Translated from the Hebrew original

ZUR SHAMIR HOLDINGS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2008

UNAUDITED

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The Board of Directors
Zur Shamir Holdings Ltd.

Re: Review of unaudited interim consolidated financial statements for the three months period ended March 31, 2008

At your request, we have reviewed the interim consolidated balance sheet of Zur Shamir Holdings Ltd. as of March 31, 2008 and the related interim consolidated statements of income, changes in equity and cash flows for the three months period then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of 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 financial statements of certain subsidiaries, whose assets constitute approximately 0.6% of total assets included in the interim consolidated balance sheet as of March 31, 2008, and whose revenues constitute approximately 0.7% of total revenues in the interim consolidated statement of income for the three months period then ended.

A review is substantially less in scope than an audit in accordance with generally accepted auditing standards, and accordingly, we do not express an opinion on the interim consolidated financial statements.

Based on our review and the reports of other accountants referred to 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 International Financial Reporting Standard IAS 34, "Interim Financial Reporting", and with the disclosure requirements of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 and with the disclosure requirements of insurance subsidiaries as prescribed by the Supervisor of Insurance Business under the Supervision of Financial Services (Insurance) Law, 1981.

We draw attention to the matter discussed in Note 6 to the financial statements regarding an exposure to the approval of claims as class actions.

We draw attention to the matter discussed in Note 2t to the financial statements regarding a restatement of the financial statements as of March 31, 2008 and for the three months period then ended in order to reflect the correction of an error in respect of a mistaken recognition of investment income in capital reserve from available-for-sale securities of a subsidiary.

This review replaces a former review for that period which was authorized on May 29, 2008.

Tel-Aviv, Israel
August 14, 2008

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

CONSOLIDATED BALANCE SHEETS

	December 31, 2007	March 31, 2007	March 31, 2008	Convenience translation (Note 1g) March 31, 2008
	Audited	Unaudited		Unaudited
	N I S			U.S. $
	(In thousands)			
Cash and cash equivalents	492,648	473,666	373,076	105,003
Accounts receivable	527,583	363,458	459,855	129,427
Receivables from issuance of shares	96,125	-	57,689	16,237
Assets held for sale	133,182	-	-	-
Financial assets	1,254,491	1,532,810	1,268,127	356,917
Investment property	2,667,907	1,950,294	2,723,911	766,651
Fixed assets, net	210,963	198,717	209,827	59,056
Reinsurance assets	169,814	137,183	173,676	48,882
Deferred taxes	55,595	61,849	76,553	21,546
Deferred acquisition costs	128,780	129,619	133,750	37,644
Intangible assets	460,163	205,779	462,575	130,193
Total assets	6,197,251	5,053,375	5,939,039	1,671,556

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

CONSOLIDATED BALANCE SHEETS

	December 31, 2007	March 31, 2007	March 31, 2008	Convenience translation (Note 1g) March 31, 2008
	Audited	Unaudited		Unaudited
	N I S			U.S. $
	(In thousands)			
LIABILITIES:				
Short-term credit and loans	288,581	141,279	199,095	56,036
Accounts payable	332,348	303,641	316,772	89,155
Loans from banks and others	1,575,415	1,025,518	1,450,005	408,107
Company's debentures	363,563	350,446	365,506	102,873
Subsidiary's debentures and convertible debentures	499,539	448,205	550,634	154,977
Subsidiary's subordinated debts	266,824	253,989	269,305	75,797
Stock options and proceeds in respect of stock options	-	1,096	-	-
Liability to cover associate's losses	-	5,075	-	-
Liabilities for participating contracts	224,559	171,471	241,544	67,983
Liabilities for non-participating insurance and investment contracts	1,380,222	1,373,093	1,419,687	399,574
Employee benefits liabilities, net	5,648	4,866	6,032	1,698
Deferred taxes	135,464	98,671	139,272	39,198
	5,072,163	4,177,350	4,957,852	1,395,398
EQUITY:				
Share capital	213,993	213,489	213,993	60,229
Proceeds on account of capital	916	-	916	258
Capital reserves	*) 36,127	*) 30,982	*) (4,816)	*) (1,355)
Retained earnings	*) 345,258	*) 186,638	*) 302,318	*) 85,088
	596,294	431,109	512,411	144,220
Less - treasury shares	(61,174)	(61,174)	(61,174)	(17,218)
	535,120	369,935	451,237	127,002
Minority interests	589,968	506,090	529,950	149,156
Total equity	1,125,088	876,025	981,187	276,158
Total liabilities and equity	6,197,251	5,053,375	5,939,039	1,671,556

*) Restated, see Note 2t.

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

August 14, 2008			
Date of approval of the financial statements	Shalom Schneidman Chairman of the Board	Moshe (Muki) Schneidman Member of the Board and Managing Director	Ronen Nakar Deputy Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31, 2007	Three months ended March 31, 2007	Three months ended March 31, 2008	Convenience translation (Note 1g) Three months ended March 31, 2008
	Audited	Unaudited		Unaudited
	N I S			U.S. $
	(In thousands, except share amounts)			
Premium earned under retention	998,945	233,854	235,882	66,390
Revenues from rental of properties	145,392	31,958	43,004	12,104
Appreciation of investment property	97,008	-	-	-
Net gains on investments and other financial income	*) 109,169	*) 38,280	*) 3,551	*) 999
Revenues from management fees	46,544	8,695	24,683	6,947
Revenues from consumer credit	4,528	112	4,053	1,141
Revenues from commissions	16,755	4,021	4,696	1,322
Other income	384,813	5	1,563	440
Total revenues	1,803,154	316,925	317,432	89,343
Payments and changes in insurance liabilities under retention	699,522	150,243	177,534	49,967
Commissions and other acquisition costs	293,507	53,318	66,553	18,731
General and administrative expenses	288,501	60,939	71,922	20,243
Other expenses	38,833	11,349	128	36
Financial expenses	146,158	25,927	58,073	16,346
Total expenses	766,999	151,533	196,676	55,356
Group's share in earnings (losses) of associates	747	33	-	-
Income (loss) before tax	337,380	15,182	(56,778)	(15,980)
Taxes on income	*) 62,756	*) 17,959	*) 2,308	*) 650
Net income (loss) for the period	274,624	(2,777)	(59,086)	(16,630)
Attributable to:				
Equity holders of the Company	*) 146,046	*) (12,574)	*) (42,940)	*) (12,086)
Minority interests	*) 128,578	*) 9,797	*) (16,146)	*) (4,544)
	274,624	(2,777)	(59,086)	(16,630)
Net earnings (loss) per share attributable to equity holders of the Company:				
Basic	*) 2.33	*) (0.20)	*) (0.68)	*) (0.19)
Diluted	*) 2.21	*) (0.20)	*) (0.68)	*) (0.19)
Number of shares used in computing earnings (loss) per share (in thousands):				
Basic	62,607	62,375	62,878	62,878
Diluted	62,845	62,375	62,878	62,878

*) Restated, see Note 2t.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Proceeds on account of capital	Retained earnings	Other capital reserves	Treasury shares	Total	Minority interests	Total equity
	NIS (In thousands)								
Balance at January 1, 2008 (audited)	213,993	34,887	916	*) 345,258	*) 1,240	(61,174)	535,120	589,968	1,125,088
Loss on available-for-sale financial assets, net (net of the tax effect)	-	-	-	-	*) (4,251)	-	(4,251)	*) (3,028)	(7,279)
Foreign currency translation adjustments for foreign operations	-	-	-	-	(37,665)	-	(37,665)	(25,097)	(62,762)
Capital reserve from controlling shareholders	-	-	-	-	973	-	973	475	1,448
Total expenses taken directly to equity	-	-	-	-	(40,943)	-	(40,943)	(27,650)	(68,593)
Loss for the period	-	-	-	*) (42,940)	-	-	(42,940)	*) (16,146)	(59,086)
Total expenses	-	-	-	(42,940)	(40,943)	-	(83,883)	(43,796)	(127,679)
Purchase of shares from minority	-	-	-	-	-	-	-	(1,162)	(1,162)
Cost of share-based payment	-	-	-	-	-	-	-	776	776
Dividend paid to minority	-	-	-	-	-	-	-	(15,836)	(15,836)
Balance at March 31, 2008 (unaudited)	213,993	34,887	916	302,318	(39,703)	(61,174)	451,237	529,950	981,187
	Convenience translation into U.S. $ (Note 1g) (In thousands)								
Balance at January 1, 2008 (audited)	60,229	9,820	258	*) 97,174	*) 349	(17,218)	150,612	166,048	316,660
Loss on available-for-sale financial assets, net (net of the tax effect)	-	-	-	-	*) (1,197)	-	(1,197)	*) (852)	(2,049)
Foreign currency translation adjustments for foreign operations	-	-	-	-	(10,601)	-	(10,601)	(7,064)	(17,665)
Capital reserve from controlling shareholders	-	-	-	-	274	-	274	134	408
Total expenses taken directly to equity	-	-	-	-	(11,524)	-	(11,524)	(7,782)	(19,306)
Loss for the period	-	-	-	*) (12,086)	-	-	(12,086)	*) (4,544)	(16,630)
Total expenses	-	-	-	(12,086)	(11,524)	-	(23,610)	(12,326)	(35,936)
Purchase of shares from minority	-	-	-	-	-	-	-	(327)	(327)
Cost of share-based payment	-	-	-	-	-	-	-	218	218
Dividend paid to minority	-	-	-	-	-	-	-	(4,457)	(4,457)
Balance at March 31, 2008 (unaudited)	60,229	9,820	258	85,088	(11,175)	(17,218)	127,002	149,156	276,158

*) Restated, see Note 2t.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Retained earnings	Other capital reserves	Treasury shares	Total	Minority interests	Total equity
	NIS (In thousands)							
Balance at January 1, 2007 (audited)	213,489	34,887	*) 199,212	*) (264)	(61,174)	386,150	421,409	807,559
Gain on available-for-sale financial assets, net (net of the tax effect)	-	-	-	*) (378)	-	(378)	*) (203)	(581)
Foreign currency translation adjustments for foreign operations	-	-	-	(3,394)	-	(3,394)	(2,982)	(6,376)
Total expenses taken directly to equity	-	-	-	(3,772)	-	(3,772)	(3,185)	(6,957)
Net income (loss) for the period	-	-	*) (12,574)	-	-	(12,574)	*) 9,797	(2,777)
Total income (expenses)	-	-	(12,574)	(3,772)	-	(16,346)	6,612	(9,734)
Issuance of shares (net of issuance expenses)	-	-	-	-	-	-	82,086	82,086
Conversion of options into equity options	-	-	-	-	-	-	3,955	3,955
Cost of share-based payment	-	-	-	51	-	51	2,882	2,933
Tax benefit in respect of equity instruments	-	-	-	80	-	80	106	186
Purchase of rights from minority	-	-	-	-	-	-	(608)	(608)
Dividend paid to minority	-	-	-	-	-	-	(10,352)	(10,352)
Balance at March 31, 2007 (unaudited)	213,489	34,887	186,638	(3,905)	(61,174)	369,935	506,090	876,025

*) Restated, see Note 2t.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Proceeds on account of capital	Retained earnings	Other capital reserves	Treasury shares	Total	Minority interests	Total equity
	N I S (In thousands)								
Balance at January 1, 2007 (audited)	213,489	34,887	-	*) 199,212	*) (264)	(61,174)	386,150	421,409	807,559
Loss on available-for-sale financial assets, net (net of the tax effect)	-	-	-	-	*) (6,579)	-	(6,579)	*) (6,236)	(12,815)
Foreign currency translation adjustments for foreign operations	-	-	-	-	7,738	-	7,738	5,570	13,308
Total income (expenses) taken directly to equity	-	-	-	-	1,159	-	1,159	(666)	493
Net income for the period	-	-	-	*) 146,046	-	-	146,046	*) 128,578	274,624
Total income	-	-	-	146,046	1,159	-	147,205	127,912	275,117
Conversion of options into equity options	-	-	916	-	-	-	916	-	916
Issuance of shares (net of issuance expenses)	504	-	-	-	-	-	504	93,988	94,492
Cost of share-based payment	-	-	-	-	145	-	145	4,102	4,247
Tax benefit in respect of equity instruments to employees	-	-	-	-	200	-	200	6,479	6,679
Purchase of rights from minority	-	-	-	-	-	-	-	(46,778)	(46,778)
Deconsolidation	-	-	-	-	-	-	-	(322)	(322)
Dividend paid to minority	-	-	-	-	-	-	-	(16,822)	(16,822)
Balance at December 31, 2007 (audited)	213,993	34,887	916	345,258	1,240	(61,174)	535,120	589,968	1,125,088

*) Restated, see Note 2t.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2007	Three months ended March 31, 2007	Three months ended March 31, 2008	Convenience translation (Note 1g) Three months ended March 31, 2008
	Audited	Unaudited	Unaudited	Unaudited
	N I S			U.S. $
	(In thousands)			
Cash flows from operating activities:				
Net income (loss)	*) 274,624	*) (2,777)	*) (59,086)	*) (16,630)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities (a)	*) (92,835)	*) 59,726	*) 41,190	*) 11,593
Net cash provided by (used in) operating activities	181,789	56,949	(17,896)	(5,037)
Cash flows from investing activities:				
Purchase of subsidiaries' shares from minority shareholders	(60,613)	(1,177)	(2,911)	(819)
Purchase (withdrawal) of deposit	(23,593)	-	5,105	1,437
Purchase of assets and investment property	(921,591)	(191,980)	(151,110)	(42,530)
Proceeds from issue of shares in subsidiary	256,183	-	30,288	8,525
Proceeds from sale of fixed assets and investment property	776	409	124,951	35,168
Long-term loans granted, net	30	17	3,046	857
Purchase of intangible assets	(284,845)	(842)	(10,621)	(2,989)
Proceeds from realization of held-to-maturity debentures	6,004	6,004	-	-
Deconsolidation of previously consolidated company (b)	2,923	-	-	-
Acquisition of initially consolidated company (c)	1,345	-	-	-
Deconsolidation of previously consolidated company currently consolidated by the proportionate consolidation (d)	(49,383)	-	-	-
Net cash used in investing activities	(1,072,764)	(187,569)	(1,252)	(351)
Cash flows from financing activities:				
Issue of shares and options to minority in subsidiary	68,420	64,324	-	-
Issue of subsidiary's debentures	207,860	172,253	49,118	13,824
Exercise of stock options into shares	504	-	-	-
Increase (decrease) in short-term credit from banks, net	206,230	123,371	(84,765)	(23,857)
Receipt (repayment) of long-term loans from banks and others	678,710	13,750	(68,170)	(19,187)
Dividends paid to minority in subsidiaries	(16,822)	(10,352)	(14,734)	(4,147)
Net cash provided by (used in) financing activities	1,144,902	363,346	(118,551)	(33,367)
Translation differences for cash balances in foreign autonomous subsidiaries	(2,692)	(473)	18,127	5,102
Increase (decrease) in cash and cash equivalents	251,235	232,253	(119,572)	(33,653)
Cash and cash equivalents at beginning of period	241,413	241,413	492,648	138,656
Cash and cash equivalents at end of period	492,648	473,666	373,076	105,003

*) Restated, see Note 2t.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2007	Three months ended March 31, 2007	Three months ended March 31, 2008	Convenience translation (Note 1g) Three months ended March 31, 2008
	Audited	Unaudited		Unaudited
	N I S (In thousands)			U.S. $
(a) Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Realization of investments (investments), net:				
Change in financial investments in participating contracts	(68,066)	(19,697)	(13,858)	(3,900)
Change in other financial investments	*) 280,809	*) 33,366	*) (16,953)	*) (4,771)
Income and expenses not involving cash flows:				
Depreciation and amortization	58,021	13,049	15,913	4,479
Loss from sale of intangible assets	1,079	-	-	-
Gain (loss) from sale of fixed assets	442	(12)	(222)	(62)
Capital gain from issue to minority	15,880	11,235	-	-
Cost of share-based payment	7,191	1,663	775	218
Change in financial derivatives, net	(19,527)	(242)	3,618	1,018
Company's share in losses (earnings) of associates	(747)	(33)	-	-
Interest and erosion of long-term loans and liabilities, net	30,307	6,794	7,518	2,116
Increase in deferred acquisition costs	(21,408)	(4,550)	(4,605)	(1,296)
Appreciation of investment property	(93,105)	-	-	-
Revaluation of stock options	90	270	-	-
Deferred taxes, net	*) 41,707	*) 3,257	*) (2,774)	*) (781)
Capital gain	(377,225)	-	-	-
Erosion (increase in value) of loans granted	17	(100)	(178)	(50)
Changes in other balance sheets items, net:				
Increase in liabilities for non-participating insurance contracts	90,480	30,832	32,492	9,145
Increase in liabilities for participating contracts	71,402	18,314	16,985	4,780
Decrease (increase) in reinsurance assets	21,251	(17,072)	(796)	(224)
Employee benefits liabilities, net	609	(150)	1,133	319
Decrease (increase) in accounts receivable	(202,516)	(25,704)	4,999	1,407
Increase (decrease) in accounts payable	70,474	8,506	(2,857)	(805)
Total cash flows from operating activities	(92,835)	59,726	41,190	11,593

*) Restated, see Note 2t.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2007	Three months ended March 31, 2007	Three months ended March 31, 2008	Convenience translation (Note 1g) Three months ended March 31, 2008
	Audited	Unaudited		Unaudited
	N I S			U.S. $
	(In thousands)			
(b) Deconsolidation of previously consolidated company:				
Minority interests	(1,431)	-	-	-
Working capital (excluding cash and cash equivalents)	(12,747)	-	-	-
Fixed assets, net	19,864	-	-	-
Deferred taxes	(1,440)	-	-	-
Long-term liabilities	(1,323)	-	-	-
	2,923	-	-	-
(c) Acquisition of initially consolidated company:				
Working capital (excluding cash and cash equivalents)	1,095	-	-	-
Fixed assets, net	(257)	-	-	-
Long-term liabilities	507	-	-	-
	1,345	-	-	-
(d) Deconsolidation of previously consolidated company currently consolidated by the proportionate consolidation:				
Working capital (excluding cash and cash equivalents)	(9,596)	-	-	-
Fixed assets, net	1574	-	-	-
Premium receivable	32,147	-	-	-
Deferred acquisition costs	20,817	-	-	-
Insurance reserves less reinsurance	(52,379)	-	-	-
Outstanding claims less reinsurance	(52,444)	-	-	-
Insurance companies	74	-	-	-
Deferred taxes	10,424	-	-	-
	(49,383)	-	-	-
(e) Additional cash flow information:				
Cash paid during the period for:				
Interest	63,749	6,787	35,610	10,023
Dividends	16,822	-	14,734	4,147
Taxes on income	57,386	11,820	7,422	2,089
Cash received during the period for:				
Interest	80,749	19,372	18,012	5,070
Dividends	3,485	867	564	159

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

NOTE 1:- GENERAL

a. The Company and its investees operate in several principal businesses: rental of properties, insurance and finance, see Note 4 below.

The Company's shares are listed for trade on the Tel-Aviv Stock Exchange.

b. In May 2008, the Company received a permit for a shelf prospectus on the basis of the Company's financial statements as of December 31, 2007. According to the shelf prospectus, the Company may offer to the public the Company's securities (shares, debentures, convertible debentures, share options, bond options). The shelf prospectus does not include an offer to the public or fixing the scope and terms of issuances effected thereunder, if at all.

c. Definitions:

In these financial statements:

The Company - Zur Shamir Holdings Ltd. and its subsidiaries which are real estate companies.

The Group - The Company and its investees.

Subsidiaries - companies that are not real estate companies over which the Company exercises control (as defined in Opinion 57 of the Institute of Certified Public Accountants in Israel) and whose accounts are consolidated with those of the Company.

Jointly controlled entities - companies owned by various entities that have a contractual arrangement for joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation method.

Associates - companies that are not subsidiaries and over which the Company has significant influence. The Company's investment therein is included at equity.

Investees - subsidiaries, jointly controlled entities or associates.

Other companies - companies that are not investees and the investment therein is presented at cost.

Interested parties - as defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

Related parties - as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel.

Controlling shareholders - as defined in the Israeli Securities Regulations (Presentation in the Financial Statements of Transactions between an Entity and its Controlling Shareholder), 1996.

NOTE 1:- GENERAL (Cont.)

Israeli CPI	-	the Consumer Price Index as published by the Central Bureau of Statistics.
The Supervisor	-	Supervisor of Insurance Business.
The Supervision of Insurance Law	-	The Supervision of Financial Services (Insurance) Law, 1981.
Capital Regulations	-	Supervision of Insurance Business (Capital Adequacy Requirement from an Insurer) Regulations, 1998, as amended.
Details of Account Regulations	-	Supervision of Insurance Business (Details of Account) Regulations, 1998, as amended.

d. Initial adoption of IFRS:

These financial statements have been prepared for the first time in accordance with International Financial Reporting Standards ("IFRS") in a condensed format as of March 31, 2008 and for the three months period then ended ("interim consolidated financial statements"). With respect to certain notes, such as disclosures regarding commitments, liabilities, contingent liabilities and such, the interim consolidated financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2007, and for the year then ended, which are the last annual financial statements prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP").

The IFRS on the basis of which the accounting policies were determined in the interim consolidated financial statements are the same IFRS that will be in effect or that may be adopted early in the first annual financial statements prepared in accordance with IFRS as of December 31, 2008 and for the year then ended, and are therefore subject to the relevant changes and their effective adoption in the annual financial statements. Accordingly, the accounting policies adopted in the annual financial statements, as far as they are relevant to these interim financial statements, will be definitively determined upon the preparation of the annual financial statements.

The Company first adopted IFRS in 2008 and accordingly, the date of transition to reporting pursuant to IFRS is January 1, 2007. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Israeli GAAP. The Company's last annual financial statements prepared in accordance with Israeli GAAP were as of December 31, 2007 and for the year then ended.

See Note 9 for the reconciliation between reporting pursuant to Israeli GAAP and reporting pursuant to IFRS.

NOTE 1:- GENERAL (Cont.)

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

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in International Financial Reporting Standard IAS 34, "Interim Financial Reporting" and in accordance with the disclosure requirements of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 and in accordance with the disclosure requirements prescribed under the Supervision of Financial Services (Insurance) Law, 1981 and the regulations published thereunder.

f. The current reporting structure and definitions:

The consolidated balance sheets, which mainly includes the assets and liabilities of insurance subsidiaries are presented by order of liquidity without separating between current and non-current assets and liabilities. This presentation provides more reliable and relevant information and is in accordance with IAS 1, "Presentation of Financial Statements" and is in accordance with the disclosure requirements of the Supervisor of Insurance.

Further, following the transition to reporting according to IFRS, a number of new definitions were added to the financial statements, as follows:

Insurance contracts - a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Investment contracts - 100% savings policies which are withdrawn as a capital amount without insurance riders.

Participating contracts - insurance contracts and investment contracts in the life insurance branch in which the saving is linked to the return on the investment portfolio (policies participating in yields)

Assets in participating contracts - total outstanding assets embarked to liabilities arising on participating in profits insurance as detailed in details of the consolidated assets and liabilities.

Insurance liabilities - insurance reserves and outstanding claims in life insurance, general insurance and health insurance branches.

Premium - premium, including insurance premium.

Earned premium - premium relating to the reporting period.

g. The financial statements as of March 31, 2008 and for the three months then ended have been translated into dollars using the representative exchange rate as of that date ($ 1 = NIS 3.553). 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 statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

Below are the significant accounting policies followed by the Company in these financial statements upon the first-time adoption of IFRS that were consistently applied in all the presented periods:

a. Consolidation of the financial statements:

The consolidated financial statements include the accounts of companies over which the Company has control (subsidiaries). Control is fulfilled when the Company has the ability, directly or indirectly, to outline the financial and operating policy of the controlled company. When reviewing the control, the effect of the potential voting rights that are exercisable as of balance sheet date, is taken into account. The consolidation of the financial statements commences from the date on which the control begins until the date the control ceases.

Significant intra-Group balances and transactions and gains and losses resulting from transactions among the Group companies are eliminated in full in the consolidated financial statements.

Minority interests represent the portion of net income or loss and net assets (at fair value upon the acquisition of the subsidiaries) not held by the Group and are presented separately in equity.

Acquisitions of minority interests are recognized as goodwill which is computed as the difference between the consideration paid and the amount of the acquired share of the minority interests at the date of acquisition.

The consolidated financial statements include the financial statements of a company under common control in which the shareholders have a contractual agreement for joint control and which is consolidated with the Company's accounts using the proportionate consolidation. The Company consolidates in the consolidated financial statements its share of the assets, liabilities, revenues and expenses of the company under common control with the appropriate financial statement items.

Significant intra-Group balances and transactions and gains and losses resulting from transactions among the Group and the company under common control are eliminated to the extent of the interest in the company under common control.

A subsidiary of the Company manages provident funds. The subsidiary does not have ownership over the assets and liabilities of the provident funds and, accordingly, the activities, assets and liabilities of these provident funds are not included in the consolidated financial statements.

The financial statements of the Company and of the subsidiaries are prepared for the same dates and periods. The accounting policy in the financial statements of the subsidiaries was applied consistently and uniformly with the policy applied in the financial statements of the Company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Functional and foreign currencies:

1. Functional and presentation currencies:

The financial statements are presented in New Israeli Shekels ("NIS"), which is the Company's functional currency.

The functional currency, which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Group member, including an associate that is presented at equity, and is used to measure its financial position and operating results. When the Group member's functional currency differs from the presentation currency, that company represents a foreign operation whose financial statements are translated in order to be included in the consolidated financial statements as follows:

a) Assets and liabilities for each balance sheet presented (including comparatives) are translated at the closing rate at the date of that balance sheet. Goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operations and are translated at the closing rate at the date of that balance sheet.

b) Income and expenses for each statement of income (including comparatives) are translated at average rate for the presented periods; However, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates at the dates of the transactions.

c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing as of the date of incurrence.

d) Retained earnings are translated based on the opening balance at the exchange rate as of that date and other relevant transactions during the period are translated as described in b) and c) above.

e) All translation differences are recorded as a separate item in equity in a capital reserve, "foreign currency translation adjustments".

Intra-Group loans which are neither intended to be settled nor expected to be repaid in the foreseeable future represent, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment and the exchange differences in respect of these loans are recognized in the same component of equity, as discussed in e) above.

Exchange differences in respect of a loan in foreign currency that hedges the net investment in a foreign operation are recorded net of the tax effect in the same component of equity, as stated in e) above. Upon disposal of the net investment, these translation differences are carried to financial expenses or income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Foreign currency transactions:

Transactions in foreign currency are initially recorded at the exchange rate on the date of transaction. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the exchange rate prevailing at balance sheet date. Exchange differences are carried to the statement of income. Non-monetary assets and liabilities are translated into the functional currency at the exchange rate prevailing on the date of the transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

c. Use of estimates:

The preparation of financial statements in conformity with the Supervision Law and the regulations published thereunder and in conformity with generally accepted accounting principles requires management to make estimates, including actuarial assumptions and estimates, and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the amounts of revenues and expenses during the reported year. Actual results could differ from those estimates. The principal estimates included in the financial statements are based on actuarial valuations and depend on external valuations.

d. Insurance contracts in subsidiaries:

IFRS 4 which deals with insurance contracts, allows an insurer to continue to apply its accounting policy regarding insurance contracts by exempting an insurer from applying IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors" ("IAS 8") when determining its accounting policies regarding insurance contracts, except five exemptions. IAS 8 determines, among others, the criteria to develop an accounting policy if no IFRS applies specifically for a transaction or an event.

Accordingly, the significant accounting policies and the methods of computation in connection with the insurance activity in life insurance and in general insurance applied in the interim financial statements prepared according to IFRS are identical to those applied in the preparation of the last annual financial statements, as follows:

1. Life insurance:

a) Revenue recognition, see q below.

b) Life insurance reserves:

Insurance reserves are computed in accordance with the Supervisor's directives (regulations and circulars), standard accounting principles and actuarial methods. The reserves are computed in accordance with the relevant data of the coverage such as: the policyholder's age, the period of coverage, type of insurance, the amount of insurance and etc. Life insurance reserves and reinsurers share therein are determined on the basis of annual actuarial valuation performed by the responsible actuaries in the subsidiaries.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c) The Supervisor's directives regarding payment of annuities:

In February 2007, the Supervisor published a circular regarding the computation of annuities in life insurance policies and determined updated provisions as to the computation of the reserves due to the improvements in life expectancy which require to monitor the adequacy of the reserves for insurance policies that allow to receive annuities and their proper supplement.

Accordingly, the Company immediately supplements the reserve as far as required for policies with paid annuities where the policyholder reached retirement age. As for other policies, where profitability is expected, the reserve is supplemented while matching to the expected earnings during the period of the policy.

d) Reserve for extraordinary risks:

The financial statements up to December 31, 2006 according to Israeli GAAP included a reserve for extraordinary risk in life insurance. This reserve was eliminated in the financial statements according to Israeli GAAP for 2007 and recorded in these financial statements as an extraordinary item in the statement of income. This reserve does not comply with the provisions of IFRS 4 and, therefore, according to IFRS, this reserve was transferred to retained earnings as of January 1, 2007.

e) Deferred acquisition costs:

Deferred acquisition costs (DAC) include expenses relating to writing new policies, including selling, general and administrative expenses. Deferred acquisition costs are amortized in equal portions over the policy period but not over 15 years. Deferred acquisition costs in respect of cancelled policies are written-off at date of cancellation. The Company is examining the remaining deferred acquisition costs in relation to expected earnings in the future.

f) Outstanding claims:

Outstanding claims less reinsurers' share therein are computed on a specific manner in accordance with the estimate of the Company's experts on the basis of notices of insurance occurrences and insured amounts.

The provisions for long tail claims in insurance payment for disability, the direct and indirect expenses deriving therefrom and the provision for claims incurred but not reported (IBNR) are included in insurance reserves.

g) Investment contracts:

Receipts in respect of investment contracts are not recorded under premiums earned but allocated directly to liabilities for insurance and investment contracts. Surrenders and end of period in respect of these contracts are not recorded in the statement of income but deducted directly from liabilities for insurance and investment contracts. Investment income, management fees collected from the insurers, change in reserve from insurers' share in investment income, commissions to agents and general and administrative expenses in respect of these contracts are recorded in the statement of income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h) Provision for participation in profits of insurers in group insurance:

The provision is included in the item accounts payable. Also, the change in the provision was set-off from premium earned.

2. General insurance:

a) Revenue recognition, see q below.

b) Payment and change in insurance liabilities with total retention include, among others, settlement and direct handling costs of claims paid and outstanding that occurred during the reported period as well as an adjustment of the provision for outstanding claims and the respective direct handling costs recorded in previous years.

c) Provision for indirect expenses to settle outstanding claims:

The provisions for outstanding claims include provisions for indirect expenses to settle outstanding claims.

d) Insurance liabilities and deferred acquisition costs (see also e to g below):

The reserve for unexpired risks and the outstanding claims, included in the item insurance liability and the share of reinsurers in the reserve and in outstanding claims included in the item reinsurance assets and deferred acquisition costs in general insurance are computed in accordance with the Supervision of Insurance Business (Mode of Calculating Provisions for Future Claims in General Insurance) Regulations, 1984, as amended, the Supervisor's directives in this respect and standard actuarial methods for computing outstanding claims according to the actuaries' discretion.

The insurance liabilities were computed by the responsible actuaries.

e) Reserve for unexpired risks included in the item insurance liabilities is composed as follows:

1) The unearned premium reserve is not computed in accordance with actuary model and is not dependent on any assumptions.

This reserve represents the insurance premium in respect of the insurance period after the balance sheet date and is computed on a daily basis.

2) The reserve includes, where necessary, provisions for premiums which do not cover the cost of anticipated claims ("premium deficiency") in auto, property and residential branches which are computed according to an actuarial valuation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f) Outstanding claims:

1) Gross outstanding claims and the reinsurers' share in Israel:

Outstanding claims were mainly computed according to actuarial valuations. In a branch where the actuary determined that an actuarial model cannot be applied due to lack of statistical data, the computations of outstanding claims were made specifically for each claim. In addition, outstanding claims include a provision for excess revenues over expenses accumulated, in accordance with the Supervision of Insurance Business (Mode of Calculating Provisions for Future Claims in General Insurance) Regulations, 1984.

As for branches with long tail (branches where the time required to give the notice on the event occurred and/or determine the damage and the respective compensation is long and may take several years) such as liability and auto act branches, the excess of revenues over expenses is computed on a cumulative three-year basis.

The excess is composed of insurance premium, acquisition costs, claims plus real return of 3% per year, less reinsurers share for each branch and underwriting year. The cumulative excess is included until the end of the third year from the date of inception of the policy less reserve for unexpired risks and less outstanding claims computed as above ("the accumulation") in outstanding claims and the deficit is recorded as an expense.

Until December 31, 2006, actual investments income was recorded in the accumulation in liability branch not below a compounded real level of return of 3% per year, in accordance with the directive of the insurance circular 2008-1-1. As a result of the change in the principles relating to recognition of investment income pursuant to IFRS, it is determined that investment income recorded in the accumulation will present a fixed real level of 3% per year regardless of the yield on investments that was actually achieved. As of January 1, 2007, the change had no material effect.

2) Gross outstanding claims and reinsurers share in Poland:

The outstanding claims in the auto branch in Poland, are computed according to actuarial models determined by the insurance subsidiary's actuary in Poland. The actuarial computation is done consistently with the previous years. In the residential branch, where there is no statistical data, estimates are made specifically for each claim.

3) Gross outstanding claims and reinsurers share in Russia and Czech:

Due to lack of statistical data, the computations of outstanding claims in the insurance branch in Russia and Czech are made specifically for each claim.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4) Subrogation receivable from insurance companies in respect of claims the subsidiaries have paid to their policyholders are recorded under the item insurance companies in debt. Subrogation recorded by the Company in respect of outstanding claims are reported net of outstanding claims.

The subsidiaries have set up an adequate provision in respect of the above mentioned subrogation, computed according to an actuarial estimate based on past experience in collection of subrogation. In non-statistical branches the subrogation is taken into account when estimating the general risk specifically for each claim.

g) Deferred acquisition costs:

Deferred acquisition costs include a portion of general and administrative expenses regarding the issuance of policies relating to retained unearned insurance premium under retention. The acquisition costs are computed for each branch separately according to the lower of the actual rates and the standard rates determined by the Regulations as a percent of the unearned premium.

h) Business received from the Israeli pool of auto insurance of the Israeli Insurance Companies Union ("the pool"), is reported according to the accounts received up to the balance sheet date with the addition of the relevant provisions, based on the rate of participation of the subsidiary in them.

3. Health insurance:

a) Revenue recognition, see q below.

b) Health insurance reserves:

Insurance reserves are computed in accordance with the Supervisor's directives (regulations and circulars), standard accounting principles and actuarial methods. The reserves are computed in accordance with the relevant data of the coverage such as: the policyholder's age, the period of coverage, type of insurance, the amount of insurance and etc.

Health insurance reserves and reinsurers share therein are determined on the basis of an annual actuarial valuation performed by the responsible actuary in the subsidiary.

c) Outstanding claims:

The provisions for long tail claims in payment for hospitalization insurance, the direct and indirect expenses deriving therefrom and the provision for claims incurred but not reported (IBNR) are included in insurance reserves.

d) The reserve for unexpired risks, presented in the item insurance liability, includes, where necessary, provision for premiums which do not cover the cost of anticipated claims ("premium deficiency"), which is computed according to an actuarial valuation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e) Deferred acquisition costs:

1) Deferred acquisition costs in health insurance include a portion of general and administrative expenses regarding the issuance of policies relating to retained unearned insurance premium.

2) Deferred acquisition costs in health and hospitalization insurance branch include also medical exams, underwriting, marketing and general and administrative expenses. The deferred acquisition costs are amortized on a straight line basis over the term of the policy, however, in policies where the insured period is longer than six years, the acquisition costs may be amortized over six years. Deferred acquisition costs relating to cancelled policies are eliminated at the date of cancellation.

e. Allowance for doubtful accounts:

1. In respect of outstanding premiums, loans and other debts:

The allowance is computed in a specific manner for those debts whose collection, in the opinion of management, is doubtful.

2. In respect of reinsurers debts:

The subsidiaries provide for doubtful accounts in respect of reinsurers' debts whose collection on the basis of a risk assessment of specific debts is doubtful.

In addition, in determining the reinsurers' share of outstanding claims and insurance reserves, the possibility of collecting from the reinsurer, among others, is also taken into consideration by the subsidiaries. When the reinsurer's share is computed on an actuarial basis, the share of reinsurers in financial difficulty is computed as per the actuary's recommendation, which takes into consideration the general risk factor. When the reinsurers meet difficulties, they may raise different arguments regarding the recognition of a debt. In these cases, the Company and the subsidiaries take into consideration when making the allowances the willingness of the reinsurers to reach cut-off agreements.

f. Financial instruments:

1. Non-derivatives financial instruments include investments in shares and debt instruments, trade and other receivables, cash and cash equivalents, loans and borrowings received and trade and other payables.

Derivative financial assets include financial instruments as hedges for currency risks and Israeli CPI risks, forward contracts in respect of foreign currency and interest rate swaps (IRS) to hedge risks associated with interest rate and fluctuations in the exchange rates of foreign currency.

Cash equivalents are considered as highly liquid investments, including unrestricted short-term deposits in banks and financial institutions purchased with original maturities of three months or less.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A financial asset in the scope of IAS 39 is recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights of the Group to the cash flows from the financial asset expire or when the Group transfers the financial asset to others without retaining control of the asset or substantially transfers all the risks and rewards incidental to the asset. A regular way purchase or sale of financial assets are recognized at the trade date, i.e. at the date that the Group commits itself to purchase or sell an asset. Financial liabilities are derecognized when the obligation of the Group specified in the contract is discharged or cancelled or expires.

2. Classification of financial assets:

After initial measurement, the accounting treatment is based on the classification of the investments in financial assets into the following four categories:

- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Loans and receivables; and
- Available-for-sale financial assets.

a) Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term, if they form part of a portfolio of identified financial instruments that are managed together to earn short-term profits or if they are a derivative not held for hedging purposes. Gains or losses on investments held for trading are recognized in the statement of income upon incurrence.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. In the event of a financial instrument that contains one or more embedded derivatives, the entire combined instrument shall be designated upon initial recognition as a financial asset at fair value through profit or loss.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Held-to-maturity investments:

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method while taking into account transactions costs. Gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the systematic amortization process.

c) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortized cost using the effective interest method while taking into account transactions costs and less any allowance for impairment. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process.

d) Available-for-sale financial assets:

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding three categories. After initial measurement, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments are recognized directly in equity in the net unrealized gains reserve, excluding interest, dividends and exchange differences on financial debt instruments that are carried to statement of income as financing. When the investment is disposed of or in case of impairment, the cumulative gain or loss previously recorded in equity is recognized in the statement of income. Interest earned or paid on the investments is reported in statement of income using the effective interest method. Dividends earned on investments are recognized in the statement of income when the right to receive payment is established.

3. Interest-bearing loans and borrowings:

Interest-bearing loans and borrowings are initially recognized at fair value less directly attributable transaction costs (such as costs relating to raising a loan). After initial recognition, interest-bearing loans and borrowings are measured at amortized cost using the effective interest method (which also takes into account directly attributable transaction costs).

Interest, dividends, gains and losses are recognized in the statement of income when the liability is derecognized, as well as through the systematic amortization process.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Indexed-linked assets and liabilities not measured at fair value:

The Company has balances of indexed-linked financial instruments. According to the position published by the Accounting Standards Board, there are several alternatives dealing with the accounting treatment of indexed-linked financial instruments. In the preparation of these financial statements, the Company adopted an accounting treatment according to which the carrying amount of the instrument and the resulting payments are revalued at each period in accordance with the actual level of increase in the Israeli CPI. The issue of the measurement of indexed-linked financial instruments pursuant to IFRS is under examination and in this framework the professional committee of the Israeli Accounting Standards Board will address the IFRIC to receive its position in the accounting treatment of indexed-linked assets and liabilities pursuant to IFRS.

In view of the aforementioned, it may be that said accounting treatment is not possible pursuant to IFRS and that another accounting treatment according to which the inflation forecasts shall be taken into account in computing the financial instrument will be more appropriate (for this purpose, see AG7 and AG8 to IAS 39). If indeed it is so determined, the Company will have to examine the implication of said decision, including the transitional provisions, if and as far as applicable to its financial statements and accompanying notes, as published and will be published until a decision in this issue is given pursuant to IFRS.

5. Designation of financial assets:

The Group has taken decisions to designate assets as follows:

Assets included in the investment portfolio of with-profit policies:

These assets comprise traded financial instruments and non-traded financial instruments financial which were designated to the category of fair value through profit or loss due the following reasons: these are managed, separate and identified portfolios whose presentation at fair value significantly reduces the effect of any mismatch in the measurement of financial assets and financial liabilities. Also, the portfolios are managed at fair value and the portfolio's performances are measured at fair value based on a documented strategy of risk management and the information about the financial instruments is reported to the management (the relevant investments committee) internally based on the fair value.

Non-traded assets that are not included in investment portfolios against with-profit policies (nostro):

These assets comprise unquoted debenture, commercial certificates and loans and receivables were included in the balance sheet as unquoted debt assets.

Unquoted shares are classified as available-for-sale financial assets.

As for derivatives or embedded derivatives, see below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Traded assets that are not included in investment portfolios against with-profit policies (nostro) excluding embedded derivatives or that represent derivatives (including investment funds):

These assets are classified to the category of available-for-sale financial assets.

Derivatives and financial instruments including separated embedded derivatives:

These assets, both quoted and unquoted, were designated to the category of fair value through profit or loss in effect from the date of transition (except derivatives that are designated as effective hedging instruments).

Financial assets and liabilities of certain subordinated deeds:

Financial assets and liabilities, quoted and unquoted, relating to subordinated deeds included in a portfolio which is measured in its entirety by the Company at fair value, are presented at fair value.

6. Determining the fair value:

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted prices on balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. The fair value of non-traded debentures, loans and deposits is computed on the basis of discounted cash flow analysis and the discount rates are determined by a company that provides interest quotations in relation to the different risk grading.

7. Issuance of a unit of securities:

The issuance of a unit of securities involves the allocation of the proceeds received (before issuance expenses) to the components of the securities in the unit based on the following priority: fair value is initially determined for financial derivatives (such as stock options with an exercise increment in a currency other than the Company's functional currency) and other financial instruments presented at fair value in each period, then the fair value is determined for financial liabilities and compound instruments (such as convertible debentures) that are not presented at fair value in each period but rather at present value when the proceeds allocated in respect of equity instruments are determined as the residual value according to the difference that would be received between the overall proceeds and the relevant proceeds allocated as above. The issuance costs are allocated to each component pro rata to the amounts determined for each component net of income taxes, if any, in respect of equity instruments. After said allocation, each component is accounted for based on its contractual essence (financial liability or equity instrument).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

8. Impairment of financial assets:

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

a) Assets carried at amortized cost:

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the statement of income.

b) Available-for-sale assets:

If there is objective evidence that an impairment loss has been incurred, the loss amount is measured as the difference between the cost (net of principal payment and amortization) and fair value, less impairment loss previously recognized in the statement of income. This loss is carried from equity to the statement of income. Reversal of loss from impairment is not carried to the statement of income. Reversal of impairment loss for debt instruments is carried to the statement of income, if the increase in the fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

g. Business combinations and goodwill:

Business combinations are accounted for by applying the purchase method pursuant to IFRS 3. This method consists of identifying the assets and liabilities of the acquired business at fair value at the date of acquisition and all the minority interests in the acquiree are presented as the minority interest in the net fair value of these items.

The acquisition of a company involves the provisional attribution of the cost of acquisition to the assets and liabilities acquired in the business combination. The value of the acquired assets and liabilities may be adjusted within 12 months of the acquisition date.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not systematically amortized. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units. As for testing the impairment of goodwill, see k.

Gains or losses from the realization of part of the cash generating unit include the part of goodwill that is measured according to the relative part that was realized out of the cash-generating unit. Upon the realization of subsidiaries, the difference between the consideration and the net assets with the addition of accumulated translation differences and the unamortized goodwill is carried to the statement of income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Acquisition of subsidiaries that are not business combinations:

Pursuant to IFRS 3, upon the acquisition of subsidiaries and operations that do not constitute a business as defined in IFRS 3, the acquisition consideration is only allocated between the acquirer's identifiable assets and liabilities based on their relative fair value on the acquisition date and without attributing any amount to goodwill or to deferred taxes, whereby the minority, if any, participates at its relative share of the fair value of the net identifiable assets on the acquisition date.

Business combinations involving entities under common control:

Entities under common control are outside the scope of IFRS 3, "Business Combinations" and IFRS 3 has not determined the accounting treatment in these type of transactions. According to the provisions of IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors" in the absence of a Standard or an Interpretation that applies to similar issues and when the IASB guidance does not exist, the entity may apply the pronouncements of other standard-setting bodies to the extent that these do not conflict with the conceptual framework of the IASB or IFRS. In view of the above, the Company's management considered the proper accounting in these type of transactions.

According to the above, since the conceptual framework of the FASB is not in conflict with the conceptual framework of the IASB, the Company determined that the accounting treatment of business combinations involving entities under common control will be in accordance with the provisions of FAS 141 which prescribes that transactions between entities under common control will be accounted for using the pooling-of-interests method.

Since in this type of transactions there is no change in control and, ultimately, all the entities are controlled by the same parties, both before and after the business combination, the pooling-of-interests method best reflects the transaction.

Accordingly, the Group's assets and liabilities are the assets and liabilities as included in the books of the merging companies under common control. Significant intra-Group balances and transactions and gains and losses among the Group companies are eliminated in full in the consolidated financial statements.

The Company has presented the assets and liabilities and results of operations from the beginning of the earliest reported period as if the business combination of entities under common control had occurred since the merging companies entered into common control.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Fixed assets:

Items of fixed assets are stated at cost with the addition of direct acquisition costs, less accumulated depreciation and less accumulated impairment losses.

The cost of internally generated assets includes the cost of materials, direct labor costs and financing costs as well as any other costs directly attributable to bringing the asset to the location and condition for it to be capable of operating in the manner intended by management and costs of dismantling and removing the items and restoring the site on which they are located (see below).

Depreciation is calculated on a straight-line basis over the useful life of the assets, as follows:

	%
Buildings	2
Machinery and equipment	6 - 10
Motor vehicles	15
Office furniture and equipment	6
Computers and peripheral equipment	25 - 33
Leasehold improvements	10

An item of fixed asset with significant cost compared to the item's total cost are separately depreciated using the component method. Depreciation is calculated using the straight-line method at annual rates that are adequate for the depreciation of the assets over the term of their expected useful life.

Leasehold improvements are depreciated by the straight-line method at the shorter of the lease term (including the renewal option retained by the Group and intended to be realized) and the estimated life of the assets.

The residual value and useful life of an asset are reviewed at least at each financial year-end and the changes are accounted for as a prospective change in accounting estimate. As for testing the impairment of fixed assets, see k below.

The Group recognizes the cost of replacement of a part of an item of fixed assets as part of the carrying amount of the fixed asset item when cost is incurred, it is probable that economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Day-to-day servicing expenses are carried to the statement of income as incurred.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Transfers from fixed assets to investment property are made when there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction of property.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Investment property:

Investment property is property (land or a building or both) held by the Group to earn rentals or for capital appreciation or both, rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Real estate rights held by a lessee (the Group) in an operating lease from the Israel Lands Administration are classified as investment property. The Group has applied the fair value model in respect of these rights.

An investment property is measured initially at cost, including directly attributed acquisition costs. After initial recognition, investment property is measured at fair value, which reflects market conditions at the balance sheet date. A gain or loss arising from a change in the fair value of investment property is recognized in the statement of income in the year in which it arises under appreciation of investment property. Investment property is not systematically depreciated.

Additions to investment property under construction includes construction costs, expenses with capital nature and capitalization of borrowing costs. After completion of construction, the investment property is revalued at fair value in accordance with the treatment of investment property in the Company and the difference between the fair value and the cost is taken to the statement of income.

Investment property is measured by professional independent real estate appraisers once a year unless there are indicators that the value of the assessment does not reflect the fair value of the investment property at the date of the report.

Transfers of an asset from fixed assets to investment property are made when there is a change in use, evidenced by the commencement of owner occupation, operating lease with a third party or end of development of the property to be used as investment property.

Transfers of an asset from investment property to fixed assets are made when there is a change in use, evidenced by the commencement of owner occupation or commencement of development with a view to sale.

The cost of an asset transferred from investment property to fixed assets is the fair value at date of transfer.

A transfer of the transferred asset from investment property to fixed assets or to inventories is the fair value at the date of transfer. When the Company completes the construction of an investment property, the difference between the fair value and the carrying amount of the property under construction is taken to the statement of income.

When the Company completes the construction of an investment property, the difference between the fair value and the carrying amount of the property under construction is taken to the statement of income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Intangible assets:

Intangible assets acquired separately are measured on initial recognition at cost plus direct acquisition costs. The cost of intangible assets acquired in a business combination is fair value at the acquisition date. After initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are recognized in the statement of income when they are incurred.

According to management's estimate, the intangible assets have a finite life. Assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the useful life or the expected pattern of consumption of the future economic benefits embodied in the asset is accounted for by changing the amortization period or method and treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful life is recognized in the statement of income.

The useful life of intangible assets is as follows:

	Years
Computer software	3
Current value of net future flow of management fees from existing portfolio of provident funds	20
Current value of net future flow of management fees from existing portfolio of trust funds	3

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there are indications of impairment in their value (see also k). The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances no longer support such assessment, the change in the useful life assessment from indefinite to finite is accounted for as a prospective change in accounting estimate and on that date the impairment of the asset is tested and it is amortized systematically over its useful economic life.

Software:

The Group's assets include computer systems comprised of hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as fixed assets. In contrast, self-sufficient software licenses that add another dimension of functionality to the hardware are classified as intangible assets. The amortization of the software is recognized in the statement of income by the straight-line method over the estimated useful life of the asset which is 3 years.

Current value of net future flow of management fees from existing portfolio:

Acquisition costs of the activity of the management of trust funds and provident funds by subsidiaries were attributed, in accordance with the valuation of independent appraisers, to the present value of net future flow of management fees from the existing portfolio upon acquisition and to the brand name and are amortized based on the appraisers' estimate with the balance being attributed to goodwill which is not systematically amortized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Impairment of non-financial assets:

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets (fixed assets, intangible assets and deferred acquisition costs) whenever events or changes in circumstances indicate that the carrying amount of the asset is not recoverable. Where the carrying amount of these assets exceeds its recoverable amount, the asset is written down to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognized in the statement of income as general and administrative expenses.

The criteria below are applied in assessing impairment of the following specific assets:

Goodwill:

The Company reviews goodwill for impairment once a year on December 31 or more frequently if events or changes in circumstances indicate that there is an impairment.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill belongs. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed.

l. Investment income:

Investment income is recognized in life insurance branch on the basis of a separate accounting system, see q below.

Investment income is recognized in the statement of income and in general insurance branch respectively to investments held against general insurance liabilities and against capital and surplus of the Company during the year.

m. General and administrative expenses:

General and administrative expenses are allocated to the different segments using the allocation method which is based on the specific attribution of direct expenses and the allocation of the other expenses mainly on the basis of the proportions between income from premium, salary breakdown and office space.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Taxes on income:

Taxes on income in the statement of income include current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the statement of income unless if they relate to items that are directly carried to equity. In such cases, the tax effect is also carried to the relevant item in equity.

1. Current taxes:

Current tax liability is measured at the tax rates and tax laws that are enacted or substantively enacted by the balance sheet date as well as adjustments required in connection with the tax liability payable in respect of prior years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the amounts included in the financial statements and the amounts allowable for tax purposes, other than a limited number of exceptions.

Deferred tax balances are measured using the enacted tax rates expected to be in effect when these taxes are carried to the statement of income or to equity, based on the tax laws that are enacted or substantively enacted by the balance sheet date. The amount for deferred taxes in the statement of income represents the changes in said balances during the reported year.

Taxes that would apply in the event of sale of investments in investees have not been taken into account in computing the deferred taxes, as long as the sale of the investments in investees is not expected in the foreseeable future. Similarly, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing the deferred taxes, since the distribution of dividends does not trigger an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that involves an additional tax liability.

Deferred taxes attributed to items carried directly to equity are also carried to equity.

Deferred taxes are offset if there is a legal enforceable right that allows offsetting a current tax asset against a current tax liability and the deferred taxes refer to the same taxpayer and the same tax authority.

o. Share-based payment transactions:

Employees/other service providers of the Company and subsidiaries receive remuneration in the form of share-based payment as consideration for equity instruments ("equity-settled transactions") and part of the employees/other service providers are granted share appreciation rights which can only be settled in cash ("cash-settled transactions").

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured according to the fair value of the equity instruments on the date of grant. The fair value is determined using a standard pricing model. As for other service providers, the cost of transactions is measured as the fair value of the goods or services received in consideration of equity instruments. In situations where the fair value of the goods or services received as consideration for equity instruments cannot be measured, they will be measured by reference to the fair value of the equity instruments granted.

The cost of equity-settled transactions is recognized in the statement of income, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit represents the movement in cumulative expense recognized at the beginning and end of that reported period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee/other service provider as measured at fair value at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Cash-settled transactions:

The cost of cash-settled transactions is measured at fair value at the grant date using a standard pricing model. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognized in the statement of income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Employee benefits liabilities:

The Group has several post-employment benefit plans. The plans are usually financed by deposits in insurance companies and are classified as defined contribution plans and defined benefit plans.

1. Short-term employee benefits:

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are presented as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to pay this amount for a past service rendered by an employee and the amount can be reliably measured.

2. Post-retirement benefits:

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law according to which the Group pays fixed contribution and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Deposits in the defined contribution plan are recorded as an expense upon the deposit simultaneously with receiving the employee's work services and no additional provision is required in the books.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. Severance pay is computed at the employee's last monthly salary upon termination of employment multiplied by the number of years of employment.

The Company makes current deposits in respect of its severance pay liabilities to certain of its employees in pension funds and insurance companies ("the plan assets").

The cost of severance pay is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are carried to the statement of income as incurred.

3. Other long-term employee benefits:

The Group's net obligation in respect of long-term employee benefits that do not relate to post-employment benefit plans is in respect of the future benefit amount payable to employees for services rendered in current and prior periods. This amount of benefits is discounted to its present value and the fair value of the assets relating to this obligation is deducted from said amount. The discount rate is determined on the reporting date at the return on Government bonds whose currency and redemption dates approximate the Group's obligation terms. The calculation is done using the projected unit credit method. Actuarial gains and losses are carried to the statement of income as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Revenue recognition:

1. Premiums:

a) Premiums in life insurance and in health insurance, including savings premiums with the exception of receipts from investment contracts are accounted for as revenues when due.

Cancellations are recorded upon receipt of notice from the policyholder or initiated by the Company due to arrears in payments, as permitted by law. Participation in earnings of insurer is deducted from the premiums.

b) Insurance premiums (fees and commissions) are accounted for in the year of inception of the policy, mainly on an annual basis.

If the insurance is valid only after payment of the insurance premiums, as in auto Casco branch, the premium is accounted for only after payment.

The insurance premium, mainly in the auto, property and residential branches, include automatic renewal of policies whose renewal date has occurred.

Revenues recognized in the financial statements are after deductions in respect of cancellation notices received from policyholders and after the deduction of cancellations and provisions due to non-payment of insurance premiums, subject to the law.

The insurance premium in respect of policies that come into effect after the balance sheet date, are recorded as deferred revenues.

Revenues recognized in the financial statements are after cancellations received from policyholders and less cancellations and provisions due to non-payment of insurance premiums, subject to legal provisions and less insurers' participation in earnings.

2. Management fees and commissions:

a) Management fees relating to participating insurance contracts:

The management fees are computed in accordance with the Supervisor's directives on the basis of the return and the accumulation of the insurers' savings in the with-profit portfolio. The management fees include only fixed management fees.

b) Recognition of revenues from subsidiaries that are not insurance companies:

- Revenues from stock exchange services, management fees from mutual funds and provident funds, commissions from management of customer portfolios and revenues from consulting are accounted for on an accrual basis when the service is rendered or the actions performed.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Revenues from underwriting and management commissions, subject to the actual issuance of the securities are recorded in the statement of income only after the issuer received the issuance proceeds and, simultaneously, the expenses are charged.

- Revenues from commissions relating to the provision of consumer credit are recognized as earned.

3. Net gains (losses) from investments and other financial income:

Interest income is recognized on an accrual basis using the effective interest method. Dividend income from investments that are not accounted for at equity are recognized when the right to receive payment is established.

Investment income includes also realized gains or losses on available-for-sale financial assets. Gains and losses from sale of investments are computed as the difference between the net sale consideration and the original or depreciated cost and are recognized when the sale event has occurred.

Investment income includes gains or losses from revaluation of financial assets at fair value through profit or loss.

4. Rental income:

Rental income is accounted for on a straight-line basis over the lease terms. Rental income where there is a fixed rise in rental fees over the term of the contract are recognized as revenues using the straight-line method only when the collection of future rent differences is certain.

5. Revenues from sale of investment property:

Revenues from the sale of investment property are recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenues are not recognized if there are significant uncertainties regarding the collection of the consideration from a sale and the related costs or if there is continuing managerial involvement with respect to the investment property transferred.

6. Revenues from revaluation of investment property:

Revenues from revaluation of investment property are recognized in accordance with a valuation performed by appraisers with appropriate expertise. The revaluation is made once a year unless there occurred an event which necessitates an additional valuation of the investment property.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Earnings (loss) per share:

Earnings per share are computed according to the number of Ordinary shares. Basic earnings per share only include shares that were actually outstanding during the period and potential Ordinary shares (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted earnings per share if their effect dilutes earnings per share by reducing earnings per share upon conversion or by increasing loss per share from continuing operations. Furthermore, convertible securities that have been converted during the period are included in diluted earnings per share only until the conversion date and starting from that date in basic earnings per share. The investor's share of earnings of an investee is included based on the earnings per share of the investee multiplied by the number of shares held by the investor.

s. Disclosure of the effects of new IFRS in the period prior to their adoption:

1. IAS 23 (Revised) - Borrowing Costs:

In accordance with IAS 23 (Revised) ("the Standard"), borrowing costs that relate directly to the acquisition, construction or production of a qualifying asset must be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and includes fixed assets, investment property and inventories that take a substantial period of time to get ready for sale. The possibility of immediately carrying these costs as an expense has been removed.

The revised Standard will become effective for the financial statements for the year beginning on January 1, 2009. Earlier adoption is permitted.

The Company believes that effect of the revised Standard on its financial condition, results of operations and cash flows is not expected to be material.

2. IAS 1 (Revised) - Presentation of Financial Statements:

According to the revision of IAS 1, another statement shall be disclosed, a separate "statement of comprehensive income" displaying, other than the net income as stated in the statement of income, all the items carried in the reported period directly to equity that do not derive from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as foreign currency translation adjustments of foreign operations, reclassification of fair value to available-for-sale financial assets, adjustments to revaluation reserve of fixed assets and such and the tax effect of these items carried directly to equity, while properly allocated between the Company and the minority interests. Alternatively, the items of other comprehensive income may be disclosed along with the items of the statement of income in one single statement entitled "statement of comprehensive income" replacing the statement of income while properly allocated between the Company and the minority interests. Only the items carried to equity deriving from transactions with the shareholders in their capacity as shareholders (such as capital issuances, dividends distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, while properly allocated between the Company and the minority interests.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The revision also prescribes that in cases of restatement of comparative figures as a result of the retroactive adoption of a change in accounting policy, the entity must include an opening balance sheet disclosing the restated comparative figures.

IAS 1 (Revised) is effective for annual financial statements for periods beginning on January 1, 2009, including restatement of comparative figures. Earlier adoption is permitted.

The effect of the adoption of IAS 1 (Revised) will require the Company to disclose the above items in the financial statements.

3. IFRS 3 (Revised) - Business Combinations and IAS 27 (Revised) - Consolidated and Separate Financial Statements:

IFRS 3 (Revised) and IAS 27 (Revised) ("the Standards") will be applied in annual financial statements for periods beginning on January 1, 2010. The combined early adoption of the two Standards is permitted from the financial statements for periods beginning on January 1, 2008.

The principal changes expected to take place following the adoption of the Standards are:

- IFRS 3 currently prescribes that goodwill, as opposed to the acquirer's other identifiable assets and liabilities, will be measured as the excess of the cost of the acquisition over the acquirer's share in the fair value of the identifiable assets and liabilities, net on the date of acquisition. According to the Standards, goodwill can be measured at its full fair value and not only based on the acquired part, this in respect of each business combination transaction measured separately.
- A contingent consideration in a business combination will be measured at fair value and changes in the fair value of the contingent liability, which do not represent adjustments to the acquisition cost in the measurement period, will not be simultaneously recognized as goodwill adjustment. Normally, the contingent consideration will be considered a financial derivative within the scope of IAS 39 and will be presented at fair value through profit or loss.
- Direct acquisition costs attributed to a business combination transaction will be recognized in the statement of income as incurred as opposed to the previous requirement of carrying them as part of the consideration of the cost of the business combination, which has been removed.
- A minority transaction, whether a sale or an acquisition, will be accounted for as an equity transaction and will therefore not be recognized in the statement of income or have any effect on the amount of goodwill, respectively.
- A subsidiary's losses, although resulting in the subsidiary's deficiency, will be allocated between the parent company and minority interests, even if the minority has not guaranteed or has no contractual obligation of sustaining the subsidiary or carrying out another investment.
- In the event of loss of control over the subsidiary, the remaining holding, if any, will be revalued to fair value against profit and loss from the sale and this fair value will represent the cost basis for the purpose of subsequent treatment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company estimates that effect of the Standards on its financial position, operating results and cash flows is not expected to be material.

4. IFRS 2 (Revised) - Share-based Payment:

Pursuant to the revised IFRS 2 ("the revised Standard"), the definition of vesting terms will only include service terms and performance terms and the settlement of a grant that consists of other than vesting terms, whether by the Company or by the counterparty, will be accounted for by way of vesting acceleration and not by forfeiture. The Standard will be applied retrospectively in financial statements for periods beginning on January 1, 2009. Earlier adoption is permitted.

Vesting terms include service terms that obligate the counterparty to complete a defined service period and performance terms that require meeting defined performance targets. Conditions that are not service or performance terms will be viewed as other than vesting terms and must therefore be taken into consideration in estimating the fair value of the granted instrument.

The Company estimates that effect of the revised Standard on its financial position, operating results and cash flows is not expected to be material.

5. IFRIC 13 - Customer Loyalty Programmes:

IFRIC 13 ("the Interpretation") applies to annual financial statements for periods commencing on July 1, 2008 or thereafter and is to be adopted by way of retroactively restating comparative data. Early adoption is permitted. The Interpretation applies to customer loyalty award credits (such as club points, credit points, vouchers) which the company grants as part of the sale transaction in order to promote future purchases by the same customers. Subject to meeting certain conditions, the customer is able to redeem the award in the future and receive a certain product or service for free or for a discount.

The Interpretation prescribes that customer credit awards granted will be accounted for as a separate component of the sale transaction in respect of which they were granted. The fair value of the sale consideration will be allocated between the award granted and the remaining sale components (such as the main product or service). The amount attributed to the award will be based on its fair value, which is the amount that would have been received from the separate sale of the award.

If the company grants the award, the amount attributed to the award will be deferred until its redemption. The amount recognized as income from the awards granted is determined based on the redeemed award rate in the period in relation to total awards that are expected to be redeemed. If a third party has granted the award, the selling company must determine if it has acted as the main supplier in the transaction and must therefore recognize the income from the award on a gross basis, or if it has acted as an agent or broker for the third party and must therefore recognize the income from the award on a net basis (the consideration for the award net of the cost of providing the award).

The Company estimates that effect of the adoption of the new Interpretation on its financial position, operating results and cash flows is not expected to be material.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Restatement:

With the first time adoption of IFRS, there was a mistake in the consolidated financial statements as of March 2008 and in the note regarding the disclosure of the adoption of IFRS in the year ended December 31, 2007. This mistake results from the recognition of a gain from sale of securities in subsidiary in capital reserve instead of in the statement of income. The mistake had no effect on the Company's equity and liabilities.

Following is the effect of the required correction in the Company's consolidated financial statements as of March 31, 2008 and for each of the periods specified below.

The effect on the balance sheets:

	December 31, 2007 (audited)		
	As previously reported	The change	As presented in these financial statements
	NIS in thousands		
Equity:			
Capital reserves	40,567	(4,440)	36,127
Retained earnings	340,818	4,440	345,258
Total equity	535,120	-	535,120

	March 31, 2007 (unaudited)		
	As previously reported	The change	As presented in these financial statements
	NIS in thousands		
Equity:			
Capital reserves	32,457	(1,475)	30,982
Retained earnings	185,163	1,475	186,638
Total equity	369,935	-	369,935

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	March 31, 2008 (unaudited)		
	As previously reported	The change	As presented in these financial statements
		NIS in thousands	
Equity:			
Capital reserves	1,261	(6,077)	(4,816)
Retained earnings	296,241	6,077	302,318
Total equity	451,237	-	451,237

The effect on the statements of income:

	Year ended December 31, 2007 (audited)		
	As previously reported	The change	As presented in these financial statements
		NIS in thousands	
Net gains on investments	99,759	9,410	109,169
Total revenues	1,793,744	9,410	1,803,154
Income before tax	327,970	9,410	337,380
Net income	268,840	5,784	274,624
Basic earnings per share attributable to equity holders of the Company	2.28	0.05	2.33
Diluted earnings per share attributable to equity holders of the Company	2.16	0.05	2.21
Net income attributable to equity holders of the Company	142,644	3,402	146,046
Net income attributable to minority interests	126,296	2,382	128,578

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	Three months period ended March 31, 2007 (unaudited)		
	As previously reported	The change	As presented in these financial statements
	NIS in thousands		
Net gains on investments	37,122	1,158	38,280
Total revenues	315,767	1,158	316,925
Income before tax	14,024	1,158	15,182
Loss	(3,489)	712	(2,777)
Loss attributable to equity holders of the Company	(13,011)	437	(12,574)
Net income attributable to minority interests	9,522	275	9,797
Basic and diluted loss per share attributable to equity holders of the Company	(0.21)	0.01	(0.20)

	Three months period ended March 31, 2008 (unaudited)		
	As previously reported	The change	As presented in these financial statements
	NIS in thousands		
Net gains (losses) on investments	(615)	4,166	3,551
Total revenues	313,266	4,166	317,432
Loss before tax	(60,944)	4,166	(56,778)
Loss	(61,941)	2,855	(59,086)
Loss attributable to equity holders of the Company	(44,577)	1,637	(42,940)
Loss attributable to minority interests	(17,364)	1,218	(16,146)
Basic and diluted loss per share attributable to equity holders of the Company	(0.71)	0.03	(0.68)

NOTE 3:- INFORMATION RELATING TO THE CHANGES IN THE ISRAELI CPI AND IN THE REPRESENTATIVE EXCHANGE RATE OF THE U.S. DOLLAR

	Israeli CPI		Representative exchange rate of U.S. $
	Actual	Known	
		%	
Three months ended:			
March 31, 2008	0.1	0.39	(8.0)
March 31, 2007	(0.2)	(0.4)	(1.7)
Year ended December 31, 2007	3.4	2.8	(9.1)

NOTE 4:- BUSINESS SEGMENTS

The Company operates in the following main business segments: rental of investment property, long-term life insurance and saving, general insurance, provision of consumer credit and finance.

	Year ended December 31, 2007 (audited)															
			Insurance activity in Israel													
			General insurance					Poland		Russia	Czech					
	Investment property	Long-term life insurance and saving *)	Auto Casco	Auto act	Residential	Others	Total	Life	General	General	General	Finance	Consumer credit	Off set of activities between segments	Unallocated to segments	Total
	NIS in thousands															
Premium earned under retention	-	119,614	202,481	337,901	51,385	4,963	596,730	6	281,009	36	1,550	-	-	-	-	998,945
Revenues from rental of properties	156,276	-	-	-	-	-	-	-	-	-	-	-	-	(10,884)	-	145,392
Appreciation of investment property	97,008	-	-	-	-	-	-	-	-	-	-	-	-	-	-	97,008
Net gains (losses) on investments and other financial income **)	-	14,374	38,305	15,583	2,643	506	**) 57,037	25	4,304	56	23	4,227	-	(3,246)	**) 32,369	109,169
Revenues from management fees	-	12,791	-	-	-	-	-	-	-	-	-	33,753	-	(4,927)	4,927	46,544
Revenues from consumer credit	-	-	-	-	-	-	-	-	-	-	-	-	4,528	-	-	4,528
Revenues from commissions	-	5,166	-	-	3,214	25	3,239	-	-	-	-	8,350	-	-	-	16,755
Other income	1,057	-	-	-	-	-	-	-	-	-	-	315	-	-	383,441	384,813
Total revenues	254,341	151,945	240,786	353,484	57,242	5,494	657,006	31	285,313	92	1,573	46,645	4,528	(19,057)	420,737	1,803,154
Payments and changes in insurance liabilities under retention	-	(92,871)	(160,532)	(244,982)	(30,222)	(1,686)	(437,422)	(6)	(166,004)	(124)	(3,095)	-	-	-	-	(699,522)
Commissions and other acquisition costs	(2,038)	(28,512)	(44,274)	(65,251)	(13,360)	(1,064)	(123,949)	(398)	(88,755)	(140)	(14,863)	(19,464)	(15,388)	-	-	(293,507)
General and administrative expenses	(41,521)	(33,964)	(10,476)	(16,531)	(3,266)	(252)	(30,525)	(1,131)	(29,406)	(28,511)	(46,973)	(28,808)	(10,852)	15,811	(52,621)	(288,501)
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(38,833)	(38,833)
Financial expenses	(76,205)	(2,388)	-	-	-	-	-	-	-	-	-	(5,588)	(1,126)	3,246	(64,097)	(146,158)
Total expenses	(119,764)	(64,864)	(54,750)	(81,782)	(16,626)	(1,316)	(154,474)	(1,529)	(118,161)	(28,651)	(61,836)	(53,860)	(27,366)	19,057	(155,551)	(766,999)
Group's share in earnings of associates, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	747	747
Income before tax	134,577	(5,790)	25,504	26,720	10,394	2,492	65,110	(1,504)	1,148	(28,683)	(63,358)	(7,215)	(22,838)	-	265,933	337,380

*) For additional information about the provident segment, see below.

**) Restated, see Note 2t.

NOTE 4:- BUSINESS SEGMENTS (Cont.)

	Three months ended March 31, 2007 (unaudited)															
		Insurance activity in Israel														
		Long-term life insurance and saving *)	General insurance					Poland		Russia	Czech					
	Investment property		Auto Casco	Auto act	Residential	Others	Total	Life	General	General	General	Finance	Consumer credit	Off set of activities between segments	Unallocated to segments	Total
	NIS in thousands															
Premium earned under retention	-	27,485	48,032	81,245	12,569	1,257	143,103	-	63,266	-	-	-	-	-	-	233,854
Revenues from rental of properties																
Appreciation of investment property	34,433	-	-	-	-	-	-	-	-	-	-	-	-	(2,475)	-	31,958
Net gains (losses) on investments and other financial income	-	5,007	8,817	3,573	573	140	13,103	-	3,960	22	67	1,150	-	-	**) 14,971	38,280
Revenues from management fees	-	823	-	-	-	-	-	-	-	-	-	7,872	-	(1,209)	1,209	8,695
Revenues from consumer credit	-	-	-	-	-	-	-	-	-	-	-	-	112	-	-	112
Revenues from commissions	-	1,437	3	-	1,019	13	1,035	-	-	-	-	1,549	-	-	-	4,021
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	5
Total revenues	34,433	34,752	56,852	84,818	14,161	1,410	157,241	-	67,226	22	67	10,571	112	(3,684)	16,185	316,925
Payments and changes in insurance liabilities under retention	-	(22,218)	(18,382)	(60,987)	(9,776)	(735)	(89,880)	-	(38,355)	210	-	-	-	-	-	(150,243)
Commissions and other acquisition costs	(437)	(5,777)	(8,987)	(13,491)	(2,824)	(235)	(25,537)	-	(16,335)	-	-	(4,949)	(283)	-	-	(53,318)
General and administrative expenses	(6,474)	(4,502)	(4,172)	(6,779)	(1,322)	(130)	(12,403)	(682)	(9,098)	(4,320)	(6,017)	(9,072)	(2,451)	3,684	(9,604)	(60,939)
Other expenses	(3)	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,346)	(11,349)
Financial expenses	(16,828)	-	-	-	-	-	-	-	-	-	-	(1,098)	-	-	(8,001)	(25,927)
Total expenses	(23,742)	(10,279)	(13,159)	(20,270)	(4,146)	(365)	(37,940)	(682)	(25,433)	(4,320)	(6,017)	(15,119)	(2,734)	3,684	(28,951)	(151,533)
Group's share in earnings of associates, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33	33
Income before tax	10,691	2,255	25,311	3,561	239	310	29,421	(682)	3,438	(4,088)	(5,950)	(4,548)	(2,622)	-	(12,733)	15,182

*) For additional information about the provident segment, see below.

**) Restated, see Note 2t.

NOTE 4:- BUSINESS SEGMENTS (Cont.)

	Three months ended March 31, 2008 (unaudited)															
			Insurance activity in Israel													
			General insurance					Poland		Russia	Czech					
	Investment property	Long-term life insurance and saving *)	Auto Casco	Auto act	Residential	Others	Total	Life	General	General	General	Finance	Consumer credit	Off set of activities between segments	Unallocated to segments	Total
	NIS in thousands															
Premium earned under retention	-	35,116	51,659	89,895	13,215	1,249	156,018	61	42,502	8	2,177	-	-	-	-	235,882
Revenues from rental of properties	45,733	-	-	-	-	-	-	-	-	-	-	-	-	(2,729)	-	43,004
Net gains (losses) on investments and other financial income	-	73	1,763	903	157	26	2,849	78	165	(130)	128	346	-	(4,011)	**) 4,053	3,551
Revenues from management fees	-	20,266	-	-	-	-	-	-	-	-	-	4,417	-	(1,200)	1,200	24,683
Revenues from consumer credit	-	-	-	-	-	-	-	-	-	-	-	-	4,053	-	-	4,053
Revenues from commissions	-	712	-	-	1,527	21	1,548	-	-	-	-	2,436	-	-	-	4,696
Other income	1,527	-	-	-	-	-	-	-	-	19	17	-	-	-	-	1,563
Total revenues	47,260	56,167	53,422	90,798	14,899	1,296	160,415	139	42,667	(103)	2,322	7,199	4,053	(7,940)	5,253	317,432
Payments and changes in insurance liabilities under retention	-	(25,299)	(36,833)	(70,889)	(6,796)	(1,169)	(115,687)	(42)	(34,847)	136	(1,795)	-	-	-	-	(177,534)
Commissions and other acquisition costs	(470)	(8,497)	(10,360)	(16,627)	(3,457)	(247)	(30,691)	(205)	(10,779)	(22)	(6,050)	(4,341)	(5,498)	-	-	(66,553)
General and administrative expenses	(9,048)	(14,990)	(5,224)	(8,455)	(1,598)	(146)	(15,423)	(1,079)	(5,652)	(7,706)	(2,685)	(6,635)	(3,713)	3,929	(8,920)	(71,922)
Other expenses	-	-	-	-	-	-	-	-	(128)	-	-	-	-	-	-	(128)
Financial expenses	(31,736)	(2,836)	-	-	-	-	-	-	-	-	-	(1,353)	(1,282)	4,011	(24,877)	(58,073)
Total expenses	(41,254)	(26,323)	(15,584)	(25,082)	(5,055)	(393)	(46,114)	(1,284)	(16,559)	(7,728)	(8,735)	(12,329)	(10,493)	7,940	(33,797)	(196,676)
Income before tax	6,006	4,545	1,005	(5,173)	3,048	(266)	(1,386)	(1,187)	(8,739)	(7,695)	(8,208)	(5,130)	(6,440)	-	(28,544)	(56,778)

*) For additional information about the provident segment, see below.

**) Restated, see Note 2t.

NOTE 4:- BUSINESS SEGMENTS (Cont.)

Additional information on the provident segment included in long-term insurance and saving segment:

	Year ended December 31,	Three months ended March 31,	
	2007	2007	2008
	Audited	Unaudited	
	NIS in thousands		
Revenues from management fees	9,889	151	19,376
Investment income, net	69	17	130
Total revenues	9,958	168	19,506
Selling and marketing expenses	12,555	1,143	3,955
General and administrative expenses	15,605	845	10,729
Operating income (loss) before financing	(18,202)	(1,820)	4,822
Financial expenses	2,418	-	2,836
Income (loss) before tax	(20,620)	(1,820)	1,986

NOTE 5:- CAPITAL ADEQUACY REQUIREMENT FROM AN INSURER

a. Subsidiary in Israel:

Announcement according to the Supervision of Insurance Business (Capital Adequacy Requirement from an Insurer) Regulations, 1998, as amended ("the capital regulations"):

	December 31, 2007
	Audited
	NIS in thousands
Capital adequacy:	
The required amount pursuant to the regulations (1)	218,974
The amount computed pursuant to the regulations (2) (3)	278,061
Surplus (4)	59,087
Primary capital:	
The required amount pursuant to the regulations	76,739
The amount computed pursuant to the regulations	185,374
Surplus	108,635

NOTE 5:- CAPITAL ADEQUACY REQUIREMENT FROM AN INSURER (Cont.)

	December 31, 2007
	Audited
	NIS in thousands
(1) The required amount includes, among others, capital requirements for:	
DAC in life insurance and in health and hospitalization insurance	56,236
In extraordinary risks in life insurance	39,755
Nondeductible assets as defined in the capital regulations	3,004
	98,995

(2) Includes subordinated deeds in the amount of NIS 92,687 thousand.

(3) The capital as of December 31, 2007 computed in accordance with the regulations is based on financial statements pursuant to Israeli GAAP which the subsidiary published.

(4) (a) A note regarding the capital requirements - according to the insurance circular 2008-1-1, an insurance company will not distribute the surplus capital (net) arising on the transition to IFRS and computed as of December 31, 2007, until the Supervisor determines the effect of the transition to IFRS and sets the respective principles.

(b) Distribution of dividends out of surplus capital is subject to the liquidity requirements and fulfillment of principles of investment regulations.

(c) In October 2007, a draft amendment to the Supervision of Financial Services (Capital Adequacy Requirement from an Insurer) (Revised) Regulations, 2007 was published.

According to the draft it is suggested to add to the existing capital requirements, capital requirements in respect of these categories:

(1) Assets held against liabilities for non-participating contracts

(2) Catastrophe risks in general insurance

(3) Credit risks as a percentage of assets based on the level of risk that characterizes the different assets

(4) Operating risks (1.5% of total balance sheet assets)

Following discussions held between the insurance companies and the Supervisor, in April 2008 the Supervisor issued a revised draft of the capital requirements which contains exemptions. Additional discussions with the Supervisor will be held with respect to this draft in the context of which the draft may be revised. Nonetheless, it is clear that after the formation of the final capital requirements it is expected that the capital required from the Company will increase in a significant amount. The increase in capital is expected to take place until the end of 2010 in three equal annual phases.

NOTE 5:- CAPITAL ADEQUACY REQUIREMENT FROM AN INSURER (Cont.)

The Supervisor also announced that he intends to apply the provisions of Solvency II concurrently with their expected adoption in Europe in 2012.

On May 6, 2008, the Supervisor instructed the insurance companies not to distribute dividends in an amount that exceeds half of the income from ordinary operations from the beginning of 2008 unless it is approved in advance by the Supervisor.

b. Foreign subsidiaries:

1. Following is information about the capital of the Czech company according to the capital regulations in Czech:

	March 31, 2008
	Unaudited
	NIS in thousands
The required amount pursuant to the regulations	19,872
The amount computed pursuant to the regulations	74,098
Surplus	54,226

2. Following is information about the capital of the Russian company according to the capital regulations in Russia:

	March 31, 2008
	Unaudited
	NIS in thousands
The required amount pursuant to the regulations	5,870
The amount computed pursuant to the regulations	72,702
Surplus	66,832

3. Following is information about the capital of LINK4 according to the capital regulations in Poland:

	March 31, 2008
	Unaudited
	NIS in thousands
The required amount pursuant to the regulations	157,168
The amount computed pursuant to the regulations	118,294
Deficiency	(38,874)

During the reporting period, a jointly controlled entity, Intouch Insurance, transferred approximately NIS 31 million to LINK4 to cover the deficiency. The process of recording LINK4's capital was not yet completed. After the balance sheet date, in June 2008, Intouch Insurance transferred approximately additional NIS 58 million to LINK4.

NOTE 6:- CONTINGENT LIABILITIES

a. Requests to approve claims as class actions in an insurance subsidiary in Israel:

1. On August 7, 2007, a monetary claim and a request to approve the claim as a class action was filed with the Tel-Aviv-Jaffa District Court against a subsidiary alleging that when an insurance event in the auto Casco business occurs before an insurance agreement is signed, the plaintiff is not provided with information as to the payment of insurance compensation and the plaintiff argues that the amount of the insurance compensation should be computed in a way that is different than that computed by the subsidiary. The class action was filed on behalf of all of those who are insured by the company starting January 1, 2001 until the filing date, who have acquired auto insurance where during the period of insurance, an insurance event occurred and the auto was declared as theoretically lost or a total loss and the subsidiary incurred an insurance liability towards those insurers. The claim is in the amount of approximately NIS 7 million and the request to approve the claim as a class action amounts to approximately NIS 110 million.

   The subsidiary and its legal counsel estimate that the likelihood that the defense arguments will be accepted is higher than the likelihood that the plaintiff's arguments will be accepted and, accordingly, no provision was made in the financial statements for the lawsuit.

2. On February 20, 2008, a monetary claim and a request to approve the claim as a class action under the Law of Class Actions, 2006, was filed with the Tel-Aviv-Jaffa District Court against a subsidiary and eight other insurance companies alleging that the defendant had charged the insured parties for premium for additional insurance coverage (rider) against theft and/or replacement of the integral audio system in the framework of the comprehensive insurance policy whereas, according to the plaintiffs arguments, the theft of an integral audio system is irregular and rare and its chances are almost nonexistent. Under these circumstances, the plaintiffs argue that charging them with premium regarding the insurance of the integral audio system is unreasonable.

   The plaintiffs argue that the personal damage that each of the plaintiff incurred in one year is approximately NIS 50. The plaintiffs argue that they do not have data that enable them to make a reliable estimate of the overall damage to the group that is represented as above but, in their opinion, it may be many dozens of millions of NIS.

   At this stage, the subsidiary is studying the facts of the claim and, accordingly, its chances to be approved as a class action can not be assessed and, if approved, the chances of its success can not be assessed.

3. After the balance sheet date, on April 14, 2008, a monetary claim ("the claim") and a request to approve the claim as a class action under the Law of Class Actions, 2006, were filed with the Tel-Aviv-Jaffa District Court ("the request for approval") against a subsidiary. The plaintiff alleges that the subsidiary ignores an instruction according to which in cases where a claim for insurance compensation is presented and the amounts are not paid to the claimant with the elapse of 30 days from the date of presenting the claim, the insurer has to add to the insurance compensation annul interest at the rate of 4% after the elapse of 30 days from the date of presenting the claim up to the date of actual payment.

NOTE 6:- CONTINGENT LIABILITIES (Cont.)

The plaintiff argues that the subsidiary totally ignores this instruction since it pays the amounts after 30 days from the date of presenting the claim without adding the interest. The grounds of the arguments are: violation of an inscribed duty and unlawful enrichment.

The group that the plaintiff requests to represent is: anyone who during the seven years which preceded the filing of this claim was awarded insurance compensation from the defendant due to private auto damage whether it was insured by the respondent under comprehensive insurance or had received insurance compensation as a third party, where that person was paid insurance compensation with the elapse of 30 days or more from the date of presenting the claim to the respondent and annual interest of 4%, as required under the law, was not added to the insurance compensation.

The plaintiff argues that the personal damage that it incurred is approximately NIS 11,965. The plaintiff argues that the overall estimated damage to the group as defined above with respect to a period of seven years is NIS 10,880,000. The remedies claimed are: (a) to instruct the payment of NIS 10,880,000 to the members of the group whether directly or through compensation for the public interest; (b) to award special compensation for the plaintiff and (c) to award fees to the representing attorneys.

At this preliminary stage, the Company is studying the statement of claim and, therefore, it is unable to estimate its chances and the chances that the claim be approved as a class action.

b. Request to approve a claim as a class action which is over:

On February 27, 2007, a monetary claim and a request to approve the claim as a class action was filed with the Tel-Aviv-Jaffa District Court against a subsidiary and other insurance companies alleging that upon the occurrence of an insurance event in the auto Casco business of auto loss, the policyholder is not reimbursed for the relative premium charged from the policyholder in respect of additional policy coverage. The plaintiff estimated the amount of the class action at approximately NIS 6.6 million. The subsidiary presented its response to the claim on May 20, 2007. The subsidiary argues that the claim should be dismissed due to lack of personal cause of the plaintiff since the plaintiff signed a disbursement deed which explicitly determines that in case of payment of compensation the policy will be cancelled with no payment of premium since the policy was used and since the legal conditions to approve the claim as a class action are not satisfied.

On April 15, 2008, the District Court rendered its verdict according to which, as per the plaintiffs' request and under the defendants' consent the personal claims against the defendants are dismissed and the request to approve the claims as class actions are stricken and all with no order to pay expenses.

NOTE 7:- INFORMATION ON SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

a. Restructuring plan in a subsidiary:

On November 1, 2006, the approval of the Board of a subsidiary, Direct IDI Insurance Company Ltd. to the spin-off plan became effective. The plan consists of a vertical spin-off of the subsidiary, which is tax exempt under the provisions of section 105a(2) to the Income Tax Ordinance (New Version), 1961 ("the Income Tax Ordinance").

According to the spin-off plan, all of the subsidiary's assets and liabilities, excluding as what follows below, were assigned to a wholly-owned subsidiary of the subsidiary which was established for this purpose ("the subsidiary"). In return, the subsidiary allocated its entire shares to the subsidiary. The following assets and liabilities will not be assigned to the subsidiary:

(1) subordinated deeds that the subsidiary issued to the public on June 6, 2005;

(2) part of the securities and the cash;

(3) net credit balances (less receivables) in respect of related companies;

(4) shares of several subsidiaries, Direct Financing (Leasing) of Direct Group Ltd. and Direct Provident Fund Management Ltd., wholly owned by the subsidiary.

Maalot Israel Securities Rating Ltd. ("Maalot") informed the subsidiary that once the company announces the spin-off, Maalot intends to perform a watch list of the subsidiary's subordinated deeds rating. The consummation of the spin-off in itself will lead to an immediate decline in the rating of the subordinated deeds (series A) from (+A) to (A). The subordinated deeds (series A) will continue to be under a watch list until the subsidiary's plans with respect to the scope of investments and their dates become evident. Maalot estimates that an investment of more than NIS 100 million out of the proceeds from the subordinated deeds, without increasing the share base in relation to its scope upon the spin-off, will lead to an additional decline in the rating of the subordinated deeds (series A) to (-A).

In December 2006, the spin-off received the approval of the meetings of the subsidiary's creditors and shareholders and on December 31, 2006, a spin-off order was obtained from the court pursuant to the provisions of section 351 to the Companies Law. In March 2008, the spin-off obtained the approval of the Tax Authorities.

After the balance sheet date, on April 6, 2008, subsequent to the fulfillment of all suspending conditions, the spin-off procedure was completed. Also, on April 13, 2008, Maalot informed that the rating of the subordinated deeds was declined to -A/watch.

NOTE 7:- INFORMATION ON SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

b. Volatility in the capital markets:

During the three months period ended March 31, 2008, the high volatility in the capital markets prevailed and was expressed, among others, in the decrease in the stock markets in Israel and worldwide and in the continued trend of the weakening of the dollar against the NIS. The events, as above, have a negative effect both on the investments against equity and the insurance liabilities in nostro and on the investments against the liabilities of the with-profit life insurance policies.

c. Purchase of investment property:

During the reported period, a wholly-owned subsidiary of Adgar Investments and Development Limited ("Adgar") acquired an investment property in Mississauga, Canada, comprising an office building with area of some 14,000 sq.m. in consideration of approximately C$ 34 million. The present occupancy rate is around 90% and the annual lease fees are approximately C$ 2.3 million.

The acquired property covers some 19 thousand sq.m. and there are building rights to construct another office building.

d. Sale of investment property:

During the reported period, a 82.5% subsidiary of the Adgar sold an office building in Ottawa, Canada. The payment for the building is approximately C$ 35 million. A capital gain of NIS 1,527 thousand was recorded from the sale.

e. Issuance of debentures (series E):

In March 2008, Adgar issued by a private placement to institutional investors NIS 50,400 thousand par value of debentures (series E) by way of existing series extension.

The issuance proceeds amounted to approximately NIS 49 million.

The terms of the debentures are in accordance with debentures (series E) which were issued in 2007.

NOTE 8:- EVENTS AFTER THE BALANCE SHEET DATE

a. A loan taken by a subsidiary:

After the balance sheet date, in April 2008, a bank approved a credit facility to a subsidiary, Direct Financing (Leasing) of the Direct Group (2006) Ltd. ("Direct Financing"). Direct Financing is a subsidiary of Direct Financing Leasing of the Direct Group Ltd. ("Financing Leasing") which is a subsidiary of the Company. The credit will be given as short-term loans in the scope of up to NIS 200 million bearing interest at the Prime rate less 0.2%.

At the date of the approval of the financial statements, Direct Financing used a total of approximately NIS 190 million out of the credit facility.

NOTE 8:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

In order to secure the repayment of Direct Financing's credit from the bank, Financing Leasing undertook that no changes in the structure or ownership with respect to Direct Financing will occur without the approval of the bank. Financing Leasing also undertook not to repay credit that was given to Direct Financing before the repayment of the credit from the bank unless the bank gave its advance and written approval.

In order to secure the credit, Direct Financing placed in favor of the bank a floating charge on all the assets, cash, property and rights of any type whatsoever with no exceptions that Direct Financing currently has and may have in any given time in the future by any means and manner and a fixed charge on its share capital, other rights and the securities, documents and notes at the bank.

Direct Financing has also undertaken to maintain financial ratios, as will be reported in the annul and quarterly financial statements (consolidated) which are audited or reviewed by an independent certified accountant at all times and from time to time, as specified below:

1. Equity - the ratio of Direct Financing's equity out of the total revalued balance of all loans that it gave its customers shall not drop at any time below 20%.

2. Net loss/income - Direct Financing's net loss shall be less than NIS 30 million in 2008 and less than NIS 10 million in 2009. In any financial statement starting 2010 and onward Direct Financing's net income (after taxes and extraordinary items) shall not be below NIS 5 million.

3. Average rate of financing on loans to customers - Direct Financing's average rate of financing on loans to its customers at any time shall not exceed 60%.

b. Distribution of dividends in subsidiaries:

1. After the balance sheet date, on April 2, 2008, Adgar declared on distribution of dividends in the amount of NIS 45,000 thousand, representing about 40.3% of the net income attributable to equity holders and representing 41.8% of the issued and outstanding capital of Adgar. The Company's share in the dividends is approximately NIS 27 million.

2. Adgar decided on the 2008 dividends distribution policy according to which also in this year Adgar shall distribute dividends at the rate of 40% of the net income attributable to equity holders for 2008.

3. After the balance sheet date, on April 26, 2008, Direct Insurance – Financial Investments Ltd. declared on distribution dividends in the amount of NIS 60,000 thousand, representing about 10.9% of the issued and outstanding capital of Direct Insurance. The Company's share in the dividends is approximately NIS 40 million.

NOTE 8:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

c. Purchase of investment property:

A wholly owned subsidiary of Adgar signed an agreement to acquire an office building with area of 8,280 sq.m. in Toronto. The building is occupied in full. The cost of the acquisition of the building is approximately C$ 22 million and the annual lease fees are approximately C$ 1.5 million. The payment will be first financed by an existing loan against the building (approximately C$ 9.5 million bearing 6% interest) and the balance by Adgar's own sources. It is expected that the transaction will be closed by June 2008.

d. Financial covenants:

As of March 31, 2008, a subsidiary, Direct Insurance – Financial Investments Ltd. ("Direct Insurance") has a long-term loan from a bank ("the bank"). According to an agreement of the Company and the bank in connection with the provision of the loan, Direct Insurance undertook to meet certain financial covenants as outlined below:

1. The ratio of the comprehensive debt (comprehensive debt is defined as Direct Insurance's debts and liabilities based on the last financial statements to banks, financial institutions, convertible and non-convertible debentures that Direct Insurance issued/will issue by private placement and/or public issuances plus accounts payable, including guarantees that Direct Insurance provided to secure loans given to it or to its subsidiaries or related companies by the Direct Insurance's financial entities) and its equity will not be above 1.8 as of December 31, 2007 and onward.

2. The ratio of the comprehensive debt less accounts payable and Direct Insurance's equity will not be above 1.5 as of December 31, 2007 and onward.

3. The ratio of the comprehensive debt in Direct Insurance's consolidated balance sheet (as published in Direct Insurance's consolidated financial statements) less accounts payable and Direct Insurance's equity will not be above 2 as of December 31, 2008 and from that date onward - will not be above 1.8. At December 31, 2007, that ratio is 1.0.

4. The comprehensive debt in Direct Insurance's consolidated balance sheet less accounts payable will not be more than NIS 420 million.

5. Direct Insurance's equity as appearing in the financial statements will not be less than NIS 150 million.

As of March 31, 2008, Direct Insurance is meeting the abovementioned obligations.

NOTE 8:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

After the balance sheet date, on July 22, 2008, the financial covenants listed above were revised ("the new covenants"), as follows:

1. With respect of 1 above, the ratio of Direct Insurance's comprehensive debt and its equity will not be above 1.5.

2. With respect of 2 above, the ratio of the comprehensive debt less accounts payable and equity will not be above 1.3.

3. 3 above is cancelled.

4. 4 above is cancelled.

5. Direct Insurance undertakes that if Direct IDI records a charge (whether fixed or floating) in favor of any party whatsoever on an asset of its assets or undertakes towards any party whatsoever to record any charge, as above, or to confer by any other way a preemptive right to an asset of its assets to any entity before its other creditors - this constitutes grounds for immediate repayment.

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS

As described in Note 2a, these interim financial statements are the Company's first interim financial statements prepared in accordance with IFRS. The Company first adopted IFRS in 2008 and, accordingly, the date of transition to reporting pursuant to IFRS is January 1, 2007. The Company prepared an opening balance sheet as of the date of transition to IFRS reporting.

Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Israeli GAAP. The Company's last interim financial statements prepared in accordance with Israeli GAAP were as of September 30, 2007 and for the nine and three months periods then ended. The Company's first annual financial statements prepared in accordance with IFRS will be for December 31, 2008 and for the year then ended.

Accordingly, the Company presents the following reconciliations between the amounts reported under Israeli GAAP and amounts reported under IFRS as of January 1, 2007 (the transition date to IFRS reporting), as of December 31, 2007 and for the year then ended, and as of March 31, 2007 and for the three months period then ended.

According to IFRS 1, the adoption of IFRS in the opening balance sheet as of the transition date is to be applied retrospectively.

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

Following are the exemptions elected by the Group pursuant to IFRS 1, which have not been retrospectively adopted on the transition date to IFRS:

Share-based payment:

IFRS 2, which deals with share-based payment transactions, has not been adopted with respect to equity instruments that had been granted before November 7, 2002 and had vested prior to the transition date.

Employee benefits:

The Group has recognized all cumulative net actuarial gains and losses as of January 1, 2007 and recorded them in equity as retained earnings.

Designation of financial instruments:

On January 1, 2007, the Company designated financial assets embarked to participating insurance contracts to a group of financial assets measured at fair value through profit or loss although no such designation was required on the date of initial recognition of the asset (the date of the acquisition of the investment).

Business combinations:

The Company has not retrospectively adopted IFRS 3 which deals with business combinations and, accordingly, goodwill and excess of cost arising on business combinations which occurred prior to January 1, 2007 and relate to the acquisition of subsidiaries are not accounted for according to IFRS 3 but rather presented as previously accounted for under Israeli GAAP.

Translation differences of foreign operations:

As of January 1, 2007, the Company has not recognized the cumulative currency translation differences that relate to all foreign operations. Therefore, the reserve for foreign currency translation is zero as of January 1, 2007.

Insurance contracts:

The Company will adopt the transitional provisions of IAS No. 4, "Insurance Contracts".

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

a. Reconciliations to balance sheets:

	Item	January 1, 2007 (audited)			March 31, 2007 (unaudited)			December 31, 2007 (audited)		
		Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS
		NIS in thousands								
Cash and cash equivalents		240,918	495	241,413	473,347	319	473,666	492,024	624	492,648
Accounts receivable	8	374,623	(9,146)	365,477	401,739	(38,281)	363,458	564,988	(37,405)	527,583
Receivables from issuance of shares	15	-	-	-	-	-	-	-	96,125	96,125
Assets held for sale		-	-	-	-	-	-	-	133,182	133,182
Financial assets	2, 14	1,554,074	871	1,554,945	1,531,754	1,056	1,532,810	1,236,721	17,770	1,254,491
Investment property		1,355,594	437,339	1,792,933	1,928,479	21,815	1,950,294	2,774,628	(106,721)	2,667,907
Fixed assets, net		192,220	-	192,220	199,231	(514)	198,717	210,963	-	210,963
Reinsurance assets		135,499	-	135,499	137,183	-	137,183	169,814	-	169,814
Deferred taxes	4	64,341	2,927	67,268	64,800	(2,951)	61,849	56,356	(761)	55,595
Deferred acquisition costs		125,392	-	125,392	129,619	-	129,619	128,780	-	128,780
Intangible assets	8	181,411	-	181,411	178,355	27,424	205,779	429,081	31,082	460,163
Total assets		4,224,072	432,486	4,656,558	5,044,507	8,868	5,053,375	6,063,355	133,896	6,197,251

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

		January 1, 2007 (audited)			March 31, 2007 (unaudited)			December 31, 2007 (audited)		
	Item	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS
		NIS in thousands								
LIABILITIES:										
Short-term credit and loans		76,656	226	76,882	141,279	-	141,279	288,581	-	288,581
Accounts payable		299,475	(2,926)	296,549	308,763	(5,122)	303,641	330,655	1,693	332,348
Loans from banks and others		950,913	6,401	957,314	1,018,867	6,651	1,025,518	1,566,599	8,816	1,575,415
Company's debentures		351,277	-	351,277	350,446	-	350,446	363,563	-	363,563
Subsidiary's debentures		277,056	-	277,056	448,205	-	448,205	499,539	-	499,539
Subsidiary's subordinated debts		253,884	-	253,884	253,989	-	253,989	266,824	-	266,824
Stock options and proceeds in respect of stock options		3,567	7,743	11,310	400	696	1,096	400	(400)	-
Liability to cover associate's losses		5,108	-	5,108	5,075	-	5,075	-	-	-
Liabilities for participating contracts		153,935	(778)	153,157	172,249	(778)	171,471	225,570	(1,011)	224,559
Liabilities for non-participating insurance and investment contracts	2	1,384,881	(25,023)	1,359,858	1,373,187	(94)	1,373,093	1,373,933	6,289	1,380,222
Employee benefits liabilities, net	5	1,322	4,006	5,328	1,329	3,537	4,866	1,959	3,689	5,648
Deferred taxes	4	32,336	68,938	101,274	101,841	(3,170)	98,671	134,061	1,403	135,464
		3,790,410	58,587	3,848,997	4,175,630	1,720	4,177,350	5,051,684	20,479	5,072,163
EQUITY:										
Share capital		213,489	-	213,489	213,489	-	213,489	213,993	-	213,993
Proceeds on account of capital		1,410	(1,410)	-	1,410	(1,410)	-	1,410	(494)	916
Capital reserves	2	61,060	(26,437)	34,623	58,275	(27,293)	30,982	72,070	(35,943)	36,127
Retained earnings	15	(60,125)	259,339	199,214	165,536	21,102	186,638	246,775	98,483	345,258
		215,834	231,492	447,326	438,710	(7,601)	431,109	534,248	62,046	596,294
Less - treasury shares		(61,174)	-	(61,174)	(61,174)	-	(61,174)	(61,174)	-	(61,174)
		154,660	231,492	386,152	377,536	(7,601)	369,935	473,074	62,046	535,120
Minority interests	7	279,002	142,407	421,409	491,341	14,749	506,090	538,597	51,371	589,968
Total equity		433,662	373,899	807,561	868,877	7,148	876,025	1,011,671	113,417	1,125,088
Total liabilities and equity		4,224,072	432,486	4,656,558	5,044,507	8,868	5,053,375	6,063,355	133,896	6,197,251

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

b. Reconciliation to statements of income:

		December 31, 2007 (audited)			March 31, 2007 (unaudited)		
	Item	Israeli GAAP	Effect of transition to IFRS	IFRS	Israeli GAAP	Effect of transition to IFRS	IFRS
		NIS in thousands					
Premium earned under retention		233,854	-	233,854	999,005	(60)	998,945
Revenues from rental of properties		31,608	350	31,958	143,585	1,807	145,392
Appreciation of investment property	13	-	-	-	88,508	8,500	97,008
Net gains on investments and other financial income		38,086	194	38,280	87,754	21,415	109,169
Revenues from management fees		8,695	-	8,695	46,544	-	46,544
Revenues from consumer credit		112	-	112	4,528	-	4,528
Revenues from commissions		4,021	-	4,021	16,755	-	16,755
Other income	15	5	-	5	289,086	95,727	384,813
Total revenues		316,381	544	316,925	1,675,765	127,389	1,803,154
Payments and changes in insurance liabilities under retention	3	161,978	(11,735)	150,243	704,934	(5,412)	699,522
Commissions and other acquisition costs		53,318	-	53,318	293,530	(23)	293,507
General and administrative expenses		60,606	333	60,939	285,401	3,100	288,501
Other expenses		14,225	(2,876)	11,349	41,526	(2,693)	38,833
Financial expenses	12, 14	25,236	691	25,927	162,223	(16,065)	146,158
Total expenses		153,385	(1,852)	151,533	782,680	(15,681)	766,999
Group's share in earnings of associates		33	-	33	747	-	747
Income before tax		1,051	14,131	15,182	188,898	148,482	337,380
Taxes on income		14,247	3,712	17,959	47,256	15,500	62,756
Income (loss) before extraordinary item		(13,196)	10,419	(2,777)	141,642	132,982	274,624
Extraordinary item - elimination of the reserve for extraordinary risks in life insurance net of the tax effect and minority interest	1	18,466	(18,466)	-	18,466	(18,466)	-
Net income (loss) for the period		5,270	(8,047)	(2,777)	160,108	114,516	274,624
Attributable to:							
Equity holders of the Company		(755)	(11,819)	(12,574)	80,561	65,485	146,046
Minority interests	7	6,025	3,772	9,797	79,547	49,031	128,578
		5,270	(8,047)	(2,777)	160,108	114,516	274,624
Net earnings (loss) per share attributable to equity holders of the Company:							
Basic		(0.01)	(0.19)	(0.20)	1.29	1.04	2.33
Diluted		-	-	-	1.20	1.01	2.21

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

c. Differences in the reporting format between Israeli GAAP and the current statement:

1. Balance sheet:

The reporting format of most items was different in Israeli GAAP. The table below lists the main differences:

a) According to Israeli GAAP, investments in participating contracts were not separately presented. In the current statement, these investments are separately presented in financial investments and cash and cash equivalents.

b) Securities, loans and bank deposits were used to be presented in separate lines. In the current reporting format, they are presented as follows:

1) Securities constituting debt instruments are divided between quoted and unquoted debt assets. Basket certificates, options and investment funds are included in the current statement under other financial investments.

2) Loans and bank deposits were used to be presented in separate lines. In the current statement, they are included in the group of unquoted debt assets.

3) Shares are presented separately in the current statement.

c) The reinsurers' share of insurance reserves and outstanding claims, which used to be presented separately, is included in the current statement in the reinsurance assets item.

d) Outstanding premiums, accounts receivable as well as other accounts of reinsurers, which used to be presented separately, are included in the current statement in the other receivables item.

e) Acquisition costs in life and general insurance, which used to be presented separately, are included in the current statement in the deferred acquisition costs.

f) Insurance reserves and life and general insurance's outstanding claims, which used to be presented separately, are included in the current statement in the items liabilities for non-participating insurance contracts and liabilities for participating insurance contracts.

g) Liabilities to reinsurers and accounts payable, which used to be presented separately, are included in the current statement in accounts payable.

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

2. Statement of income:

   a) The presentation of the life insurance business report, general insurance business report and statement of income were consolidated into a single statement of income.

   b) In the current statement, the turnover of premiums received is not presented and only earned premiums are shown.

   c) Change in the reserve for unexpired risk, which used to be presented separately under retention as a separate item, has been set-off from the gross premiums and reinsurance premiums in the current statement.

   d) Commission received from reinsurers, which used to be presented separately, is included in the current statement in the revenues from commissions line.

   e) Paid and outstanding claims, and change in life insurance reserves, which used to be presented separately, are included in the current statement in increase (decrease) of insurance liabilities and payments in respect of insurance contracts.

   f) Commission fees and changes in deferred acquisition costs, which used to be presented separately, are included in the commissions and other acquisition costs item in the current statement.

   g) Short-term financial expenses which used to be set-off from investment income are presented in financial expenses in the current statement.

   h) The operations of subsidiaries, which used to be presented in one line before financing and taxes are presented in the current statement according to the items of the statement of income. Intra-Group transactions between the Company and the subsidiaries, which were not eliminated against insurance businesses in the past, are eliminated in full in the current statement.

3. Statements of cash flows and details of assets and liabilities were changed according to the changes in the balance sheet items.

d. Comments to the effect of the transition to IFRS:

Comment 1 - elimination of the reserve for extraordinary risks in life insurance:

In February 2007, the Supervisor published a circular whereby commencing from the first quarter of 2007, the reserve for extraordinary risks in life insurance will be eliminated in the financial statements of insurance companies by recording it in the statement of income as an extraordinary item, net of the tax effect.

This reserve does not comply with the provisions of IFRS 4 and, therefore, the elimination of the reserve is presented as a restatement of the opening balances of the retained earnings as of the date of transition.

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

Comment 2 - financial instruments:

a. Classification of financial instruments:

In contrast to Israeli GAAP, according to IFRS, the accounting treatment of financial instrument is based on their classification into one of the following four categories:

- Financial asset or financial liability at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets at fair value carried to capital reserve

The Company has taken decisions to designate the assets as follows:

Assets included in the investment portfolio of with-profit policies:

According to the supervisory regulations, these assets which include traded and non-traded financial instruments are included in the balance sheet at fair value.

According to IFRS, these financial instruments were designated on January 1, 2007, to the category of fair value through profit or loss due the following reasons: these are managed, separate and identified portfolios whose presentation at fair value significantly reduces the effect of any mismatch in the measurement of financial assets and financial liabilities. Also, the portfolios are managed at fair value and the portfolio's performances are measured at fair value based on a documented strategy of risk management and the information about the financial instruments is reported to the management (the relevant investments committee) and to the public based on the fair value.

These investments will be measured at fair value and the changes in fair value are taken to the statement of income.

Derivatives and financial instruments including separated embedded derivatives:

Designated to the category of at fair value through profit or loss.

Traded assets that are not included in investment portfolios against with-profit policies (nostro) excluding embedded derivatives or that represent derivatives:

According to Israeli GAAP, these assets are presented at market value and the changes are taken to the statement of income. According to IFRS, these assets will be classified as available-for-sale financial assets. These investments will be measured at fair value and changes in fair value will be reported in a capital reserve from available-for-sale financial assets.

Non-traded assets that are not included in investment portfolios against with-profit policies (nostro):

Assets that meet the criteria of the category of loans and receivables will be classified to this category and measured at amortized cost using the effective interest rate method.

Unquoted shares will be classified as available-for-sale financial assets.

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

b. Assets and liabilities linked to the Israeli CPI:

According to Israeli GAAP, these assets and liabilities which are not included in investment portfolios against with-profit policies, are measured at amortized cost whereby the balance at balance sheet date is linked to the Israeli CPI through balance sheet date.

IAS 39 does not specifically address the accounting treatment of index-linked assets and liabilities. Recently, three alternatives dealing with the possible accounting of this issue have been raised:

1. In each reporting date the cash flows should be re-estimated in order to reflect the revised forecasts as to the inflation rates until the maturity of the financial instruments and to determine the effective interest rate as of that date. This effective interest rate will be used in determining the financial expenses in the next period until a new effective rate is determined in accordance with the revised forecasts. This accounting treatment is based on the accounting treatment of financial assets and liabilities bearing variable interest as detailed in AG7 to IAS 39.

2. In each reporting date the cash flows should be re-estimated in order to reflect the revised forecasts as to the inflation rates until the maturity of the financial instruments and to determine the carrying amounts of the financial asset or liability at the financial instrument's original effective interest rate. This adjustment of the financial instrument is recognized in the statement of income. This accounting treatment is based on AG8 to IAS 39.

3. The current accounting treatment.

The professional committee of the Israel Accounting Standards Board intends to address the IFRIC with this issue and to receive its position in this issue. According to the directives of the Israel Accounting Standards Board which is accepted by the Securities Authority, until the position of the IFRIC in this issue is received, any of the three alternatives described above may be applied.

The Company elected the third alternative (measurement at amortized cost whereby the balance at balance sheet date is linked to the Israeli CPI through balance sheet date).

At this stage, the implications on the financial statements should the IFRIC not accept this alternative in its position can not be assessed.

c. The effect of the transition to IFRS as of January 1, 2007, December 31, 2007 and March 31, 2007 and for the year ended December 31, 2007, and the three months period ended March 31, 2007 has been corrected in order to reflect a mistake resulting from the recognition of a gain from sale of securities in subsidiary in capital reserve instead of in the statement of income. See also Note 2t above.

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

Comment 3 - outstanding claims in general insurance:

a. Provision for indirect expenses in general insurance for underwriting years preceding 2006:

According to the Supervisor's directives, starting the financial statement as of December 31, 2006, the provisions of outstanding claims in general insurance should include provisions for indirect expenses to settle claims that refer to policies that were issued for underwriting year 2006 and onward.

According to the Supervisor's directives, as a result of the change in principles relating to recognition of investment income pursuant to IFRS, insurance companies have to revise the way of computing investment income which is added to excess of revenues over expenses so that they will present a real level of 3% per year regardless of the yield on investments that was actually achieved. Also, the Supervisor's directives determine that the opening balances of surplus reserves as of January 1, 2007 should not be changed.

b. Indirect expenses to settle claims which were recognized as an expense and which refer to policies that were issued before underwriting year 2006 were classified from general and administrative expenses to paid and outstanding claims.

Comment 4 - deferred taxes:

According to Israeli GAAP, deferred tax assets are classified as current or non-current, based on the classification of the respective assets. According to IFRS, deferred tax assets are classified as non-current assets even if they are expected to be realized in the short-term.

Comment 5 - employee benefits:

According to Israeli GAAP, the severance pay liability is recognized based on the full liability amount assuming that all employees are dismissed under conditions which entitle them to full compensation ("shut down" method) regardless of discount rates, future salary increases and employee turnover. Also, paid annual leave and paid sick leave were computed based on an estimate of utilization and redemption, respectively.

According to IAS 19, post-employment employee benefits which are defined as benefit plans and long-term other benefits are computed on an actuarial basis which takes into account, among others, the expected length of employment of the employee, the value of time and the expected salary increase. The difference in measurement as of January 1, 2007 and December 31, 2007 is not expected to be material.

Comment 6 - share-based payments:

According to Israeli GAAP, the Company recognized share-based payment transactions settled in shares only for grants made after March 15, 2005 that had not vested at January 1, 2006. According to IFRS, share-based payment transactions granted after November 7, 2002 that had not vested as of January 1, 2007 should be recognized. The effect of share-based payment transactions granted before March 15, 2005 but not vested until January 1, 2007 on the financial statements as of the date of transition is immaterial.

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

Also, capital reserve from share-based payments for the period from March 15, 2005 to January 1, 2007 and December 31, 2007 were classified to the minority

Comment 7 - minority interests:

According to Israeli GAAP, minority interests are presented in the balance sheet outside equity whereas, according to IFRS, minority interests are presented in the balance sheet as part of equity.

Also, according to Israeli GAAP, minority interest in the results of the subsidiaries is included as part of the operating results whereas, according to IFRS, minority interest, as above, is not part of the statement of income but presented as part of the attribution of the income among the shareholders.

Comment 8 - prepaid expenses:

According to IFRS, prepaid expenses included in other accounts receivable should be classified to other assets (deferred charges) since they do not represent financial assets.

Comment 9 - dividends declared after the balance sheet date:

According to Israeli GAAP, dividends declared after the balance sheet date and before the date on which the financial statements were approved were presented as a separate component of equity in the item "dividends proposed or declared after the balance sheet date" and a respective note was disclosed in the financial statements.

Upon the transition to IFRS, dividends declared after the balance sheet date will be disclosed only in the notes

Comment 10 - net income (expenses) from other companies:

According to the Supervisor's circular of March 2008, the note should be prepared according to the presentation format of the existing Israeli GAAP including details of the items presented. As for details see notes to financial statements.

Comment 11 - contingent liabilities:

According to Israeli GAAP, the Group recognizes a provision for contingencies when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. According to IFRS, the provision should be recognized when it is more likely than not that a present obligation exists at the balance sheet date.

The effect of the transition to IFRS on the financial statements as of January 1, 2007 and December 31, 2007 and on the statement of income for the year ended December 31, 2007 is not expected to be material.

NOTE 9:- RECONCILIATION BETWEEN ISRAELI GAAP AND IFRS (Cont.)

Comment 12 - stock options:

According to Israeli GAAP, pursuant to the provisions of Standard 22 of the Israel Accounting Standards Board, the proceeds from stock options whose exercise increment is indexed are presented in equity.

Pursuant to IAS 32, "Financial Instruments: Presentation", these stock options represent a financial liability since the respective exercise increment is not fixed and, accordingly, they are presented in liabilities. The liability is measured pursuant to IAS 39, "Financial instruments: Recognition and Measurement"; accordingly, the stock options are presented at fair value in each balance sheet date and the changes in fair value are taken to the statement of income.

Comment 13 - recording minority interest in partnerships:

According to Israeli GAAP, minority interest in partnerships is not recorded but only the Company's share in partnerships is recorded. According to IFRS, the Company's share is recorded similarly to a stake in a subsidiary so that partnerships are consolidated in the financial statements as minority interests.

Comment 14 - financial derivatives:

According to Israeli GAAP, financial derivatives designated as hedges on assets and liabilities in respect of foreign currency or cash flows were recorded simultaneously with the exchange differences and the financial expenses which they were designated to hedge. According to IFRS, derivative financial instruments which do not meet the hedging criteria as determined are measured at their market prices and changes in fair value are taken to financing, net in the statement of income when incurred.

Comment 15 - proceeds from issue of shares not yet received:

According to Israeli GAAP, gain from issuance to third party and, consequently, equity, include only amounts that were actually paid for the allocation of share capital to shareholders and the unpaid amount is not reflected in the financial statements since this amount is uncertain. According to IFRS, a gain resulting from future payments to be made by the shareholders to which the shares were allocated was included in 2007 since it is probable that they will make the payment.

Comment 16 - surplus capital arising on the transition to IFRS:

Surplus capital of a subsidiary in Israel computed in accordance with the principles relating to the capital adequacy requirement in effect as of December 31, 2007, taking into account data of the financial statements pursuant to IFRS, totals approximately NIS 53,736 thousand.

It is indicated that pursuant to the Supervisor's circular of March 2008, the insurance subsidiary in Israel will not distribute the surplus capital (net) arising on the transition to IFRS and computed as of December 31, 2007, until the Supervisor determines the effect of the transition to IFRS and sets the respective principles.

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