

**Translated  
from the  
Hebrew original**

**ZUR SHAMIR HOLDINGS LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT JUNE 30, 2007**

**UNAUDITED**

**ZUR SHAMIR HOLDINGS LTD.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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The Board of Directors  
Zur Shamir Holdings Ltd.

Dear Sirs,

Re: Review report of unaudited interim consolidated financial statements  
for the six and three months periods ended June 30, 2007

At your request, we have reviewed the interim consolidated balance sheet of Zur Shamir Holdings Ltd. (hereunder – “the Company”) as at June 30, 2007, and the related consolidated statements of profit and loss, statements of changes in shareholders’ equity and consolidated statements of cash flows for the six and three months periods then ended. Our review was made in accordance with the procedures established by the Institute of Certified Public Accountants in Israel and included, among others, reading the aforementioned interim consolidated financial statements, reading minutes of the meetings of the shareholders and of the Board of Directors and its committees and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim consolidated financial statements of subsidiaries, whose assets constitute approximately 5.8% of the total consolidated assets as at June 30, 2007 and whose revenues constitute approximately 1.6% of the total consolidated revenues for the six and three months periods 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 review reports of the other accountants, as mentioned above, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles and with the Securities Regulations (Periodical and Immediate Statements), 1970, taking into account that data regarding insurance subsidiaries is prepared according to generally accepted accounting and reporting principles prescribed by the Supervision of Financial Services (Insurance) Law, 1981.

We draw attention to Note 7 with respect to requests to approve claims as class actions in a subsidiary.

Tel-Aviv,  
August 30, 2007

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

**CONSOLIDATED BALANCE SHEETS**

	<u>As at June 30,</u>		<u>As at</u>	<u>Convenience translation into U.S. \$ in thousands [see note 1 (b)]</u>
	<u>2007</u>	<u>2006</u>	<u>December 31,</u>	
	<u>Unaudited</u>		<u>2006</u>	
	<u>Reported NIS in thousands</u>		<u>Audited</u>	
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	381,429	236,138	158,756	89,769
Short term investments	18,362	25,431	25,051	4,321
Customers	23,579	18,073	16,704	5,549
Insurance companies – other accounts	47,218	53,915	56,557	11,113
Outstanding premiums	265,439	174,672	241,256	62,471
Debtors and receivables	83,850	58,604	60,106	19,734
	<u>819,877</u>	<u>566,833</u>	<u>558,430</u>	<u>192,957</u>
<b>INVESTMENTS AND LONG TERM LOANS</b>				
Investments of insurance companies	1,633,807	1,543,872	1,606,120	384,516
Reinsurers' share in insurance reserves and outstanding claims	136,388	115,718	135,499	32,099
Investment in affiliates and other companies	943	943	943	222
Loans	4,624	28,496	4,122	1,088
	<u>1,775,762</u>	<u>1,689,029</u>	<u>1,746,684</u>	<u>417,925</u>
<b>FIXED ASSETS, NET</b>	<u>217,418</u>	<u>168,521</u> *)	<u>192,220</u> *)	<u>51,169</u>
<b>INVESTMENT PROPERTY, NET</b>	<u>2,115,852</u>	<u>1,322,464</u> *)	<u>1,355,594</u> *)	<u>497,965</u>
<b>DEFERRED ACQUISITION COSTS AND OTHER ASSETS, NET</b>				
Other assets and deferred expenses, net	188,774	172,345 *)	181,411 *)	44,428
Deferred acquisition costs in insurance companies	134,863	114,567	125,392	31,740
Deferred taxes	57,513	42,634	64,341	13,536
	<u>381,150</u>	<u>329,546</u>	<u>371,144</u>	<u>89,704</u>
	<u>5,310,059</u>	<u>4,076,393</u>	<u>4,224,072</u>	<u>1,249,720</u>

\*) Reclassified.

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

**CONSOLIDATED BALANCE SHEETS**

	As at June 30,		As at	Convenience translation into U.S.\$ in thousands [see note 1 (b)]
	2007	2006	December 31, 2006	
	Unaudited		Audited	
	Reported NIS in thousands			
<b>CURRENT LIABILITIES</b>				
Credit from banking institutions	260,746	143,285	148,930	61,366
Suppliers and service providers	61,122	48,300	64,850	14,385
Insurance companies	13,237	12,938	17,670	3,115
Creditors and payables	200,166	139,005	217,230	47,109
Current maturity of debentures convertible into subsidiary's shares	5	-	5	1
Current maturity of debentures and subordinated deeds of subsidiaries	92,210	6	39,456	21,702
	<u>627,486</u>	<u>343,534</u>	<u>488,141</u>	<u>147,678</u>
<b>LONG TERM LIABILITIES</b>				
Debentures convertible into subsidiary's shares	6	11	6	1
Company's debentures	353,429	355,730	351,277	83,179
Subsidiaries' debentures and subordinated deeds	692,037	536,755	491,474	162,871
Loans from banking institutions and others	1,032,866	837,004	878,639	243,084
Deferred taxes	105,937	33,787	32,336	24,932
Liability to cover affiliate's losses	4,352	9,467	5,108	1,024
Liabilities for severance pay, net	675	813	1,047	159
	<u>2,189,302</u>	<u>1,773,567</u>	<u>1,759,887</u>	<u>515,250</u>
<b>INSURANCE RESERVES AND OUTSTANDING CLAIMS OF INSURANCE COMPANIES</b>	<u>1,601,400</u>	<u>1,448,061</u>	<u>1,538,816</u>	<u>376,889</u>
<b>MINORITY INTEREST</b>	<u>508,273</u>	<u>300,328</u>	<u>272,431</u>	<u>119,622</u>
<b>RECEIPTS ON ACCOUNT OF OPTIONS REALIZABLE INTO SUBSIDIARY SHARES</b>	<u>400</u>	<u>5,410</u>	<u>3,567</u>	<u>95</u>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	213,489	213,489	213,489	50,245
Capital reserves	89,073	91,542	67,860	20,963
Receipts on account of options	1,410	1,410	1,410	332
Retained earning (loss)	140,400	(39,774)	(60,355)	33,043
	<u>444,372</u>	<u>266,667</u>	<u>222,404</u>	<u>104,583</u>
Shares held by the Company	(61,174)	(61,174)	(61,174)	(14,397)
	<u>383,198</u>	<u>205,493</u>	<u>161,230</u>	<u>90,186</u>
	<u>5,310,059</u>	<u>4,076,393</u>	<u>4,224,072</u>	<u>1,249,720</u>

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

August 30, 2007

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  
Chief Financial Officer

**CONSOLIDATED STATEMENTS OF PROFIT AND LOSS**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,	Convenience translation into U.S.\$ in thousands [see note 1 (b)]
	2007	2006	2007	2006	2006	
	Unaudited				Audited	
	Reported NIS in thousands (except for earnings (loss) per share data)					
<b>Income</b>						
From insurance business	498,847	449,811	258,865	229,970	914,545	117,403
From lease of assets	65,470	65,114	33,862	32,307	123,758	15,408
From asset management and stock exchange services	26,871	7,030	18,210	4,573	21,547	6,324
From grant of consumer credit	515	-	403	-	-	121
	<u>591,703</u>	<u>521,955</u>	<u>311,340</u>	<u>266,850</u>	<u>1,059,850</u>	<u>139,256</u>
<b>Costs and expenses</b>						
Insurance business	442,131	406,369 *)	233,417	203,093 *)	795,958 *)	104,055
Leasing of assets	14,117	27,223	8,456	14,501	82,808	3,322
From asset management and stock exchange services	32,907	13,862	18,003	7,572	37,385	7,745
From grant of consumer credit	8,733	-	6,079	-	4,501 *)	2,055
Initiation and establishment of activities in the financial field	30,325	6,788 *)	18,856	4,784 *)	27,669	7,137
Administrative and general expenses	3,649	6,041	1,872	4,184	10,546	859
Financing, net	50,203	53,278	30,257	28,661	90,017	11,815
	<u>582,065</u>	<u>513,561</u>	<u>316,940</u>	<u>262,795</u>	<u>1,048,884</u>	<u>136,988</u>
Profit (loss) from ordinary activities	9,638	8,394	(5,600)	4,055	10,966	2,268
Other income (expenses), net	(19,546)	117,364	(5,326)	111,483	121,672	(4,600)
Profit (loss) before taxes on income	(9,908)	125,758	(10,926)	115,538	132,638	(2,332)
Taxes on income	28,869	20,022	14,622	13,588	46,901	6,794
Profit (loss) after taxes on income	(38,777)	105,736	(25,548)	101,950	85,737	(9,126)
Company's share in (profits) losses of affiliate	747	(2,976)	714	(1,108)	147	176
Minority's share in profits of subsidiaries	(6,250)	(66,398)	(225)	(60,595)	(70,103)	(1,471)
Profit (loss) for the period before extraordinary item	(44,280)	36,362	(25,059)	40,247	15,781	(10,421)
Extraordinary item:						
Cancellation of provision for extraordinary risks reserve in life assurance net of the tax effect and the minority's share (Note 5)	18,466	-	-	-	-	4,346
Net profit (loss) for the period	<u>(25,814)</u>	<u>36,362</u>	<u>(25,059)</u>	<u>40,247</u>	<u>15,781</u>	<u>(6,075)</u>
Earnings per share:						
Net earnings (loss) per share (in NIS):						
<b>Basic</b>						
Before extraordinary item, net	(0.71)	0.60	(0.40)	0.67	0.26	(0.16)
Extraordinary item, net	0.30	-	-	-	-	0.07
Net earnings (loss) per share	<u>(0.41)</u>	<u>0.60</u>	<u>(0.40)</u>	<u>0.67</u>	<u>0.26</u>	<u>(0.09)</u>
<b>Diluted</b>						
Net earnings (loss) per share	<u>(0.41)</u>	<u>0.56</u>	<u>(0.40)</u>	<u>0.62</u>	<u>0.24</u>	<u>(0.09)</u>

\*) Reclassified.

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

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share capital	Share premium	Capital reserves	Receipts on account of options	Adjustments due to translation of foreign subsidiaries' financial statements	Retained earning (loss)	Net of shares held by the Company	Total
	Reported NIS in thousands							
<b>Balance as at January 1, 2006 (Audited)</b>	211,878	27,665	2,818	-	28,091	(56,136)	(61,174)	153,142
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	(4,675)	-	-	(4,675)
Tax benefit in respect of capital instruments to employees in a subsidiary	-	-	399	-	-	-	-	399
Cost of share based payment	-	-	6,340	-	-	-	-	6,340
Conversion of capital notes	11	20	-	-	-	-	-	31
Issue of shares and options	1,600	7,202	-	1,410	-	-	-	10,212
Dividend paid	-	-	-	-	-	(20,000)	-	(20,000)
Net profit for the period	-	-	-	-	-	15,781	-	15,781
<b>Balance as at December 31, 2006 (Audited)</b>	213,489	34,887	9,557	1,410	23,416	(60,355)	(61,174)	161,230
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	19,048	-	-	19,048
Tax benefit in respect of capital instruments to employees in a subsidiary	-	-	82	-	-	-	-	82
Cost of share based payment	-	-	2,083	-	-	-	-	2,083
Measurement of investment property in accordance with the fair value model, net *)	-	-	-	-	-	226,569	-	226,569
Loss for the period	-	-	-	-	-	(25,814)	-	(25,814)
<b>Balance as at June 30, 2007 (Unaudited)</b>	213,489	34,887	11,722	1,410	42,464	140,400	(61,174)	383,198

\*) See Note 2(b).

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Receipts on account of options	Adjustments due to translation of foreign subsidiaries' financial statements	Retained loss	Net of shares held by the Company	Dividend declared after the balance sheet date	Total
	Reported NIS in thousands								
<b>Balance as at January 1, 2006 (Audited)</b>	211,878	27,665	2,818	-	28,091	(56,136)	(61,174)	-	153,142
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	3,000	-	-	-	3,000
Cost of share based payment	-	-	2,621	-	-	-	-	-	2,621
Capital reserve in respect of capital instruments	-	-	125	-	-	-	-	-	125
Conversion of capital notes	11	20	-	-	-	-	-	-	31
Issue of shares and options	1,600	7,202	-	1,410	-	-	-	-	10,212
Dividend declared after the balance sheet date	-	-	-	-	-	(20,000)	-	20,000	-
Net profit for the period	-	-	-	-	-	36,362	-	-	36,362
<b>Balance as at June 30, 2006 (Unaudited)</b>	<u>213,489</u>	<u>34,887</u>	<u>5,564</u>	<u>1,410</u>	<u>31,091</u>	<u>(39,774)</u>	<u>(61,174)</u>	<u>20,000</u>	<u>205,493</u>
<b>Balance as at April 1, 2007 (Unaudited)</b>	213,489	34,887	10,650	1,410	20,457	165,459	(61,174)	-	385,178
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	22,007	-	-	-	22,007
Cost of share based payment	-	-	1,072	-	-	-	-	-	1,072
Loss for the period	-	-	-	-	-	(25,059)	-	-	(25,059)
<b>Balance as at June 30, 2007 (Unaudited)</b>	<u>213,489</u>	<u>34,887</u>	<u>11,722</u>	<u>1,410</u>	<u>42,464</u>	<u>140,400</u>	<u>(61,174)</u>	<u>-</u>	<u>383,198</u>
<b>Balance as at April 1, 2006 (Unaudited)</b>	211,889	27,685	4,156	-	31,976	(60,021)	(61,174)	-	154,511
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	(885)	-	-	-	(885)
Cost of share based payment	-	-	1,310	-	-	-	-	-	1,310
Capital reserve in respect of capital instruments	-	-	98	-	-	-	-	-	98
Issue of shares and options	1,600	7,202	-	1,410	-	-	-	-	10,212
Dividend declared after the balance sheet date	-	-	-	-	-	(20,000)	-	20,000	-
Net profit for the period	-	-	-	-	-	40,247	-	-	40,247
<b>Balance as at June 30, 2006 (Unaudited)</b>	<u>213,489</u>	<u>34,887</u>	<u>5,564</u>	<u>1,410</u>	<u>31,091</u>	<u>(39,774)</u>	<u>(61,174)</u>	<u>20,000</u>	<u>205,493</u>

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Receipts on account of options	Adjustments due to translation of foreign subsidiaries' financial statements	Retained loss	Net of shares held by the Company	Total
	Convenience translation into U.S.\$ in thousands							
<b>Balance as at December 31, 2006 (Audited)</b>	50,245	8,211	2,249	332	5,511	(14,205)	(14,397)	37,946
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	-	4,483	-	-	4,483
Tax benefit in respect of capital instruments to employees in a subsidiary	-	-	19	-	-	-	-	19
Cost of share based payment	-	-	490	-	-	-	-	490
Measurement of investment property in accordance with the fair value model, net *)	-	-	-	-	-	53,323	-	53,323
Loss for the period	-	-	-	-	-	(6,075)	-	(6,075)
<b>Balance as at June 30, 2007 (Unaudited)</b>	<u>50,245</u>	<u>8,211</u>	<u>2,758</u>	<u>332</u>	<u>9,994</u>	<u>33,043</u>	<u>(14,397)</u>	<u>90,186</u>

\* See Note 2(b).

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,	Convenience translation into U.S.\$ in thousands [see note 1(b)]
	2007	2006	2007	2006	2006	
	Unaudited				Audited	
	Reported NIS in thousands					
<b>CASH FLOWS FROM CURRENT ACTIVITIES</b>						
Net profit (loss) for the period	(25,814)	36,362	(25,059)	40,247	15,781	(6,075)
(Profit) loss from insurance business	(11,378)	(7,603)	22,299	(9,536)	(16,213)	(2,678)
	(37,192)	28,759	(2,760)	30,711	(432)	(8,753)
Adjustments required to present cash flows from current activities excluding insurance business (a)	40,221	(19,739)	5,412	(37,593)	25,540	9,466
Net cash provided by (used in) current activities excluding insurance business	3,029	9,020	2,652	(6,882)	25,108	713
Net cash provided by (used in) current activities in life assurance business (b)	22,786	10,683	(5,886)	5,776	(15,104)	5,363
Net cash provided by current activities in general insurance business (c)	108,976	88,124	82,709	91,379	157,063	25,647
Net cash used in other current activities in insurance business (d)	(25,136)	(51,374)	(47,244)	(38,307)	(92,891)	(5,916)
	109,655	56,453	32,231	51,966	74,176	25,807
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>						
Acquisition of subsidiaries' shares and debentures from minority shareholders	-	(2,256)	-	-	(43,741)	-
Exit from consolidation of a subsidiary consolidated in the past (g)	-	1,698	-	-	1,698	-
Acquisition of investment property and fixed assets	(273,563)	(116,275)	(95,751)	(72,713)	(254,028)	(64,383)
Proceeds from sale of fixed assets	143	367,249	49	348,032	367,765	34
Realization of securities, net	6,615	6,153	1,402	287	5,574	1,557
Settlement (grant) of long term loans	4	49	(13)	44	23,786	1
Other assets and deferred expenses	(7,605)	(57,822)	(7,605)	(16,378)	(58,165)	(1,790)
Net cash provided by (used in) investment activities excluding insurance business	(274,406)	198,796	(101,918)	259,272	42,889	(64,581)
Net cash used in investment activities in insurance business (e)	(129,618)	(28,751)	(67,167)	(31,872)	(43,676)	(30,506)
	(404,024)	170,045	(169,085)	227,400	(787)	(95,087)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,	Convenience translation into U.S.\$ in thousands [see note 1(b)]
	2007	2006	2007	2006	2006	
	Unaudited				Audited	
Reported NIS in thousands						
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Issue of shares and options net of issue expenses	-	10,212	-	10,212	10,212	-
Redemption of convertible capital notes	-	(481)	-	(481)	(481)	-
Settlement of debentures convertible into subsidiary's shares	-	-	-	-	(6)	-
Issue of debentures of a subsidiary	248,137	87,579	75,884	-	87,579	58,399
Issue of debentures	-	54,615	-	-	52,395	-
Issue of shares to minority in subsidiaries	65,300	8,155	1,486	-	32,697	15,368
Settlement of long term loans from banking institutions	(159,861)	(277,161)	(149,094)	(259,824)	(356,135)	(37,623)
Receipt of long term loans from banking institutions	261,076	128,796	236,559	795	251,296	61,444
Increase in short term credit from banking institutions, net	111,965	(96,648)	(12,297)	(316)	(54,146)	26,351
Payment of dividend to minority in subsidiary	-	(4,712)	-	(4,712)	(14,406)	-
Dividend paid	-	-	-	-	(20,000)	-
Net cash provided by (used in) financing activities	526,617	(89,645)	152,538	(254,326)	(10,995)	123,939
Net cash used in financing activities in insurance business (f)	(9,382)	(9,936)	(9,597)	(10,094)	(12,788)	(2,208)
	517,235	(99,581)	142,941	(264,420)	(23,783)	121,731
<b>Translation differences due to cash balances in autonomous foreign subsidiaries</b>	(193)	1,888	(447)	(1,527)	1,817	(45)
<b>Increase in cash and cash equivalents</b>	222,673	128,805	5,640	13,419	51,423	52,406
<b>Balance of cash and cash equivalents at the beginning of the period</b>	158,756	107,333	375,789	222,719	107,333	37,363
<b>Balance of cash and cash equivalents at the end of the period</b>	381,429	236,138	381,429	236,138	158,756	89,769

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended		Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see note 1(b)]
	June 30,		June 30,		December 31,	
	2007	2006	2007	2006	2006	
	Unaudited				Audited	
	Reported NIS in thousands					
<b>A. Adjustments required to present cash flows from current activities excluding insurance business</b>						
Income and expenses not involving cash flows:						
Company's share in losses (profits) of affiliates	(747)	2,976	(714)	1,108	(147)	(176)
Minority's share in income of subsidiaries	5,708	58,537	2,213	56,223	51,498	1,343
Depreciation and amortization	7,828	18,595	2,371	8,263	41,504	1,842
Capital gain (loss), net	4	(124,363)	16	(120,828)	(124,861)	1
Capital gain (loss) from issue to a third party	20,051	(530)	5,766	-	(5,533)	4,719
Deferred taxes, net	8,721	(8,860)	8,499	(8,512)	(29,674)	2,052
Capital gain from realization of investment in subsidiary	-	(781)	-	-	(781)	-
Liabilities for severance pay, net	(322)	159	(329)	173	267	(76)
Cost of share based payment	696	-	73	-	603	164
Decrease (increase) in value of securities, net	74	(808)	45	(1,154)	151	17
Interest and erosion of long term loans and liabilities, net	13,350	7,440	15,325	9,420	14,454	3,145
	<u>55,363</u>	<u>(47,635)</u>	<u>33,265</u>	<u>(55,307)</u>	<u>(52,519)</u>	<u>13,031</u>
Changes in asset and liabilities items:						
Decrease (increase) in customers	(3,444)	8,718	(232)	(161)	10,180	(811)
Decrease (increase) in debtors and receivables	(13,918)	(3,703)	(4,861)	10,692	(2,569)	(3,276)
Increase (decrease) in suppliers and service providers	(4,333)	2,178	(233)	11,661	19,243	(1,020)
Increase (decrease) in creditors and payables	6,553	20,703	(22,527)	(4,478)	51,205	1,542
	<u>(15,142)</u>	<u>27,896</u>	<u>(27,853)</u>	<u>17,714</u>	<u>78,059</u>	<u>(3,565)</u>
	<u>40,221</u>	<u>(19,739)</u>	<u>5,412</u>	<u>(37,593)</u>	<u>25,540</u>	<u>9,466</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended		Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see note 1(b)]
	June 30,		June 30,		December 31,	
	2007	2006	2007	2006	2006	
	Unaudited				Audited	
	Reported NIS in thousands					
<b>B. Cash flows from current activities in life assurance business</b>						
Income from life assurance business	6,907	8,935	3,024	5,298	19,455	1,626
Items not involving cash flows:						
Increase in insurance reserves net of reinsurance	2,018	24,064	20,277	12,628	72,425	475
Increase (decrease) in outstanding claims net of reinsurance	584	95	(604)	146	34	137
Depreciation	979	443	688	198	1,710	230
Investments, net:						
Securities	(23,799)	(20,146)	(30,074)	(9,088)	(73,840)	(5,601)
Deposits with banks	33,884	16	(165)	(79)	(33,956)	7,975
Loans	(843)	(246)	(453)	(222)	(1,175)	(198)
Changes in other balance sheet items, net:						
Insurance companies	(3,294)	(1,428)	(5,373)	(2,437)	915	(775)
Outstanding premiums	(506)	(155)	(294)	65	(666)	(119)
Debtors and receivables	(42)	(8)	(34)	(87)	89	(10)
Creditors and payables	6,898	(887)	7,122	(646)	(95)	1,623
Net cash provided by (used in) current activities in life assurance business	<u>22,786</u>	<u>10,683</u>	<u>(5,886)</u>	<u>5,776</u>	<u>(15,104)</u>	<u>5,363</u>
<b>C. Cash flows from current activities in general insurance business</b>						
Income from general insurance business	44,551	58,873	16,099	39,154	128,344	10,485
Items not involving cash flows:						
Increase in insurance reserve net of reinsurance	33,917	14,700	10,843	1,031	24,666	7,982
Increase in outstanding claims net of reinsurance	14,476	10,369	13,334	10,370	15,763	3,407
Decrease (increase) in deferred acquisition costs	(6,321)	138	(2,921)	2,095	(5,578)	(1,488)
Depreciation	8,859	7,397	4,321	5,424	16,379	2,085
Investments, net:						
Securities	92,158	888	53,951	28,867	(51,105)	21,689
Deposits with banks	(31,111)	4,954	(267)	(2,100)	73,907	(7,322)
Changes in other balance sheet items, net:						
Insurance companies	8,200	(6,682)	7,645	1,496	(7,009)	1,930
Outstanding premiums	(22,483)	2,261	(11,499)	771	(62,701)	(5,291)
Debtors and receivables	(6,078)	604	(2,645)	1,880	3,724	(1,430)
Creditors and payables	(27,192)	(5,378)	(6,152)	2,391	20,673	(6,400)
Net cash provided by current activities in general insurance business	<u>108,976</u>	<u>88,124</u>	<u>82,709</u>	<u>91,379</u>	<u>157,063</u>	<u>25,647</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended		Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see note 1(b)]
	June 30,		June 30,		December 31,	
	2007	2006	2007	2006	2006	
	Unaudited				Audited	
	Reported NIS in thousands					
<b>D. Cash flows from other current activities in insurance business</b>						
Net profit (loss) for the period from insurance business	11,378	7,603	(22,299)	9,536	9,233	2,678
Profit from general insurance and life assurance business	(51,458)	(67,808)	(19,123)	(44,452)	(140,819)	(12,111)
	(40,080)	(60,205)	(41,422)	(34,916)	(131,586)	(9,433)
Items not involving cash flows:						
Cost of share based payment	3,219	3,994	1,664	1,997	9,704	758
Deferred taxes	663	4,786	3,551	5,706	5,136	156
Minority's share in profits of subsidiaries	18,741	7,861	(1,988)	4,372	18,599	4,411
Capital gain	(493)	(346)	(319)	(377)	(355)	(116)
Depreciation and amortization	5,352	5,506	2,638	2,870	9,358	1,260
Erosion of loans received from the minority in subsidiaries	10	-	2	-	18	2
Erosion of subordinated deeds	3,411	5,984	3,306	4,497	4,373	802
Negative initial difference created upon acquisition	-	(812)	-	(812)	(812)	-
Increase in deferred acquisition costs in insurance	(1,602)	(4,571)	(452)	(2,367)	(8,558)	(377)
Changes in other balance sheet items, net:						
Decrease (increase) in debtors and receivables	(6,785)	(3,576)	(3,551)	(11,192)	(6,198)	(1,597)
Increase (decrease) in creditors and payables, net	(7,572)	(9,995)	(10,673)	(8,085)	7,430	(1,782)
Net cash used in other current activities in insurance business	(25,136)	(51,374)	(47,244)	(38,307)	(92,891)	(5,916)
<b>E. Cash flows from investment activities in insurance business</b>						
Increase in investments of insurance companies, net	(89,063)	(18,642)	(41,515)	(26,289)	(3,639)	(20,961)
Acquisition of minority shares in a subsidiary	(1,177)	-	-	-	-	(277)
Acquisition of fixed assets and investment property	(40,811)	(10,815)	(25,770)	(6,199)	(40,532)	(9,605)
Acquisition of a subsidiary proportionally consolidated in the past (h)	-	514	-	514	514	-
Proceeds from the sale of fixed assets	1,433	192	118	102	4,382	337
Acquisition of a subsidiary consolidated for the first time, net (i)	-	-	-	-	(4,401)	-
Net cash used in investment activities in insurance business	(129,618)	(28,751)	(67,167)	(31,872)	(43,676)	(30,506)

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended		Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see note 1(b)]
	June 30,		June 30,		December 31,	
	2007	2006	2007	2006	2006	
	Unaudited				Audited	
	Reported NIS in thousands					
<b>F. Cash flows from financing activities in insurance business</b>						
Settlement of loan form minority in subsidiary	(300)	-	-	-	-	(71)
Receipt of loan form minority in subsidiary	-	-	-	-	600	-
Proceeds from the realization of shares in insurance subsidiaries	1,270	497	755	339	1,682	299
Dividend paid to a minority in insurance subsidiaries	(10,352)	(10,433)	(10,352)	(10,433)	(15,070)	(2,436)
Net cash used in financing activities in insurance business	(9,382)	(9,936)	(9,597)	(10,094)	(12,788)	(2,208)
<b>G. Exit from consolidation of a subsidiary consolidated in the past</b>						
Capital gain from realization of investment in a subsidiary	-	781	-	-	781	-
Working capital (not including cash and cash equivalents)	-	(1,599)	-	-	(1,599)	-
Fixed assets, net	-	3,534	-	-	3,534	-
Long term liabilities	-	(1,018)	-	-	(1,018)	-
	-	1,698	-	-	1,698	-
<b>H. Acquisition of a subsidiary proportionally consolidated in the past</b>						
Working capital (not including cash and cash equivalents)	-	199	-	199	199	-
Fixed assets, net	-	(1,309)	-	(1,309)	(1,309)	-
Negative initial difference	-	812	-	812	812	-
Minority interest	-	812	-	812	812	-
	-	514	-	514	514	-

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended		Three months ended		Year ended	Convenience translation into U.S.\$ in thousands [see note 1(b)]
	June 30,		June 30,		December 31,	
	2007	2006	2007	2006	2006	
	Unaudited				Audited	
	Reported NIS in thousands					
<b>I. Acquisition of a subsidiary consolidated for the first time</b>						
Working capital (not including cash and cash equivalents)	-	-	-	-	(1,886)	-
Fixed assets, net	-	-	-	-	(417)	-
Initial difference created upon acquisition	-	-	-	-	(2,808)	-
Outstanding premium	-	-	-	-	(5)	-
Insurance reserves net of reinsurance	-	-	-	-	16	-
Outstanding claims net of reinsurance	-	-	-	-	625	-
Insurance companies	-	-	-	-	74	-
	-	-	-	-	(4,401)	-
<b>J. Significant activities not involving cash flows</b>						
Issue of capital against the conversion of convertible capital notes	-	31	-	-	31	-
Acquisition of fixed assets against suppliers and service providers	7,846	-	3,588	-	10,670	1,847
Sale of a building against debtors and receivables	-	-	-	-	464	-
Customers and other assets against capital gain	-	-	-	-	20,252	-

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

- a. These financial statements have been prepared in a condensed format as of June 30, 2007, and for the six and three month periods then ended (hereunder - interim financial statements). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as at December 31, 2006 and for the year then ended.
- b. The interim consolidated financial statements as at June 30, 2007 and for the six and three months then ended have been translated into U.S. dollars using the representative foreign exchange rate as at that date (U. S. \$ 1 = NIS 4.25) The translation was made solely for the convenience of the reader.

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

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

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

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

- b. Initial adoption of new Accounting Standards
  1. Regarding reserve for extraordinary risks in life assurance in a subsidiary, see Note 5 below.
  2. Accounting Standard No. 16 - Investment Property

From January 1, 2007, the Company and its subsidiaries implement the provisions of Accounting Standard No. 16, Investment Property (hereunder - the Standard) of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment and disclosure requirements of investment properties.

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Initial adoption of new Accounting Standards (Cont.)

2. Accounting Standard No. 16 - Investment Property (Cont.)

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

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

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

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

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

As a result of the initial adoption of the Company and the subsidiaries reclassified computer software which does not constitute an integral part of the related hardware to the depreciated cost of NIS 13,131 thousand as at June 30, 2006 and in the amount of NIS 26,724 as at December 31, 2006, from the item "fixed assets" to the item "other assets".

c. Disclosure of the effects of new Accounting Standards prior to their adoptionAccounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS)

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

International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

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

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

For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- c. Disclosure of the effects of new Accounting Standards prior to their adoption (Cont.)

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

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

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

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

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

There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements.

## NOTES TO THE FINANCIAL STATEMENTS

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

As at	Israeli CPI in points *)	Representative exchange rate of U.S. dollars	Representative exchange rate of Canadian dollars	Representative exchange rate of Pound Sterling NIS	Representative exchange rate of Euro	Representative exchange rate of Zloty
		%	%	%	%	%
June 30, 2007	111.0	4.249	4.019	8.506	5.713	1.530
June 30, 2006	111.7	4.440	4.000	8.138	5.644	1.381
December 31, 2006	109.9	4.225	3.641	8.289	5.564	1.453
<b>Rate of change during the period</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
June 30, 2007 (six months)	1.0	0.6	10.4	2.6	2.7	5.3
June 30, 2006 (six months)	1.5	(3.5)	0.1	2.5	3.6	(2.2)
June 30, 2007 (three months)	1.2	2.3	11.6	4.7	3.2	6.5
June 30, 2006 (three months)	0.1	(0.8)	(0.5)	0.1	(0.3)	(4.3)
December 2006 (12 months)	0.1	(8.2)	(8.2)	4.4	2.2	3.0

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

## NOTE 4:- INFORMATION ACCORDING TO BUSINESS SEGMENTS

Beginning from this quarter, the Company issues a report regarding the segment of granting consumer credit. A subsidiary of the Company started granting loans for financing the acquisition of private vehicles.

	Six month period ended June 30, 2007					Total
	Insurance	Leasing of assets	Asset management and stock exchange services	Grant of consumer credit	Adjustments	
Reported NIS in thousands						
Income	498,847	65,470	26,871	515	-	591,703
Inter-company income	-	5,127	-	-	(5,127)	-
Total	498,847	70,597	26,871	515	(5,127)	591,703
Segment results	17,902	19,532	(2,092)	(8,453)		26,889
Administrative and general expenses and financing expenses, net not allocated to business segments						(17,251)
Profit from ordinary activities						9,638

## NOTES TO THE FINANCIAL STATEMENTS

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

	<b>Six month period ended June 30, 2006</b>				
	<b>Insurance</b>	<b>Leasing of assets</b>	<b>Asset management and stock exchange services</b>	<b>Adjustments</b>	<b>Total</b>
<b>Reported NIS in thousands</b>					
Income	449,811	65,114	7,030	-	521,955
Inter-company income	-	3,284	-	(3,284)	-
Total	<u>449,811</u>	<u>68,398</u>	<u>7,030</u>	<u>(3,284)</u>	<u>521,955</u>
Segment results	<u>32,586</u>	<u>3,535</u>	<u>(5,926)</u>		30,195
Administrative and general expenses and financing expenses, net not allocated to business segments					<u>(21,801)</u>
Profit from ordinary activities					<u>8,394</u>

	<b>Three months ended June 30, 2007</b>					
	<b>Insurance</b>	<b>Leasing of assets</b>	<b>Asset management and stock exchange services</b>	<b>Grant of consumer credit</b>	<b>Adjustments</b>	<b>Total</b>
<b>Reported NIS in thousands</b>						
Income	258,865	33,862	18,210	403	-	311,340
Inter-company income	-	2,652	-	-	(2,652)	-
Total	<u>258,865</u>	<u>36,514</u>	<u>18,210</u>	<u>403</u>	<u>(2,652)</u>	<u>311,340</u>
Segment results	<u>3,547</u>	<u>6,796</u>	<u>1,009</u>	<u>(5,911)</u>		5,441
Administrative and general expenses and financing expenses, net not allocated to business segments						<u>(11,041)</u>
Loss from ordinary activities						<u>(5,600)</u>

## NOTES TO THE FINANCIAL STATEMENTS

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

	<b>Three month period ended June 30, 2006</b>				
	<b>Insurance</b>	<b>Leasing of assets</b>	<b>Asset management and stock exchange services</b>	<b>Adjustments</b>	<b>Total</b>
	<b>Reported NIS in thousands</b>				
Income	229,970	32,307	4,573	-	266,850
Inter-company income	-	2,591	-	(2,591)	-
<b>Total</b>	<b>229,970</b>	<b>34,898</b>	<b>4,573</b>	<b>(2,591)</b>	<b>266,850</b>
Segment results	19,609	1,191	(2,948)		17,852
Administrative and general expenses and financing expenses, net not allocated to business segments					(13,797)
Profit from ordinary activities					4,055

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 5:- CANCELLATION OF THE RESERVE FOR EXTRAORDINARY RISKS IN LIFE ASSURANCE IN AN INSURANCE SUBSIDIARY**

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

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

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

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

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

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

**NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD**

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

During April 2007 2,526,666 option warrants (Series 6) of Adgar which were held by employees of a subsidiary, were realized into 1,486,068 ordinary shares of NIS 1 par value each, in consideration for about NIS 1,486 thousand.

During the reported period Adgar issued to institutional entities 6,185,526 ordinary shares of NIS 1 par value each, in consideration for about NIS 38,234 thousand (net of issue expenses).

As a result of the issue and realization of the options, as mentioned above, the Company's rate of holding in Adgar decreased from 66% to 57%. The capital loss that was recorded as a result of the issue and realization of the options amounted to about NIS 20 million.

## NOTES TO THE FINANCIAL STATEMENTS

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

- b. During the reported period a subsidiary of Adgar acquired an office building in Toronto, Canada on the area of 9,800 square meters in consideration for 15.5 million Canadian dollars. 70% of the building is occupied. The anticipated annual leasing fees at full occupancy is 1.5 million Canadian dollars.

Adgar estimates that an additional investment in the amount of about 1 million Canadian dollars will be required for occupying the entire building.

- c. During the reported period a subsidiary of Adgar acquired an office building in Toronto, Canada on the area of about 10,900 square meters and 50% of the building rights on an area next to the building. The total area of the land is 4,400 square meters and the total building rights amount to 13,500 square meters for commercial use and office premises. 97% of the building is occupied.

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

- d. During the reported period Adgar acquired real estate in Petach Tikva, which includes land on the area of 9,000 square meters and a building that serves as storage and for office premises on the area of 5,000 square meters, in consideration for about U.S. \$ 9 million. Adgar is examining the construction of an office building on the acquired area. The present building rights are about 20 thousand square meters for lease. Adgar plans to work at obtaining additional building rights.

- e. In March and May 2007, Adgar issued to Clal Finance Batucha Brokerage Ltd. (hereunder – "Clal Finance") NIS 250 million nominal value debentures (Series E), with the possibility that Clal Finance distribute the debentures (Series E) to institutional investors. The debentures will be settled in 5 annual equal payments, beginning from March 12, 2011 and up to March 12, 2015. The nominal interest is 4.70%, linked to the CPI (the index is based on the index in respect of January 2007) which is paid once a year. The Company has committed to list the debentures for trade on the Tel-Aviv Stock Exchange up to September 15, 2007. In the event that the Company does not do so, the investors will have the option to demand an early redemption of the debentures (linked to the CPI). Up to the date the debentures were listed for trade, the interest was 5.25%. The net consideration amounted to about NIS 248 million.

- f. Acquisition of investment property

During the reported period Adgar acquired the rights in a real estate project in Tel-Aviv on the area of about 21,500 square meters, for office premises, 3,500 square meters commercial area and 5,700 square meters storage area. The project also includes additional building rights on an area of about 34,000 square meters, in accordance with a plan that was approved.

About 96% of the area is occupied. The present leasing fees are about NIS 18.3 million.

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**f. Acquisition of investment property (Cont.)

The total acquisition cost of the rights is about NIS 452 million which will be financed out of the Company's own sources and from loans that will be taken against a pledge on the asset.

The acquisition transaction is subject to the approval of the creditor of the asset's seller and the compliance with two conditions which are the receipt of the court's approval for performing the transaction and receipt of a written agreement from the Tel-Aviv Municipality, who is the registered owner of the asset, to transfer the rights and liabilities of the seller to the Company.

The court's approval was received during August 2007.

The sellers will be entitled, at their sole discretion, to cancel the acquisition agreement with the Company if all the suspending conditions are not met up to May 31, 2008.

g. Issue of subsidiary shares to a third party

1. On 6 June 2007, after approvals were received from Direct Insurance Financial Investments Ltd.'s ("the subsidiary") Audit Committee and its Board of Directors on the aforementioned date, the subsidiary and its wholly owned subsidiary, GDII – Global Direct Insurance Investments B.V. ("GDII"), signed an agreement with Royal & Sun Alliance Insurance Group plc ("R&SA" or the "Investor"), a company traded on the London Stock Exchange (hereunder - the "Agreement" or the "Investment Agreement"), according to which, subject to the fulfillment of suspending conditions, R&SA will receive an allotment of GDII shares which, after such issue, will constitute 50% of the GDII shares, so that after the allotment the subsidiary and R&SA will hold GDII shares in equal parts. The purpose of the aforesaid transaction is to turn GDII into a joint entrepreneur between the Company and R&SA to be held by them in equal parts. On August 28, 2007, the agreement was approved by the subsidiary's general meeting of the shareholders and by the general meeting of the shareholders of the Company.
2. In consideration for the issue of the shares, R&SA will invest the sum of U.S. \$ 170 million in GDII ("the investment amount"), of which U.S. \$ 120 million will be paid at completion of the transaction (which will be performed after the fulfillment of the suspending conditions), whereas the balance will be paid in 4 installments up to June 30, 2010 ("date of final payment"). According to the investment agreement it was agreed that on the date the transaction is completed and/or right before it is completed, GDII will pay back to the subsidiary part of the capital that the subsidiary invested in GDII, as well as all the owners' loans that were granted to GDII by the subsidiary and any other owners' loans and all additional owners' loans, insofar as it receives from the subsidiary up to the date of completion of the transaction (the "owners' loans") (as at June 30, 2007, the relevant capital refund and all the owners' loans that will be returned to the subsidiary amount to about € 33 million).

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**g. Issue of subsidiary shares to a third party (Cont.)

3. The agreement between the parties also includes a number of additional agreements, which any of the subsidiary, GDII or the sub-subsidiary (owned wholly by GDII) Link 4 Towarzystwo Ubezpieczen Spolka Akcyjna (hereunder - "Link4") entered and/or will enter into at the time of completion of the transaction, according to the version that was agreed upon, as follows: (a) a loan agreement between the subsidiary and GDII regarding an interest free loan in a total amount of U.S. dollars 33 million, to be provided by GDII to the subsidiary on the date of completion of the transaction, which is to be repaid in 3 installments by the date of final payment; (b) shareholders agreement which settles the relationship between the subsidiary and the Investor, among others, their joint holdings and control in the GDII and the manner in which its activities will be managed, the areas in which it shall work and the territories in which it shall operate; (c) a service agreement regarding services to be provided by the Investor and the subsidiary to GDII, whether general services or by providing officers on behalf of any party ("Services Agreement"), and whereby it was determined, among others, that: (1) in consideration for the general services GDII shall pay amounts that increase annually, up to a sum of U.S. dollars 1,000,000 per annum to each one of the Investors and the subsidiary; (2) part of the services that the subsidiary will provide to GDII shall be through its officeholders (including Mr. Doron Schneidman who serves as the Subsidiary's Managing Director and Director); 3) for the services of officeholders that the subsidiary and the Investor will provide to GDII (including services to be provided by the subsidiary through Mr. Doron Schneidman) GDII shall pay directly to the Investor or the subsidiary, as the case may be, additional consideration as follows: for the services of Doron Schneidman GDII will pay the subsidiary a total of U.S. dollars 1,000,000 per annum, and for the services of the other officeholders as aforesaid, GDII will pay the relevant party the cost of their employment by the relevant party plus 10% ("Cost + 10%"); (d) lending agreements between GDI and the subsidiary's officeholders (excluding Mr. Doron Schneidman) whereby the subsidiary will provide some of the services to GDII; (e) an agreement with Mr. Doron Schneidman regarding his undertaking to serve as the general manager of GDII for a period of 18 months from the time of completion of the transaction, at an employment of approximately 80% and not to compete with GDII during the period and under the terms that were set in the said agreement; (f) an agreement regarding the computer program used by GDII and its subsidiaries; (g) a side letter between the parties to the investment agreement, signed concurrently with the investment agreement, relating to the possible further capital investments of up to Euros 1 million that could be made by the subsidiary in GDII; the said monies were invested in GDII on June 28, 2007; (h) agreements for acquisition of options in Link4 (and/or shares resulting from the realization thereof) which were granted to its employees and officeholders, including Messrs. Moshe Schneidman and Doron Schneidman for consideration in cash, based on a valuation price of 3.84 Polish Zlotys per share of Link4 according to a valuation carried by an independent appraiser. The options (or shares) shall be purchased for the said price after deduction (or in the event of acquisition of the shares after the payment) of the exercise price of the options. In this regard it was agreed to make the necessary amendments in the options plan.

**NOTES TO THE FINANCIAL STATEMENTS**

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

- g. Issue of subsidiary shares to a third party (Cont.)
4. The transaction is subject to the fulfillment of suspending conditions as specified in the Investment Agreement by December 31, 2007 ("the Determining Date") (or by a later time for completion of the transaction if and insofar as agreed between the parties), including compliance with statutory requirements, and an agreement with the European Bank for Reconstruction and Development (hereunder - "EBRD") for the amendment of the set of agreements with EBRD regarding EBRD's investment in the Russian sub-subsidiary Joint Stock Insurance Company Energopolis.
  5. After the balance sheet date R&SA turned to a subsidiary with the request to allow it to assign to Royal & Sun Alliance Insurance PIC, which is a wholly owned and controlled subsidiary of R&SA, all the rights and liabilities of R&SA according to the investment agreement with GDII, so that R&SA will remain the guarantor for all the charges to its subsidiary, according to the investment agreement, after its assignment, as mentioned. The parties exchanged drafts to the agreement regarding the said assignment and R&SA's guarantee which also includes a reference to making changes in the agreements and relevant documents under the agreement, as required following the assignment.
  6. The subsidiary estimates that subject to the parties signing the said binding agreements, as mentioned above, and subject to the completion of the transaction, the subsidiary will have capital gain in the amount of about NIS 350 million, which will be spread according to the capital flow to GDII so that NIS 250 million will be recognized at the date of signature. The capital gain that will actually be created may be different, among others, due to accounting aspects and it also depends if the terms of the transaction will change under the binding agreements.

**NOTE 7 - REQUESTS TO APPROVE CLAIMS AS CLASS ACTIONS IN AN INSURANCE SUBSIDIARY**

- a. On February 27, 2007, a financial claim was filed with the Tel-Aviv-Jaffa District Court together with a request to approve the claim as a class action against an insurance subsidiary in Israel and against other insurance companies, together with a request to approve the claim as a class action. The claimant contends that when there is an insurance event of an auto theft in the motor casco line, the policyholder is not reimbursed for the relative premium charged from him in respect of additional policy coverage. The claimant estimated the amount of the class action at about NIS 6.5 million. The insurance subsidiary filed its response to the claim on May 20, 2007. According to the subsidiary the claim will be dismissed due the claimant's lack of cause and due to the fact that the claim does not comply with the legal provisions with respect to an approval of a claim as a class action. In the opinion of the insurance subsidiary and its legal advisors, the probability that the defense arguments will be approved is higher than the probability that the claimant's arguments will be approved. Therefore, no provision was included in the financial statements in respect of this claim.

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 7 - REQUESTS TO APPROVE CLAIMS AS CLASS ACTIONS IN AN INSURANCE SUBSIDIARY (Cont.)**

- b. On August 7, 2007, a financial claim was filed with the Tel-Aviv-Jaffa District Court against an insurance subsidiary in Israel, together with a request to approve the claim as a class action. The claimant contends that when there is an insurance event in the motor casco line, and since before the insurance agreement was signed the claimant did not receive information regarding the manner of payment of insurance benefits, and according to the claimant the insurance benefits should be calculated differently by the insurance subsidiary and he should receive higher insurance benefits. The class action is submitted on behalf of all the policyholders of the insurance subsidiary as from January 1, 2001 and up to the day of its submission who purchased insurance in the motor casco line and during the period of insurance there was an insurance event whereby the vehicle was declared as a theoretical loss or as a total loss and the insurance subsidiary has an insurance liability towards those policyholders. The claim is in the amount of about NIS 7 thousand and the request to approve the claim as a class action is in the amount of about NIS 110 million.

Due to the preliminary stage of the claim, based on the opinion of its legal advisors, the insurance subsidiary can not estimate the implications of the claim.

**NOTE 8:- EVENTS AFTER THE BALANCE SHEET DATE**

- a. In July a subsidiary of Adgar purchased an office building in Toronto, Canada on the area of about 9,700 square meters as well as 100 underground parking spaces. The building is fully occupied and the present annual leasing fees are about 1.45 million Canadian dollars.

The cost of the acquisition is about 20 million Canadian dollars which will be financed, in the first stage from Adgar's own sources.

- b. Allotment of options to employees of a subsidiary

On June 21, 2007, the Board of Directors of Direct I.D.I. Insurance Company Ltd. (hereunder – the insurance company) approved to allot 1,355,000 options, and from these options it was decided to grant, on July 15, 2007 to 68 employees of the insurance company (including an officeholder in the insurance company who is not a director) 1,330,000 options realizable into 1,330,000 ordinary shares of NIS 1 par value each of the insurance company. The options will be allocated to a trustee pursuant to Section 102 of the Income Tax Ordinance (at a capital gain option).

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 8:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)**b. Allotment of options to employees of a subsidiary (Cont.)

The allotments performed on July 15, 2007 were at no consideration, in the framework of a program for distribution of benefits to employees, consultants, service providers and directors that the insurance company adopted on November 30, 2004 (hereunder – “the program”). The program includes vesting conditions whereby, the rights to realize the options will be granted to the offerees, in such a manner that 20% will be granted from the date of grant, 20% will be granted after one year, 30% will be granted after two years and an additional 30% after three years, on condition that the relevant offeree will be employed by the insurance company during the vesting period. The options are realizable for the period of up to the end of 5 years from the date of grant. The realization price of each option will be in the amount of NIS 8.138, linked to the CPI, beginning from the known index as at the date of grant and up to the known index as at the date of the realization. The estimate of the calculated fair value of the proposed options according to “Black and Scholes” model, as at June 21, 2007, is NIS 0.46 for each proposed option. The options are not listed for trade on the stock exchange. The parameters according to which the fair value is calculated as at June 21, 2007 is as follows: share rate of 820.5 points, realization price of NIS 8.88 per option, annual capitalization rate between 2.32% to 2.62%, the period of the proposed option is 5 years, and the annual standard deviation is between 28.83% to 29.47%.

As a result of the above grant, the subsidiary’s share in the insurance company decreased in full dilution from 76.89% to 76.82%.

c. Realization of options

After the balance sheet date, in July 2007, 586,668 options (Series 7) were realized into 503,670 Company shares of NIS 1 nominal value, in consideration for about NIS 504 thousand.

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