39,456	9,458
	<u>625,325</u>	<u>385,984</u>	<u>488,141</u>	<u>150,499</u>
LONG TERM LIABILITIES				
Debentures convertible into subsidiary shares	6	11	6	1
Company debentures	350,446	351,010	351,277	84,343
Debentures and subordinated deeds of a subsidiary	662,883	528,923	491,474	159,539
Loans from banking institutions and others	883,163	1,081,103	878,639	212,554
Deferred taxes	101,841	41,936	32,336	24,511
Liability to cover an affiliate's losses	5,075	8,359	5,108	1,221
Liabilities for severance pay, net	1,054	871	1,047	254
	<u>2,004,468</u>	<u>2,012,213</u>	<u>1,759,887</u>	<u>482,423</u>
INSURANCE RESERVES AND OUTSTANDING CLAIMS OF INSURANCE COMPANIES				
	<u>1,545,436</u>	<u>1,425,562</u>	<u>1,538,816</u>	<u>371,946</u>
MINORITY INTEREST				
	<u>483,775</u>	<u>249,015</u>	<u>272,431</u>	<u>116,432</u>
RECEIPTS ON ACCOUNT OF OPTIONS REALIZABLE INTO SUBSIDIARY SHARES				
	<u>400</u>	<u>5,410</u>	<u>3,567</u>	<u>97</u>
SHAREHOLDERS' EQUITY				
Share capital	213,489	211,889	213,489	51,381
Capital reserves	65,994	63,817	67,860	15,883
Receipts on account of options	1,410	-	1,410	339
Retained profit (loss)	165,459	(60,021)	(60,355)	39,822
	<u>446,352</u>	<u>215,685</u>	<u>222,404</u>	<u>107,425</u>
Shares held by the Company	(61,174)	(61,174)	(61,174)	(14,723)
	<u>385,178</u>	<u>154,511</u>	<u>161,230</u>	<u>92,702</u>
	<u>5,044,582</u>	<u>4,232,695</u>	<u>4,224,072</u>	<u>1,214,099</u>

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

May 31, 2007			
Date of approval of the financial statements	Shalom Schneidman Chairman of the Board of Directors	Moshe (Muki) Schneidman Member of the Board of Directors and Managing Director	Ronen Nakar Finance Director

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see Note 1(b)]
	March 31		December 31	
	2007	2006	2006	
	Unaudited		Audited	
	Reported NIS in thousands [except for earnings (loss) per share data]			
Income				
From insurance business	239,982	219,841	914,545	57,757
From lease of assets	31,608	32,807	123,758	7,607
From asset management and stock exchange services	8,661	2,457	21,547	2,085
From financing business	112	-	-	27
	<u>280,363</u>	<u>255,105</u>	<u>1,059,850</u>	<u>67,476</u>
Costs and expenses				
Insurance business	220,183	205,280	823,627 *)	52,992
Lease of assets	5,661	12,722	82,808	1,363
From asset management and stock exchange services	14,904	6,290	37,385	3,587
Cost of financing business	2,654	-	4,501 *)	639
Administrative and general expenses	1,777	1,857	10,546	428
Financing, net	19,946	24,617	90,017	4,800
	<u>265,125</u>	<u>250,766</u>	<u>1,048,884</u>	<u>63,809</u>
Income from ordinary activities	15,238	4,339	10,966	3,667
Other income (expenses), net	(14,220)	5,881	121,672	(3,422)
Income before income taxes	1,018	10,220	132,638	245
Income taxes	14,247	6,434	46,901	3,429
Profit (loss) after income taxes	(13,229)	3,786	85,737	(3,184)
Company's share in profits (losses) of an affiliate	33	(1,868)	147	8
Minority share in profits of subsidiaries	(6,025)	(5,803)	(70,103)	(1,450)
Income (loss) for the period before extraordinary item	(19,221)	(3,885)	15,781	(4,626)
Extraordinary item:				
Cancellation of provision for extraordinary risks reserve in life assurance net of tax affect and the minority share (Note 5)	18,466	-	-	4,444
Net income (loss) for the period	<u>(755)</u>	<u>(3,885)</u>	<u>15,781</u>	<u>(182)</u>
Earnings per share:				
Net earnings (loss) per ordinary share (NIS):				
Before extraordinary item, net	(0.33)	(0.08)	0.26	(0.08)
Extraordinary item, net	0.30	-	-	0.07
Net earnings (loss) per share	<u>(0.03)</u>	<u>(0.08)</u>	<u>0.26</u>	<u>(0.01)</u>

*) Reclassified.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Receipts on account of options	Adjustments due to translation of subsidiaries' financial statements	Retained profit (loss)	Less shares held by the Company	Total
	Reported NIS in thousands							
Balance as at January 1, 2006 (Audited)	211,878	27,665	2,818	-	28,091	(56,136)	(61,174)	153,142
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	(4,675)	-	-	(4,675)
Tax benefits in respect of capital instruments for subsidiary employees	-	-	399	-	-	-	-	399
Share based payment costs	-	-	6,340	-	-	-	-	6,340
Conversion of capital notes	11	20	-	-	-	-	-	31
Issue of shares and options	1,600	7,202	-	1,410	-	-	-	10,212
Dividend paid	-	-	-	-	-	(20,000)	-	(20,000)
Profit for the period	-	-	-	-	-	15,781	-	15,781
Balance as at December 31, 2006 (Audited)	213,489	34,887	9,557	1,410	23,416	(60,355)	(61,174)	161,230
Measurement of real estate for investment according to the fair value model *)	-	-	-	-	-	226,569	-	226,569
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	(2,959)	-	-	(2,959)
Tax benefits in respect of capital instruments for subsidiary employees	-	-	82	-	-	-	-	82
Share based payment costs	-	-	1,011	-	-	-	-	1,011
Loss for the period	-	-	-	-	-	(755)	-	(755)
Balance as at March 31, 2007 (Unaudited)	213,489	34,887	10,650	1,410	20,457	165,459	(61,174)	385,178

	Share capital	Share premium	Capital reserves	Receipts on account of options	Adjustments due to translation of subsidiaries' financial statements	Retained loss	Less shares held by the Company	Total
	Reported NIS in thousands							
Balance as at January 1, 2006 (Audited)	211,878	27,665	2,818	-	28,091	(56,136)	(61,174)	153,142
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	3,885	-	-	3,885
Tax benefits in respect of capital instruments for subsidiary employees	-	-	27	-	-	-	-	27
Share based payment costs	-	-	1,311	-	-	-	-	1,311
Conversion of capital notes	11	20	-	-	-	-	-	31
Loss for the period	-	-	-	-	-	(3,885)	-	(3,885)
Balance as at March 31, 2006 (Unaudited)	211,889	27,685	4,156	-	31,976	(60,021)	(61,174)	154,511

*) See Note 2b (2).

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Receipts on account of options	Adjustments due to translation of subsidiaries' financial statements	Retained loss	Net of shares held by the Company	Total
Convenience translation into U.S. \$ in thousands								
Balance as at December 31, 2006 (Audited)	51,381	8,396	2,300	339	5,636	(14,526)	(14,723)	38,804
Real estate survey for investment according to the fair value model *)	-	-	-	-	-	54,530	-	54,529
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	(712)	-	-	(712)
Tax benefits in respect of capital instruments for subsidiary employees	-	-	20	-	-	-	-	20
Share based payment costs	-	-	243	-	-	-	-	243
Loss for period	-	-	-	-	-	(182)	-	(182)
Balance as at March 31, 2007 (Unaudited)	<u>51,381</u>	<u>8,396</u>	<u>2,563</u>	<u>339</u>	<u>4,924</u>	<u>39,822</u>	<u>(14,723)</u>	<u>92,702</u>

*) See Note 2b(2).

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see Note 1(b)]
	March 31		December 31	
	2007	2006	2006	
	Unaudited		Audited	
	Reported NIS in thousands			
CASH FLOWS FROM CURRENT ACTIVITIES				
Net income (loss) for the period	(755)	(3,885)	15,781	(182)
(Income) loss from insurance business	(33,677)	1,933	(16,213)	(8,105)
	(34,432)	(1,952)	(432)	(8,287)
Adjustments required to present cash flows from current activities not including insurance business (a)	34,809	17,854	25,540	8,378
Net cash provided by current activities not including insurance business	377	15,902	25,108	91
Net cash provided by (used in) current activities in life assurance business (b)	28,672	4,907	(15,104)	6,901
Net cash provided by (used in) current activities in general insurance business(c)	26,267	(3,255)	157,063	6,322
Net cash provided by (used in) other current activities in insurance business (d)	22,108	(13,067)	(92,891)	5,320
	77,424	4,487	74,176	18,634
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Acquisition of a subsidiary's shares and bonds from minority shareholders	-	(2,256)	(43,741)	-
Exit from consolidation of a previously consolidated subsidiary (g)	-	1,698	1,698	-
Acquisition of fixed assets	(177,812)	(43,562)	(254,028)	(42,795)
Proceeds from sale of fixed assets	94	19,217	367,765	23
Realization of securities, net	5,213	5,866	5,574	1,255
Settled long term loans	17	5	23,786	4
Other assets and deferred expenses	-	(41,444)	(58,165)	-
Net cash provided by (used in) investment activities not including insurance business	(172,488)	(60,476)	42,889	(41,513)
Net cash provided by (used in) investment activities in insurance business (e)	(62,451)	3,121	(43,676)	(15,031)
	(234,939)	(57,355)	(787)	(56,544)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of shares and options net of issue expenses	-	-	10,212	-
Surrender of convertible capital notes	-	-	(481)	-
Settlement of bonds convertible into subsidiary shares	-	-	(6)	-
Issue of bonds of a subsidiary	172,253	87,579	87,579	41,457
Issue of bonds	-	54,615	52,395	-
Issue of shares to a minority in subsidiaries	63,814	8,155	32,697	15,358
Settlement of long term loans from banking institutions	(10,767)	(17,337)	(356,135)	(2,591)
Receipt of long term loans from banking institutions	24,517	128,001	251,296	5,901
Increase (decrease) in short term credit from banking institutions, net	124,262	(96,332)	(54,146)	29,906
Payment of a dividend to a minority in a subsidiary	-	-	(14,406)	-
Dividend paid	-	-	(20,000)	-
Net cash provided by (used in) financing activities	374,079	164,681	(10,995)	90,031
Net cash provided by (used in) financing activities in insurance business (f)	215	158	(12,788)	52
	374,294	164,839	(23,783)	90,083
Translation differences in relation to cash balances in foreign autonomous subsidiaries	254	3,415	1,817	61
Increase in cash and cash equivalents	217,033	115,386	51,423	52,234
Balance of cash and cash equivalents at the beginning of the period	158,756	107,333	107,333	38,209
Balance of cash and cash equivalents at the end of the period	375,789	222,719	158,756	90,443

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see Note 1(b)]
	March 31		December 31	
	2007	2006	2006	
	Unaudited		Audited	
Reported NIS in thousands				
A. Adjustments required to present cash flows from current activities not including insurance business				
Income and expenses not involving cash flows:				
Company's share in losses (profits) of affiliate	(33)	1,868	(147)	(8)
Minority's share in income of subsidiaries	3,495	2,314	51,498	841
Depreciation and amortization	5,457	10,332	41,504	1,313
Capital gain, net	(12)	(3,535)	(124,861)	(3)
Capital loss (gain) from issue to a third party	14,285	(530)	(5,533)	3,438
Deferred taxes, net	222	(348)	(29,674)	53
Capital gain from realization of investment in a subsidiary	-	(781)	(781)	-
Liability for severance pay, net	7	(14)	267	2
Share based payment costs	623	-	603	150
Impairment in value of securities, net	29	346	151	7
Interest and erosion of loans and long term liabilities, net	(1,975)	(1,980)	14,454	(475)
	<u>22,098</u>	<u>7,672</u>	<u>(52,519)</u>	<u>5,318</u>
Changes in assets and liabilities items:				
Decrease (increase) in customers	(3,212)	8,879	10,180	(773)
Increase in debtors and receivables	(9,057)	(14,395)	(2,569)	(2,180)
Increase (decrease) in suppliers and service providers	(4,100)	(9,483)	19,243	(987)
Increase in creditors and payables	29,080	25,181	51,205	7,000
	<u>12,711</u>	<u>10,182</u>	<u>78,059</u>	<u>3,060</u>
	<u>34,809</u>	<u>17,854</u>	<u>25,540</u>	<u>8,378</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see Note 1(b)]
	March 31		December 31	
	2007	2006	2006	
	Unaudited		Audited	
	Reported NIS in thousands			
B. Cash flows from current activities in life assurance business				
Income from life assurance business	3,883	3,637	19,455	934
Items not involving cash flows:				
Increase in assurance reserves net of reinsurance	(18,259)	11,436	72,425	(4,394)
Increase (decrease) in outstanding claims net of reinsurance	1,188	(51)	34	286
Depreciation	291	245	1,710	70
Investments, net:				
Securities	6,275	(11,058)	(73,840)	1,510
Deposits with banks	34,049	95	(33,956)	8,196
Loans	(390)	(24)	(1,175)	(94)
Changes in other balance sheet items, net:				
Insurance companies	2,079	1,009	915	500
Outstanding premiums	(212)	(220)	(666)	(51)
Debtors and receivables	(8)	79	89	(2)
Creditors and payables	(224)	(241)	(95)	(54)
Net cash provided by (used in) current activities in life assurance business	<u>28,672</u>	<u>4,907</u>	<u>(15,104)</u>	<u>6,901</u>
C. Cash flows from current activities in general insurance business				
Income from general insurance business	28,452	19,719	128,344	6,848
Items not involving cash flows:				
Increase in insurance reserves net of reinsurance	23,074	13,669	24,666	5,553
Increase (decrease) in outstanding claims net of reinsurance	1,142	(1)	15,763	275
Increase in deferred acquisition costs	(3,400)	(1,957)	(5,578)	(818)
Depreciation	4,538	1,973	16,379	1,092
Investments, net:				
Securities	38,207	(27,979)	(51,105)	9,195
Deposits with banks	(30,844)	7,054	73,907	(7,423)
Changes in other balance sheet items, net:				
Insurance companies	555	(8,178)	(7,009)	134
Outstanding premiums	(10,984)	1,490	(62,701)	(2,644)
Debtors and receivables	(3,433)	(1,276)	3,724	(826)
Creditors and payables	(21,040)	(7,769)	20,673	(5,064)
Net cash provided by (used in) current activities in general insurance business	<u>26,267</u>	<u>(3,255)</u>	<u>157,063</u>	<u>6,322</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see Note 1(b)]
	March 31		December 31	
	2007	2006	2006	
	Unaudited		Audited	
	Reported NIS in thousands			
D. Cash flows from other current activities in insurance business				
Net profit (loss) for the period from insurance business	33,677	(1,933)	9,233	8,105
Profit from general insurance and life assurance business	(32,335)	(23,356)	(140,819)	(7,782)
	1,342	(25,289)	(131,586)	323
Items not involving cash flows:				
Cost of share-based payment	1,555	1,997	9,704	374
Deferred taxes	(2,888)	(920)	5,136	(695)
Minority's share in profits of subsidiaries	20,729	3,489	18,599	4,990
Capital loss (gain)	(174)	31	(355)	(42)
Depreciation and amortization	2,714	2,636	9,358	652
Erosion of loans received from minority in subsidiaries	8	-	18	2
Erosion of subordinated deeds	105	1,487	4,373	25
Negative excess of cost created upon acquisition	-	-	(812)	-
Increase in deferred acquisition costs in insurance	(1,150)	(2,204)	(8,558)	(277)
Changes in other balance sheet items, net:				
Decrease (increase) in debtors and receivables	(3,234)	7,616	(6,198)	(778)
Increase (decrease) in creditors and payables, net	3,101	(1,910)	7,430	746
Net cash provided by (used in) other current activities in insurance business	22,108	(13,067)	(92,891)	5,320
E. Cash flows from investment activities in insurance business				
Decrease (increase) in investments of insurance companies, net	(47,548)	7,647	(3,639)	(11,443)
Acquisition of minority shares in a subsidiary	(1,177)	-	-	(283)
Acquisition of fixed assets and other assets	(15,041)	(4,616)	(40,532)	(3,621)
Acquisition of subsidiary proportionally consolidated in the past (h)	-	-	514	-
Proceeds from sale of fixed assets	1,315	90	4,382	316
Acquisition of a subsidiary consolidated for the first time, net (i)	-	-	(4,401)	-
Net cash provided by (used in) investment activities in insurance business	(62,451)	3,121	(43,676)	(15,031)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see Note 1(b)]
	March 31		December 31	
	2007	2006	2006	
	Unaudited		Audited	
	Reported NIS in thousands			
F. Cash flows from financing activities in insurance business				
Settlement of loan from minority in subsidiary	(300)	-	-	(72)
Receipt of loan from minority in subsidiary	-	-	600	-
Proceeds from realization of shares in insurance subsidiaries	515	158	1,682	124
Dividend paid to minority in insurance subsidiaries	-	-	(15,070)	-
Net cash provided by (used in) financing activities in insurance business	215	158	(12,788)	52
G. Exit from consolidation of company consolidated in the past				
Capital gain from realization of investment in a subsidiary	-	781	781	-
Working capital (excluding cash and cash equivalents)	-	(1,599)	(1,599)	-
Fixed assets, net	-	3,534	3,534	-
Long term liabilities	-	(1,018)	(1,018)	-
	-	1,698	1,698	-
H. Acquisition of a subsidiary proportionally consolidated in the past				
Working capital (excluding cash and cash equivalents)	-	-	199	-
Fixed assets, net	-	-	(1,309)	-
Negative initial difference	-	-	812	-
Minority interest	-	-	812	-
	-	-	514	-
I. Acquisition of a subsidiary consolidated for the first time				
Working capital (excluding cash and cash equivalents)	-	-	(1,886)	-
Fixed assets, net	-	-	(417)	-
Initial difference created upon acquisition	-	-	(2,808)	-
Outstanding premium	-	-	(5)	-
Insurance reserves net of reinsurance	-	-	16	-
Outstanding claims net of reinsurance	-	-	625	-
Insurance companies	-	-	74	-
	-	-	(4,401)	-
J. Significant activities not involving cash flows				
Capital issue against conversion of convertible capital notes	-	31	31	-
Acquisition of fixed assets against suppliers and service providers	4,258	1,392	10,670	1,025
Sale of building against debtors and receivables	-	-	464	-
Acquisition of other assets against creditors and payables	-	16,142	-	-
Customers and other assets against capital gain	-	-	20,252	-

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. These financial statements have been prepared in a condensed format as of March 31, 2007, and for the three month period then ended (hereunder - interim financial statements). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as at December 31, 2006 and for the year then ended.
- b. The interim consolidated financial statements as at March 31, 2007 and for the three months then ended have been translated into U.S. dollars using the representative foreign exchange rate as at that date (U. S. \$ 1 = NIS 4.155) The translation was made solely for the convenience of the reader.

The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in dollars or convertible into dollars, unless otherwise indicated in these financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with Chapter D to the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation applied in the preparation of the interim financial statements are identical to those applied in the preparation of the latest annual financial statements, except as described in section b below.

- b. Initial adoption of new Accounting Standards

1. Regarding reserve for extraordinary risks in life assurance, see Note 5 below.
2. Accounting Standard No. 16 - Investment Property

On January 1, 2007, the Company and the subsidiaries adopted the provisions of Accounting Standard No. 16, Investment Property (hereunder - the Standard) of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment and disclosure requirements for investment property.

An investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation (or both) and not for use in manufacture or the supply of goods or services or for administrative purposes or sale during the ordinary course of business.

Investment property is to be presented using the cost model or the fair value model. The Company and the subsidiaries have elected to adopt the fair value model in accounting for its investment property. The Company and the subsidiaries have reported the effect of adoption of the Standard as of January 1, 2007 as an adjustment of the opening balance of retained earnings as of that date.

Real estate rights held by a lessee in an operating lease from the Israel Lands Administration are classified as investment property. The Company and the subsidiaries have adopted the fair value model in the respect of those rights.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)b. Initial adoption of new Accounting Standards (Cont.)2. Accounting Standard No. 16 - Investment Property (Cont.)

As a result of the initial adoption of the provisions of the Standard:

The Company and the subsidiaries allocated the difference between the carrying amount of investment property and its fair value as of January 1, 2007, amounting to about NIS 415 million, as an adjustment to retained earnings as of that date against a corresponding increase in investment property. In addition, a deferred tax liability was recognized in the amount of about NIS 71 million and an increase in the minority share in the amount of NIS 118 million against the surplus balance as at the same date.

3. Accounting Standard No. 23 - Accounting Treatment of Transactions between an Entity and the Controlling Shareholder Therein

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 23, Accounting Treatment of Transactions between an Entity and its Controlling Shareholder (hereunder - the Standard). The Standard is applicable, among others, to transactions involving the transfer of assets, the assumption of liabilities, indemnification, waiver and the granting of loans between a company and its controlling shareholder and between companies under common control that occur subsequent to January 1, 2007 as well as to a loan granted or received from the controlling shareholder prior to January 1, 2007.

The Standard is not applicable to business combinations of companies under common control. According to the Securities Authority's decision, as of January 1, 2007, business combinations of entities controlled by the same shareholder will be treated as pooling of interests and not using the fair value model. In cases of transactions that have the characteristics of shareholders' investments, the Standard may also apply to transactions with shareholders in their capacity as shareholders.

The initial adoption of the Standard had no effect on the interim financial statements.

4. Accounting Standards No. 27 - Fixed Assets and No. 28 - Amendment to the Transition Provisions of Accounting Standard No. 27, Fixed Assets

On January 1, 2007, the Company adopted the provisions of Accounting Standards No. 27, Fixed Assets and No. 28, Amendment to the Transition Provisions of Accounting Standard No. 27, 'Fixed Assets of the Israel Accounting Standards Board (hereunder – the Standards) regarding the accounting treatment of fixed assets in the financial statements.

The initial adoption of the Standard had no effect on the interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)b. Initial adoption of new Accounting Standards (Cont.)5. Accounting Standard No. 30 - Intangible Assets

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 30, Intangible Assets of the Israel Accounting Standards Board (hereunder - the Standard) that prescribes the accounting treatment, recognition, measurement and the disclosure requirements regarding intangible assets that are not dealt with in another standard.

As a result of the initial adoption of the provisions of the Standard the Company and the subsidiaries have classified computer software that does not constitute an integral part of the hardware relating to depreciated cost in the amount of NIS 14,025 thousand as at March 31, 2006, and in the amount of NIS 26,724 thousand as at December 31, 2006 from the "fixed assets" item to the "other assets" item.

c. Disclosure of the effect of a new Accounting Standard in the period prior to its adoptionAccounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS)

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, Adoption of International Financial Reporting Standards (IFRS) (hereunder - the Standard).

International Financial Reporting Standards (hereunder – IFRS Standards) comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

- a) International Financial Reporting Standards (IFRS)
- b) International Accounting Standards (IAS)
- c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006. The Company will prepare its financial statements in accordance with IFRS Standards commencing on January 1, 2008.

Companies that prepare their financial statements for the first time in accordance with IFRS will be required upon transition to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- c. Disclosure of the effect of a new Accounting Standard in the period prior to its adoption (Cont.)

Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS)
(Cont.)

A company that adopts IFRS commencing in 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 ("Opening IFRS Balance Sheet"). The Opening IFRS Balance Sheet will require the following:

- Recognition of all assets and liabilities whose recognition is required by IFRS.
- De-recognition of assets and liabilities if IFRS do not permit such recognition.
- Classification of assets, liabilities and components of equity according to IFRS.
- Application of IFRS in the measurement of all recognized assets and liabilities.

In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of profit and loss for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements. These differences could have a material impact on the Company's financial position and results of operations. The first-time adoption of IFRS will require the Company to identify such differences, a process that will entail a significant amount of time and resources.

The Company's management is evaluating the effect of the new Standard on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3:- DATA REGARDING THE ISRAELI CPI AND THE FOREIGN CURRENCY EXCHANGE RATES

As at	Israeli CPI in points *)	Representative exchange rate of				
		U.S. dollars	Canadian dollars	Pound Sterling NIS	Euro	Zolty
March 31, 2007	109.6	4.155	3.601	8.125	5.34	1.437
March 31, 2006	110.6	4.665	4.020	8.127	5.662	1.442
December 31, 2006	109.9	4.225	3.641	8.289	5.564	1.453
Rate of change during the period	%	%	%	%	%	%
March 2007 (three months)	0.3	(2.4)	(1.1)	(2.0)	(0.5)	(1.1)
March 2006 (three months)	0.5	1.3	1.4	2.3	3.9	2.3
December 2006 (12 months)	0.2	(8.2)	(8.2)	4.4	2.2	3.0

*) The CPI is at the average basis of 2000 = 100.

NOTE 4:- INFORMATION ACCORDING TO BUSINESS SEGMENTS

	Three month period ended March 31, 2007					Total
	Insurance	Leasing of assets	Asset management and stock exchange services	Financing business	Adjustments	
	Reported NIS in thousands					
Income	239,982	31,608	8,661	112	-	280,363
Inter-company income	-	2,475	-	-	(2,475)	-
Total	239,982	34,083	8,661	112	(2,475)	280,363
Segment results	15,916	12,736	(4,662)	(2,542)		21,448
Administrative and general expenses and financing expenses, net that were not allocated to the business segments						(6,210)
Income from ordinary activities						15,238

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4:- INFORMATION ACCORDING TO BUSINESS SEGMENTS (Cont.)

	Three month period ended March 31, 2006					
	Insurance	Leasing of assets	Asset management and stock exchange services		Adjustments	Total
			Reported NIS in thousands			
Income	219,841	32,807	2,457	-	255,105	
Inter-company income	-	693	-	(693)	-	
Total	219,841	33,500	2,457	(693)	255,105	
Segment results	<u>13,013</u>	<u>3,199</u>	<u>(2,978)</u>		13,234	
Administrative and general expenses and financing expenses, net that were not allocated to the business segments					<u>(8,895)</u>	
Income from ordinary activities					<u>4,339</u>	

	Year ended December 31, 2006					
	Insurance	Leasing of assets	Asset management and stock exchange services		Adjustments	Total
			Reported NIS in thousands			
Income	914,545	123,758	21,547	-	1,059,850	
Inter-company income	-	8,260	-	(8,260)	-	
Total	914,545	132,018	21,547	(8,260)	1,059,850	
Segment results	<u>74,448</u>	<u>(22,415)</u>	<u>(11,684)</u>		40,349	
Administrative and general expenses and financing expenses, net that were not allocated to the business segments					<u>(29,383)</u>	
Income from ordinary activities					<u>10,966</u>	

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5:- CANCELLATION OF EXTRAORDINARY RISKS RESERVE IN GENERAL INSURANCE IN AN INSURANCE SUBSIDIARY

In March 2004, the International Accounting Standards Board published an International Accounting Standard regarding "Insurance Contracts" ("IFRS 4"). The directives of this Standard prescribe that the provision for extraordinary risks does not comply with the Standard's directives and therefore it should be eliminated. Taking this into account and in view of the necessity to classify the reserve for extraordinary risks in life assurance in the financial statements of insurance companies in Israel as shareholders' equity, a Temporary Provision was published in the framework of the States Capital Market Regularization Law (Legislation Amendments to Achieve the Targets of the Budget and Financial Policy for the Year 2007), 2007, which grants a tax exemption with respect to the classification of the reserve for extraordinary risks as shareholders' equity, at the rate of up to 0.17% of the amount at risk that the insurer holds.

In February 2007, the Regulator published a circular whereby commencing from the first quarter of 2007, the provision for the reserve for extraordinary risks in life assurance will be cancelled in the financial statements of insurance companies.

According to the aforementioned circular, the cancellation of the provision will be allocated to the statement of profit and loss as an extraordinary item, net of the effect of income taxes, if any.

At the same time, a capital requirement was defined at the rate of 0.17% of the amount on retention at risk. In addition, it was determined that the minimum capital requirement in respect of the amount at risk will not be deducted from the requirement on the date of transfer.

As at December 31, 2006, the consolidated insurance company in Israel has an extraordinary risks reserve in the amount of about NIS 36 million, which constitutes about 0.17% of the amount at risk on retention.

As a result of the above Regularizations, in the first quarter of the year 2007 the subsidiary reported a profit, net of tax in the amount of about NIS 36 million. The Company recorded a profit, net of tax, after deduction of the minority share in the amount of about NIS 18 million.

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

- a. In January 2007, 5,049,904 options (Series 7) of a subsidiary, Adgar Investments and Development Ltd. (hereunder - Adgar) were realized into 5,049,904 ordinary shares of NIS 1 par value each in consideration for about NIS 25,581 thousand. The remaining 984 options expired.

During the reporting period Adgar issued to institutional entities 6,185,526 ordinary shares of NIS 1 par value each in consideration for about NIS 38,234 thousand (net of issue expenses). As a result of the issue and realization of the options, as mentioned above, the Company's rate of holding in Adgar decreased from 66% to 57%. The capital loss that was recorded as a result of the issue and realization of the options amounted to about NIS 14 million.

NOTES TO THE FINANCIAL STATEMENTS

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

- b. During the reporting period a subsidiary of Agdar acquired an office building in Toronto, Canada, on the area of about 10,000 square meters in consideration for 15.5 million Canadian dollars. 70% of the building is occupied. The anticipated annual leasing fees at full occupancy are about 1.5 million Canadian dollars.

Adgar estimates that an additional investment in the amount of about 1 million Canadian dollars is required for full occupancy of the office building's area.

- c. During the reporting period a subsidiary of Agdar acquired an office building in Toronto, Canada, on the area of about 10,900 square meters and 50% of the construction rights on an adjacent land. The land's total area is about 4.4 dunams and the construction rights cover an area of about 13,500 square meters held for offices and commercial use. About 97% of the building is occupied.

The cost of the acquisition amounts to about 22 million Canadian dollars. The current annual leasing fees amount to about 1.7 million Canadian dollars (including 60 thousand Canadian dollars which is the Company's share in the lease of the parking lot).

- d. During the reporting period Adgar acquired land in central Israel, including an area of 9 dunams and a building used for storage and office premises on an area of 5,000 square meters, in consideration for approximately U.S. \$ 9 million. Adgar is examining the construction of an office building on the acquired premises. The current building rights cover about 20 thousand square meters for lease. Adgar intends to act towards receiving additional building rights.

- e. In March 2007 Adgar issued to Clal Finance Batucha Brokerage Ltd. (hereunder – Clal Finance) NIS 175 million nominal value debentures (Series E), while granting Clal Finance the possibility to distribute the debentures (Series E) to institutional investors. The debentures will be settled in 5 equal annual installments, beginning from March 12, 2011 up to March 12, 2015. The nominal interest is 4.70%, linked to the CPI (the base index is in respect of the month of January 2007), paid once a year. The Company undertook to list the debentures for trade on the stock exchange up to September 15, 2007. In the event that the Company does comply with this requirement, the investors will have the option to demand an early settlement of the debentures (linked to the CPI). Up to the date the debentures were listed for trade, the interest was 5.25%. The net consideration amounted to about NIS 173 million.

After the balance sheet date, in May 2007, Clal Finance received an issue of an additional NIS 75 million nominal value debentures. The consideration for the issues amounted to about NIS 247 million net of issue expenses. On May 29, 2007 Adgar received an approval to list the debentures for trade. The debentures are expected to be traded on the stock exchange beginning from June 5, 2007.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)f. A non-binding letter of Intent with R&SA

On November 27, 2006, pursuant to the approval of the audit committee and Board of Directors of the subsidiary Direct Insurance - Financial Investments Ltd. (hereunder – Direct Insurance) on November 26, 2006, the Company signed a non-binding letter of intent ("the letter of intent") with Royal & Sun Alliance Group Plc ("R&SA") regarding the possibility of establishing a joint venture ("the joint venture") under common control by allocating shares of GDII to R&SA so that following the allocation, Direct Insurance and R&SA will hold GDII's shares in equal parts. According to the letter of intent, the purpose of the joint venture is to market insurance products to individuals under direct sales in Central and Eastern Europe in the countries of the former Soviet Union and in other countries, as determined in the letter of intent.

According to the letter of intent, subject to conducting a due diligence study by R&SA, GDII will allocate R&SA shares that will represent 50% of GDII's share capital following the allocation, at a company value of U.S. \$ 170 million before the investment. In consideration for the share allocation, R&SA shall pay GDII a sum of U.S. \$ 85 million upon conclusion of the transaction and R&SA will undertake to pay GDII an additional sum of U.S. \$ 85 million to be transferred according to a payment schedule, which will be agreed upon by Direct Insurance and R&SA.

Since the signing date and up to the date of this financial statement, the parties are conducting negotiations, including the exchange of advanced draft agreements (to include, among other things, an agreement for purchasing shares and a shareholders' agreement arranging the common control and management rights in GDII, including the Company's right in connection with nominating GDII's CEO and his dismissal). The Investment will be subject to statutory requirements and prerequisites agreed upon between the parties. Direct Insurance will report as soon as a binding agreement will be signed, if it is signed.

According to the letter of intent, the signing of binding agreements by the parties is conditional upon the Company committing not to sell, directly and/or indirectly, the control over the Company for the duration of five years from signing and after said period, in the event of the sale of control over Direct Insurance, R&SA will be granted a first offer right, a tag-along right and, under certain conditions, a first right of refusal, as detailed in the letter of intent. The letter of the intent also stipulates that in the event that R&SA elects not to exercise these rights, then the management rights conferred to each party in the shareholders' agreement will be adjusted to equal the above rights, including Direct Insurance's right to nominate GDII's CEO and to dismiss him. The letter of intent also stipulates that signing binding agreements is conditional upon the holding companies ("the controlling shareholders") undertaking that in the event that the controlling shareholders collectively decide to transfer the control over the company, they will be required to provide R&SA with advance notice. The Company estimates that subject to signing binding agreement by the parties, as mentioned above, and subject to the conclusion of the transaction, it shall derive a capital gain, net of minority's share, of approximately NIS 200 million (about NIS 300 million before minority's share). The capital gain is likely to be spread in accordance with the investment inflow to GDII by R&SA.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7:- OUTSTANDING CLAIMS

On February 27, 2007, a financial claim was filed with the Tel-Aviv-Jaffa District Court against an insurance subsidiary in Israel and other insurance companies alleging that upon the occurrence of an insurance event in the motor casco branch with respect to an auto theft, the policyholder is not reimbursed for the relative premium charged from the policyholder in respect of additional policy coverage. The plaintiff estimates the amount of the class action to be about NIS 6.5 million. The subsidiary submitted its response to the claim on May 20, 2007. According to the subsidiary the request needs to be postponed due to lack of the plaintiff's personal grounds and therefore there are no conditions by law to approve the claim as a class action. In the subsidiary and its legal advisors' opinion, the probability that the defendants arguments will be approved is higher than the probability that the plaintiff's arguments will be approved and therefore no provision for the claim was included in the financial statements.

NOTE 8:- EVENTS AFTER THE BALANCE SHEET DATE

During April 2006, 2,526,666 options (Series 6) that were held by the employees of Adgar were realized into 1,486,068 ordinary shares of NIS 1 par value each in consideration for NIS 1,486 thousand.

As a result of the aforementioned, the Company will record a loss of about NIS 5.7 million in the second quarter.
