

2009 Financial Statements Summary



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S. Shlomo Insurance Company Ltd.

The Board of Directors' Report on the State of the Corporation's Affairs as of December 31, 2009

Forward-Looking Information

This board of directors' report, which deals with the description of the Company, its development and businesses and business segments, also contains forward-looking information, as defined in the Securities Law, 5728-1968. Forward-looking information is an uncertain information concerning the future, which is based on existing information in the Company on the date of the report and contains estimations or intentions of the Company as of the date of the report. The actual results may materially differ from the results estimated or implied from this information. In some cases, passages containing forward-looking information may be identified by the appearance of such words as: "the Company estimates", "the Company believes", "the Company intends", "is expected" and so forth, but such information may also appear in other language.

Dear Shareholders,

We hereby respectfully submit the board of directors' report of S. Shlomo Insurance Company Ltd. as of December 31, 2009. The board of directors' report constitutes an integral part of the periodic report, including all the parts thereof, and the entire periodic report should be read as a single whole.

1. Description of the Company, Business Environment and Business segments

1.1. Description of the Company

S. Shlomo Insurance Company Ltd. ("**Shlomo Insurance**" or the "**Company**") was incorporated in Israel on October 3, 2006, under the name "New Kopel Insurance Company (2006) Ltd.". On June 20, 2007, the Company changed its name to "New Kopel Insurance Company Ltd.". On September 3, 2008, the Company changed its name to "S. Shlomo Insurance Company Ltd.".

The Company is a wholly-owned subsidiary of S. Shlomo Insurance Business Holdings Ltd. ("**Shlomo Insurance Business**"), which is a wholly-owned subsidiary of S. Shlomo Holdings Ltd. ("**Shlomo Holdings**"), whose shares are traded on the Tel Aviv Stock Exchange.

The Company belongs to the group of companies controlled by Mr. Shlomo Shmeltzer, which engage, *inter alia*, in the provisions of leasing services, short-term car rental, operation of bodywork and mechanic service centers and road-side assistance services (Shlomo Holdings and its subsidiaries and/or related companies, except for the Company, shall be hereinafter referred to as the "**Group**").

For a diagram of the holding structure of Shlomo Holdings see Section 1.1.2 of the description of the corporation's businesses.

1.2. The Business Environment

The Company is an Israeli insurance company that operates as of the date hereof in the general insurance branch in Israel. The Company engages in three segments: the motor act insurance segment, the motor casco insurance segment and the comprehensive residential and business premises insurance segment. The Company operates via insurance agents.

The Company began its activity as insurer on January 1, 2008.

To the best of the Company's knowledge, there are 16 insurance companies that engage in Israel in general insurance, including the direct insurance companies as well as "Avner" – Motor Vehicle Accident Victims Insurance Ltd. and "Karnit" – Motor Accident Victims Compensation Fund. According to the data of the Ministry of Finance as of September 30, 2009, the premiums from the said business segments amounted to the sum of NIS 9.24 billion and

constitute 57.4% of the total premium in the general insurance branches in the Israeli market.

1.3. Business Segments

The Company's main business segments are as follows:

- General insurance – motor act segment
- General insurance – motor casco segment
- General insurance – comprehensive residential segment

For details concerning the Company's business segments see Part C of the Description of the Corporation's Businesses.

1.3.1. Premiums

The following is data on the Company's premiums for the year ended as of (NIS in thousands):

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008 (*)</u>	<u>% of Change</u>
Premiums:			
Gross	526,124	152,994	244%
On retention	513,125	147,058	249%
Premiums Earned:			
Gross	393,408	109,126	261%
On retention	381,481	103,451	269%

(*) The aforesaid data that refer to 2008 do not include comprehensive motor insurance transactions of companies related to an interested party, which are not defined as insurance contracts, relating to premiums in the sum of NIS 180,766 thousand and the earned premiums in the sum of NIS 179,613 thousand. For details concerning reinsurance see Note 25f(1) of the financial statements and Section 5.4 of the Chapter Description of the Corporation's Businesses.

The gross premiums and the earned premiums during the reported period totaled approx. NIS 526,124 and approx. NIS 393,408 thousand, respectively, compared to approx. NIS 152,994 thousand and approx. NIS 109,126 thousand, respectively, in 2008.

The increase in the premiums results from the increase in the Company's activity and from the fact that comprehensive motor insurance transactions with related companies were reported as such on the books only since 2009, as aforesaid.

The turnover of the revenues from premiums in motor casco insurance and motor act insurance is characterized by seasonality, which results from the fact that the subsidiaries of Shlomo Holdings renew the motor act insurance and motor casco insurance of their vehicle fleets in the first quarter of the year. It should be noted that in 2009 the policies were renewed on a one-time basis for a period of up to half a year on January 1, 2009, and on July 1, 2009. For details concerning the renewal of the motor act insurance of the subsidiaries of Shlomo Holdings for 2010, see Sections 5.14.1 and 5.14.2 of the position of the corporation's businesses report. Furthermore, additional policyholders tend to purchase, and therefore also to renew, policies in the first quarter. The aforesaid seasonality is neutralized by using the provisions of insurance reserves.

1.3.2. Distribution of Premiums

The following is the distribution of the gross premiums in the Company for the year ended as of (NIS in thousands):

<u>Insurance Segment</u>	<u>December 31, 2009</u>	<u>% of Total</u>	<u>December 31, 2008</u>	<u>% of Total</u>	<u>% of Change</u>
Motor act:					
Gross	257,605	49.0%	107,596	70.3%	139%
On retention	247,373	48.2%	102,013	69.4%	142%
Motor casco:					
Gross	265,248	50.4%	45,019	29.4%	(*)17%
On retention	264,250	51.5%	44,869	30.5%	(*)17%
Comprehensive residential:					
Gross	3,271	0.6%	379	0.3%	763%
On retention	1,502	0.3%	176	0.1%	753%
Total:					
Gross	526,124	100%	152,994	100%	58%(*)
On retention	513,125	100%	147,058	100%	57%(*)

(*) Including a gross premium in the sum of NIS 180,766 thousand and a premium on retention in the sum of NIS 180,170 thousand for a transaction that was not classified as an insurance transaction in 2008.

The following is the distribution of the earned premiums in the Company for the year ended as of (NIS in thousands):

<u>Insurance Segment</u>	<u>December 31, 2009</u>	<u>% of Total</u>	<u>December 31, 2008</u>	<u>% of Total</u>	<u>% of Change</u>
Motor act:					
Gross	149,489	38.0%	88,163	80.8%	70%
On retention	139,257	36.5%	82,580	79.8%	69%
Motor casco:					
Gross	242,038	61.5%	20,920	19.2%	(*)21%
On retention	241,040	63.2%	20,770	20.1%	(*)21%
Comprehensive residential:					
Gross	1,881	0.5%	43	0.0%	4,274%
On retention	1,184	0.3%	101	0.1%	1,072%
Total:					
Gross	393,408	100%	109,126	100%	36%(*)
On retention	381,481	100%	103,451	100%	35%(*)

(*) Including a gross earned premium in the sum of NIS 179,613 thousand and an earned premium on retention in the sum of NIS 179,017 thousand for a transaction that was not classified as an insurance transaction in 2008.

1.4. Dependency on Clients

In 2009, the vehicles of the Group companies in Israel were insured by motor act insurance and by motor casco insurance by the Company. From January 1, 2010, Shlomo Vehicle and Shlomo Transportation no longer insure their vehicle by comprehensive insurance via the Company, subject to certain exceptions. For details concerning the Company's dependency on Shlomo Vehicle and Shlomo Transportation, see Sections 3.1.4 and 3.2.4 of the Chapter Description of the Corporation's Businesses.

2. **Financial Position**

The following are main data from the financial statements for the year ended as of (NIS in thousands):

<u>Balance Sheet Data</u>	<u>For year ended as of</u>		
	<u>December 31, 2009</u>	<u>December 31, 2008</u>	<u>Rate of Change</u>
Financial investments	230,557	149,910	54%
Cash and cash equivalent	106,913	35,847	198%
Shareholders' equity	53,459	55,556	(4%)
Liabilities due to insurance contacts	391,182	119,336	228%
Total balance sheet	482,762	237,595	103%

Assets

The total financial investments as of December 31, 2009, amounted to the sum of approx. NIS 230,557 thousand, compared to the sum of approx. NIS 149,910 thousand as of December 31, 2008, an annual increase of approx. 54%.

The total assets as of December 31, 2009, amounted to approx. NIS 482,762 thousand, compared to the sum of approx. NIS 237,595 thousand as of December 31, 2008, an increase of approx. 103%

The balance of cash and cash equivalents amounted to the sum of NIS 106,913 thousand as of December 31, 2009, compared to approx. NIS 35,847 thousand as of December 31, 2008, an increase of approx. 198%.

The increase in assets results mainly from the increase in the Company's business activity. As for the increase in the cash balance, see also Section 4 below.

Liabilities

The liabilities for insurance contracts as of December 31, 2009, amounted to approx. NIS 391,182 thousand, compared to the sum of approx. NIS 119,336 thousand as of December 31, 2008, an increase of approx. 228%.

The aforesaid increase in the liabilities results mainly from the increase in the Company's business activity and in its liabilities in the segment of motor act insurance, including unearned premium for the renewal of the motor act insurance of the vehicles of the subsidiaries of Shlomo Holdings for 2010, as from late-2009. For details concerning the renewal of the motor act insurance of Shlomo Holdings' subsidiaries for 2010, see Sections 5.14.1 and 5.14.2 of the report on the position of the corporation's businesses.

Shareholders' equity

The shareholders' equity in the sum of NIS 53,459 thousand as of December 31, 2009, is composed of the share capital in the sum of NIS 7,700 thousand, a

premium on the shares in the sum of NIS 69,300 thousand, receipts on account of shares in the sum of NIS 6,500 thousand, retained loss in the sum of NIS 29,715 thousand and an unrealized loss in respect of financial assets available for sale, which was transferred to a capital reserve in the sum of NIS 326 thousand. The shareholders' equity as of December 31, 2008, amounted to the sum of approx. NIS 55,556 thousand. The decrease in the shareholders' equity at the rate of approx. 4% results from a total loss in the sum of NIS 13,597 thousand, net of capital infusions and receipts on account of shares in the reported period in the sum of approx. NIS 11,500 thousand.

As of the date of the report, the Company has a deficit in the sum of NIS 21,151 thousand compared to the capital required under the Supervision of Financial Services (Insurance) Regulations (Minimum Solvency Margin Required from an Insurer), 5758-1998 ("Minimum Solvency Margin Regulations"), which was filled by a capital raising after the date of the report. For details see Note 11(d) of the financial statements.

3. **Results of Operations**

The following are main data from the financial statements for the year that ended as of December 31, 2009 (NIS in thousands):

	2009	2008	% of Change
(Loss) profit from motor casco insurance segment	(13,490)	2,200	-
Loss from motor act insurance segment	(2,111)	(4,040)	(48%)
Profit from comprehensive residential insurance segment	241	47	413%
Total loss from business segments	(15,360)	(1,793)	757%
Revenues (losses) from net investments not attributed to insurance businesses	1,690	(509)	-
Other revenues not included in the framework of insurance businesses (*)	1,043	2,714	(62%)
General and administrative expenses not included in the framework of insurance businesses	(1,921)	(2,924)	(34%)
Expenses not in the framework of insurance businesses and other adjustments	(910)	(2,369)	(62%)
Loss before taxes	(15,458)	(4,881)	217%
Taxes on income	3,241	1,204	169%
Net loss	(12,217)	(3,677)	232%

(*) For the activity of the claims department that was purchased from Shlomo Car Rental (1987) Ltd. as well as for transactions of the Company with Shlomo Vehicle and Shlomo Transportation that were not deemed as

insurance transactions in 2008 in the sum of approx. NIS 179,613 thousand. For details concerning the claims department see Section 5.14.11 of the Description of the Corporation's Businesses, for details concerning the motor casco insurance transactions of the vehicles of Shlomo Vehicle and Shlomo Transportation see Section 5.14 of the Description of the Corporation's Businesses.

In the report period the Company registered a loss of approx. NIS 12,217 thousand compared to a loss of approx. NIS 3,677 thousand in 2008.

The loss from business segments amounted to the sum of approx. NIS 15,360 compared to a loss of approx. NIS 1,793 thousand in 2008.

The loss in the reported period results mainly from a loss in the segment of motor casco insurance in the sum of approx. NIS 13,490 thousand. The increase in the loss of the current period compared to the corresponding period last year results from an underwriting deterioration resulting from the erosion of rates throughout the market as a result of the competition in this insurance branch.

In 2009 the Consumer Price Index increased by 3.9%. The known index increased in 2009 by 3.8%. For the consequences of the increase of the known index on the loss of the motor act insurance branch, see Section 3.1.1 below.

In 2009, the Company achieved investment profits in the sum of NIS 15,103 thousand, compared to a loss of NIS 1,300 thousand in the corresponding period last year.

For a description of the results of operation according to segments, see Section 3.1 below.

3.1. Business Segments in General Insurance

The loss from the business segments in the general insurance in 2009 amounted to the sum of approx. NIS 15,360 thousand compared to a loss of approx. NIS 1,793 thousand in 2008.

3.1.1. Motor Act

The gross premium that was earned in the reported period amounted to the sum of NIS 149,489 thousand compared to the sum of NIS 88,163 thousand in 2008, an increase of approx. 70%.

The loss from this business segment in the reported period amounted to NIS 2,111 thousand, compared to the sum of approx. NIS 4,040 thousand in 2008, a decrease of approx. 48%. See Section 3 of the report.

Profits or losses that are reported in this business segment are generated due to the attribution of revenues from investments to accruals pursuant to the instructions of the Supervision of

Insurance at a real annual rate of 3%, whilst if a higher rate is achieved in practice, a profit is recorded; otherwise a loss is recorded.

The main loss in the year of the current report in this branch results as aforesaid from failure to achieve yield as aforesaid, and this mainly due to the high index increase, at a rate of 3.8% in 2009.

The net accruals that shall be released to profit (in addition to income from investments and in addition to actuary adjustments) after 5 years, pursuant to the instructions of the Supervision of Insurance, amounts to NIS 24,900 thousand, compared to the sum of NIS 5,174 thousand in 2008, an increase of approx. 481%.

3.1.2. Motor Casco

The gross premium that was earned in the reported period amounted to the sum of NIS 242,038 thousand, compared to the sum of approx. NIS 20,920 thousand in 2008 (this sum does not include earned premium in the sum of NIS 179,613 thousand, for transactions with companies that are related to an interested party, see Note 26 of the financial statements) (an increase of 21%, after adding the aforesaid income from the Group's businesses in 2008).

The Company lost in 2009 in the motor casco insurance segment the sum of approx. NIS 13,490 thousand, compared to a profit in the sum of approx. NIS 2,200 thousand in 2008. The loss in the reported year includes a profit in the sum of approx. NIS 903 thousand compared to a profit of approx. NIS 3,397 thousand for transactions with companies that are related to an interested party, as described above. The increase in the loss of the current period compared to the corresponding period last year results from an underwriting deterioration resulting from the erosion of rates throughout the market as a result of the competition in this insurance branch.

The gross loss ratio from the gross earned premium (LR) amounted in 2009 to approx. 95% (including transactions with related companies), compared to approx. 72% in 2008.

3.1.3. Comprehensive Residential

The Company began to market its products in this business segment in October 2008.

The gross earned premium in the reported period amounted to the sum of approx. NIS 1,881 thousand, compared to the sum of approx. NIS 43 thousand in 2008. The increase results

mainly from the fact that the activity in 2008 in this business segment only began in October.

The profit from this business segment in the reported period amounted to approx. NIS 241 thousand, compared to a profit of approx. NIS 47 thousand in 2008.

3.2. Other Revenues and Expenses Not Constituting Business Segments

Administrative and general expenses that were not attributed to business segments net of (in addition to losses in 2008) investment income against the shareholders' equity amount in 2009 to the sum of approx. NIS 231 thousand, compared to the sum of approx. NIS 3,433 thousand in 2008, a decrease of approx. 93%, mainly as a result of the transfer to profitability in investments.

In addition, other revenues for fees of handling claims for events prior to the Company's activity for the Group's companies yielded in the reported year the sum of approx. NIS 1,043 thousand, compared to the sum of approx. NIS 2,714 thousand in 2008, a decrease of approx. 62%. For details, see Note 19 of the financial statements. The decrease results from a decrease in the scopes of activity for these claims. Other expenses in the sum of approx. NIS 910 thousand in the reported year, compared to the sum of approx. NIS 2,369 thousand in 2008, include the amortization of the cost of acquisition of the claims department, for details see Note 22 of the financial statements. The decrease in the expense rate in the sum of approx. 62% results mainly from the amortization of the majority of the cost in 2008.

4. Cash Flows

In 2009 the cash balances of the Company increased by the sum of approx. NIS 71,066 thousand and amounted to NIS 106,913 thousand compared to approx. NIS 35,847 thousand in 2008.

The main increase in the cash balance results from realization of profits in the Company's quoted financial asset portfolio up to December 31, 2009.

The cash flows resulting from current activity amounted to the sum of NIS 62,913 thousand in the reported period compared to approx. NIS 11,428 thousand that was used for current activity in 2008.

The cash flows that were used for investment activity amounted to the sum of NIS 3,359 thousand in the reported period, compared to the cash flows that were used for investment activity in 2008 and amounted to the sum of NIS 7,813 thousand.

5. Sources of Finance

The Company finances its activity from its own sources. For a capital raise performed by the Company after the date of the report, see Section 14 hereof.

As of December 31, 2009, the Company has a credit line for the motor act insurance activity in the banking system with a scope of NIS 5,000 thousand, which is unused.

6. **Effect of External Factors**

For the description of the general environment and the effect of external factors on the activity see Section 5.1 of the Description of the Corporation's Businesses.

7. **Details About Officers**

For details about the salary, severance pay, provident funds, pension, educational funds and other benefits, completion of reserves for related expenses due to changes in the salary in the account year and the total salaries and related expenses of the five persons with the highest salary of all of the officers in the Company see Part D of the periodic report – "Further Details".

The terms of employment of the officers in the Company are pursuant to the employment agreements of these officers. In the course of the reported period no material changes occurred in the terms of employment of the officers in the Company and the terms of employment meet the same standards applicable in the Company. The terms of employment of the senior officers in the Company are neither share-based nor include components that are directly based on parameters from the Company's financial results. The terms of employment include salary and bonuses that are determined at the Company's discretion.

The Board of Directors believes that the terms of employment of the senior officers in the Company are fair and create the proper balance between preserving a reasonable expense framework and motivating senior executives to work for the Company for many years.

8. **Disclosure Concerning the Company's Internal Auditor**

8.1. **Details of the Internal Auditor**

Name: Ms. Limor Nof Golan, Adv.

Commencement date of office: December 1, 2007

The internal auditor meets the conditions set forth in the provisions of Section 146(b) of the Companies Law, 5759-1999 (the "**Companies Law**") and of Section 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

The internal auditor is an employee of the Company.

8.2. **Appointment Procedure**

The Company's board of directors approved the appointment in its meeting in January 2008, pursuant to the recommendation of the Audit

Committee and after obtaining the approvals required under law for the appointment.

The appointment was approved in view of the internal auditor's education, skills and experience.

Ms. Limor Nof Golan is an attorney, holds LL.M., LL.B., B.B.A. degrees and an international accreditation as a Certified Internal Auditor (C.I.A.).

The auditor has a vast experience in internal audit in institutional bodies as well as professional and executive functions in the business and legal sector, which qualify her to properly perform her office.

8.3. Identity of the organizational supervisor

The organizational supervisor of the internal auditor is the chairman of the board of directors.

8.4. Work Plan

The work plan of the internal audit is annual and derives from a multi-year work plan. The multi-year work plan for 2008-2011 was built on the basis of activity mapping and risk exposure survey performed during the second semester of 2008. The multi-year work plan was approved by the board of directors' Audit Committee at its meeting of January 25, 2009.

The internal audit annual work plan for 2009 was built, *inter alia*, based on an initial activity mapping of the Company performed by the internal auditor, information and know-how accumulated following audits performed in the Company in 2008, updated review of the Company's risks and exposures, current inter-relations and conversations with officers and functionaries in the segments, participation in management, steering and strategy meetings on various subjects held in the Company during the previous year, inspection of documents and financial statements, mapping the relevant statutory and regulatory requirements, examination of professional material, information about the branch, legal opinions and so forth. The plan was updated in the course of the year and subjects were added thereto pursuant to the internal auditor's discretion on the basis of the current work and unplanned events that occurred in the course of the year.

The chairman of the board of directors' audit committee, the chief executive officer and the Company's auditors are involved in the consolidation of the work plan.

The work plan leaves to the auditor discretion to deviate therefrom according to the needs that arise from time to time, while notifying the audit committee thereof.

The issue of transactions with interested parties is integrated in the multi-year work plan of the internal audit.

The annual work plan of the internal audit for 2009 was approved by the board of directors' audit committee at its meeting of January 25, 2009.

8.5. Scope of the Employment

The internal auditor is employed at the Company on a full-time basis.

8.6. Execution of the Audit

The work plan is prepared in accordance with the relevant statutory provisions and the instructions of the Commissioner of Capital Markets, Insurance and Savings, as well as the professional standards applicable to the internal audit from Israel and world-wide.

The board of directors, via its audit committee, supervises the work of the internal auditor, the standards and results of her work. To the best of the board of directors' knowledge, in 2009 the internal auditor met all of the requirements set forth in the standards.

8.7. Access to Information

The internal auditor has access to information and documents as provided in Section 9 of the Internal Audit Law, including to the Company's data systems, including financial data.

8.8. Internal Auditor's Report

The audit reports are submitted in writing.

As part of the current work process, the audit reports are discussed and handled by the audited persons and/or the Company's chief executive officer prior to the consolidation thereof into a final draft.

The financial statements are submitted to the inspection of the board of directors' audit committee and of all of the directors who are members of the Company's audit committee, in view of the discussion in the committee. A copy of the last report is submitted to the chairman of the board of directors, the chief executive officer, the Company's auditors and the chief legal officer.

The audit reports are discussed at the plenary meeting of the board of directors' audit committee. In the course of 2009, the Company's audit committee discussed the reports and the subjects of the internal audit on the following dates: January 25, 2009, March 1, 2009, March 22, 2009, May 24, 2009, August 23, 2009 and November 22, 2009.

8.9. Board of Directors' Estimation of the Internal Auditor's Activity

According to the board of directors' estimation, the scope, character, continuity of the activity and work plan of the internal auditor are reasonable with respect to the size of the Company and the scope of its activity and they are sufficient in order to achieve the goals of the internal audit in the Company.

8.10. Compensation

The internal auditor is engaged under a personal employment agreement as a full-time employee of the Company and she receives monthly pay, including social and related benefits

The Company's board of directors believes that the internal auditor's compensation terms may not affect the auditor's professional discretion.

9. **The Auditing Certified Public Accountant**

The name of the Company's audit firm is Kost, Forer, Gabbay & Kasierer, members of Ernst & Young Global (the "Auditing Accountant"). Moshe Shachaf, CPA, is the partner on behalf of the audit firm who handles the Company. The commencement date of the Auditing Accountant's office is January 6, 2008.

The fees of the audit firm amounts to the total sum of NIS 388,000 (including VAT) for 2009. Out of the aforesaid sum, the sum of NIS 288,000 (including VAT) is for 1,184 work hours of audit services, the sum of NIS 20,000 (including VAT) is for 51 consulting hours on the issue of solvency, the sum of NIS 52,000 (including VAT) is for negotiation consulting services and the sum of NIS 28,000 (including VAT) is for data system audit. No other services were purchased which are connected to audit and special tax services.

10. **Disclosure Concerning Assets Available for Sale**

The following is a summary of the impairment due to financial instruments that are available for sale, which was attributed to the shareholders' equity according to the rate of impairment of the fair value of the asset compared to its original cost, on the date of the financial statement, and for the entire period of time in which the asset's fair value is lower than its cost (regardless of the impairment rate on the date of the report).

10.1. Capital Instruments (NIS in thousands)

	<u>Up to 6 months</u>	<u>6-9 months</u>	<u>9-12 months</u>	<u>Over 12 months</u>	<u>Gross total before tax</u>	<u>Total net of tax</u>
Up to 20%	-	-	-	-	-	-
20%- 40%	-	-	-	-	-	-
Over 40%	-	-	-	-	-	-
Total	-	-	-	-	-	-

10.2. Debt Instruments (NIS in thousands)

	<u>Up to 6 months</u>	<u>6-9 months</u>	<u>9-12 months</u>	<u>Over 12 months</u>	<u>Gross total before tax</u>	<u>Total net of tax</u>
Up to 20%	(732)	-	(41)	-	(733)	(509)
20%- 40%	-	-	-	-	-	-
Over 40%	-	-	-	-	-	-
Total	(732)	-	(41)	-	(773)	(509)

The Company has a negative capital reserve in the sum of NIS 326 thousand (after tax effect) for unrealized profits from quoted securities, net of the aforesaid losses that were not attributed to profit and loss.

10.3. Reasons and considerations for direct attribution to the shareholders' equity

The reasons and consideration that underlay the determination that impairments in the fair value of financial assets were attributed directly to the shareholders' equity and not to profit and loss are as follows:

In considering the impairment of financial assets that are available for sale, which are capital instruments, also examined was the gap between the asset's fair value and its original cost, taking into account the period of time in which the asset's fair value is lower than its original cost and changed in the technological, economic or legal environment or in the market environment in which the Company that issued the instrument operates.

In addition to the aforesaid, impairment of capital instruments by 20% and more as of the date of the financial statement or such that endures more than 12 months (even if at a lower rate) is attributed to the income statement. In considering the impairment of financial assets that are available for sale, which are debt instruments, the following factors are taken into consideration:

- [a] Intention and financial ability to hold the bonds until the redemption date; and
- [b] To the best of the Company's knowledge, the impairment does not meet the criteria described in IAS 39, Section 59, as follows:
 - [i] Significant financial difficulties of the issuer or debtor;
 - [ii] Breach of contract, such as default or arrears in payments of interest or principal;
 - [iii] The lender, for economic or legal reasons related to the borrower's financial difficulties, grants to the borrower a relief, which would not have been considered by the lender in other circumstances;
 - [iv] It becomes foreseeable that the borrower will enter a bankruptcy proceeding or other financial reorganization;
 - [v] There is no active market for that financial asset as a result of financial difficulties; or
 - [vi] There is a measurable decrease in the estimation of the future cash flows from a group of financial assets, since the first recognition of these assets, although the impairment may not yet be attributed to single assets in that group, including:
 - (1) Negative changes in the payment situation of the borrowers in the group; or
 - (2) Correlative national or local economic conditions with deficiencies with respect to assets in the group (for example, an increase in the unemployment rate in the borrowers' geographical zone, a decrease in the real-estate prices with respect to mortgages in a relevant segment, a decrease in the oil prices with respect to loan assets for oil producers, or negative changes in the conditions of the branch affecting the borrowers in the group).

It should be noted that the Company currently examines in particular each and every of its investments.

A part of the impairment for the aforesaid financial instruments was offset by a value increase that occurred after the date of the financial statement.

11. **Details Concerning Preparation for Implementing the Solvency II Directive**

In accordance with the instructions of Insurance Circular 2008-1-5, the following is a disclosure concerning the Company's preparation for Solvency II. This Directive constitutes a fundamental and comprehensive change of the regulation concerning securing the solvency and capital adequacy of insurance companies in the EU states, for the purpose of improving the protection of policyholders' money. The Commissioner has the intention of implementing the provisions of the Directive to insurance companies in Israel on the date of its expected implementation in the member states of the European Union – the second semester of 2012.

The Directive includes a comprehensive examination of the risks to which insurance companies are exposed and setting standards for the management and measurement of the same, while taking into consideration in capital allotment the risks involved in their activity. In addition, the Directive also focuses on internal supervision and control activities as well as on market discipline, disclosure and reporting.

The following are details concerning the progress of the Company in preparing for the implementation of the Directive, and this further to the description contained in the Description of the Corporation's Businesses report included in the periodic report for 2009:

On July 29, 2009, the board of directors' committee in charge of supervision and control on the preparation procedure on behalf of the board of directors held a discussion on the Company's preparation. The Company's preparation proceeds in accordance with the Regulator's instructions and the Company's plans. So far, the Company has taken the following actions:

- Appointment of a development team, including person in charge and reporting to the Regulator of Insurance;
- Engagement with external consultants to accompany the preparation procedure – E & Y;
- Appointment of an actuary consultant – Dr. Stewart Coutts;
- Holding a discussion in the board of directors on December 31, 2008, in which the following issues were discussed:
 - Creation of a board of directors' committee
 - Approval of the multi-year organizational plan and the multi-year plan.
- Performance of professional training to the board of directors' committee;
- Performance of professional training to the development team;

- Holding of discussions of the development team and filling the QIS 4 file;
- Reporting to the board of directors about the Company's progress in the aforesaid preparation on the required date.
- In September 2009, a report concerning the progress of the preparation for implementing the Directive was submitted to the board of directors' committee for the implementation of the Directive and to the board of directors, including the results of the survey;
- The Company submitted the survey results to the Ministry of Treasury on the date set for that purpose by the Commissioner.
- In February 2010 the Company's management reported to the board of directors about the progress of the preparation for the implementation of the Directive.

12. **Statements of the Chief Executive Officer and Chief Financial Officer Concerning Internal Audit (SOX 302)**

In 2006, following instructions issued by the U.S. SEC, under the Sarbanes – Oxley Act of 2002, the Regulator published circulars in 2006, ordering the institutional bodies to attach to the financial statements certain statements of the Company's CEO and CFO concerning the adequacy of the financial data presented in the Company's financial statements and the existence and efficiency of internal controls designed to ensure that material information relating to the Company is brought to their knowledge.

The Company's management, with the collaboration of the Company's CEO and CFO, evaluated as of the end of the period covered by this report the efficiency of the controls and procedures with respect to the Company's disclosure. Based on this evaluation, the Company's CEO and CFO concluded that as of the end of this period the controls and procedures with respect to the Company's disclosure are efficient in order to record, process, summarize and report the information that the Company is required to disclose in the periodic report pursuant to the provisions of the law and the reporting provisions issued by the Commissioner of Capital Markets, Insurance and Savings, and on the date set in these instructions.

In the course of the period ending on December 31, 2009, no change occurred in the internal control of the institutional body on financial reporting, which materially affected or is reasonable expected to materially affect the Company's internal control on financial reporting.

The statement of the Company's CEO and CFO concerning the adequacy of the financial data presented in the Company's financial statements and the existence and efficiency of internal controls with respect to these financial statements are attached hereto in the annex to the financial statements.

13. **Disclosure Concerning SOX 404**

Pursuant to the institutional bodies circular “Management Responsibility for Internal Control on Financial Reporting”, which was updated in June 2009, the institutional bodies should prepare to include in their annual statements, from the financial statements of December 31, 2010, a statement of the management concerning its responsibility for the internal control on financial reporting. In addition, from that date, the financial statements shall include an opinion of the auditors concerning the internal control on the financial reporting. The language of the management’s statement on the internal control and the language of the auditor’s opinion have not yet been distributed by the Regulator. For further details, see Section 5.2.2.4[c] of the Description of the Corporation’s Businesses.

The Company is in the midst of a process of implementation of the provisions of Section 404 of the SOX law, and this according to the phases and in the framework of the dates set forth in the aforesaid circular. In this context, a steering team was put together and an engagement was made with an external consultant and the COSO model adopted. As of the date of publication hereof, the Company completed the phase of documenting the business processes, while identifying and evaluating the risks and controls involved in these processes, determining the efficiency of the existing controls and analyzing control gaps, if any. In addition, the Company finished the execution of the documentation verification process, including verification of the controls documented in the documentation phase.

14. **Material Events After the Date of the Financial Statement**

In March 2010, the Company engaged with a banking corporation in an agreement to make available deferred credit in the sum of approx. NIS 28 million, and this for the Company’s observance of the requirements of the minimum solvency margin required from an insurer.

In addition, in March 2010 Shlomo Insurance Business invested in the Company’s capital the sum of approx. NIS 2.5 million, and this for the Company’s observance of the minimum equity requirements, *inter alia*, in light of an amendment adopted in the Minimum Equity Regulations. The transfer of the aforesaid sum from Shlomo Insurance Business to the Company, as aforesaid, was made as a payment on account of the Company’s shares that shall be allotted to Shlomo Insurance Business within three months after the date of the investment.

In addition, in March 2010, arrangements were signed between the Company and Shlomo Vehicle, Shlomo Transportation and Shlomo Car Rentals (1987) Ltd. for a final settlement of claims of the policyholders, for coverage of self-damage in the comprehensive insurance businesses for 2008-2009 as of December 31, 2009. For details concerning these arrangements see Section 5.14 of the Description of Corporation’s Businesses report.

On February 23, 2010, the Company allotted to the shareholder therein 6,500,000 ordinary shares with a par value of NIS 0.10 each, in addition to a premium in the sum of NIS 0.90 for each share. The allotment was made in respect of receipts on account of shares received by the Company in November 2009 from the shareholder thereof.

In 2009, the vehicles of the Group companies in Israel were insured by motor act insurance and motor casco insurance by the Company. From January 1, 2010, Shlomo Vehicle and Shlomo Transportation no longer insure their vehicles by comprehensive insurance via the Company, subject to certain exceptions. For details concerning the Company's dependency on Shlomo Vehicle and Shlomo Transportation see Sections 3.1.4 and 3.2.4 of the Description of Corporation's Businesses chapter.

The board of directors wishes to thank the Company's management, employees and agents for their contribution to its achievements.

Date: March 24, 2010

S. Shlomo Insurance Company Ltd.

Names and titles of signatories:

Mr. Shlomo Shmeltzer,
Chairman of the Board of Directors

Mr. Zvi Leibushor, CEO

S. Shlomo Insurance Company Ltd.

**Re: Statement Concerning the Reports for the Financial Statement for the Year
Ending as of December 31, 2009**

I, Zvi Leibushor, state as follows:

1. I reviewed the annual financial statements of S. Shlomo Insurance Company Ltd. (the “**Insurance Company**”) for the year that ended as of December 31, 2009 (the “**Statement**”).
2. Based on my knowledge, the Statement neither contains any false representation of any material fact nor omits the representation of any material fact that is required in order for the representation included therein, in light of the circumstances in which these representations were included, not to be misleading with respect to the period covered by the Statement.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Statement duly represent, in all material aspects, the financial position, results of operation, changes in the shareholders' equity and cash flows of the Insurance Company for the days and period reported in the Statement.
4. I and others in the Insurance Company who make this statement are responsible for the setting-up and performance of controls and procedures for the disclosure required in the Insurance Company’s Statement; and –
 - (a) We set up or had set up under our supervision such controls and procedures, which are designed to ensure that material information with respect to the Insurance Company, including its consolidated corporations, is brought to our knowledge by others in the Insurance Company and such corporations, in particular during the Statement’s preparation period;
 - (b) We evaluated the efficiency of the controls and procedures with respect to the disclosure of the Insurance Company and presented our conclusions concerning the efficiency of the controls and procedures with respect to the disclosure as of the end of the period covered by the Statement, based on our evaluations; and –
 - (c) We discovered in the Statement any change in the internal control of the Insurance Company on financial reporting that occurred in the course of this year, which materially affected or is reasonable expected to materially affect the Insurance Company’s internal control and financial reporting. And -
5. I and others in the Insurance Company who make this statement disclosed to the auditing certified public accountant, the board of directors and the board of directors’ audit committee of the Insurance Company, based on our most updated evaluation concerning the internal control on financial reporting:

- (a) All of the significant deficiencies and material weaknesses in setting up or performing the internal control on financial reporting, which are reasonably expected to affect the Insurance Company's ability to record, process, summarize and report financial information; and –
- (b) Any fraud, whether or not material, in which the management or other employees who have a significant function in the Insurance Company's internal control on financial reporting are involved.

The aforesaid may not derogate from my responsibility or from the responsibility of any other person under any law.

March 24, 2010

Zvi Leibushor, CEO

Date

Name and Title

Signature

S. Shlomo Insurance Company Ltd.

**Re: Statement Concerning the Reports for the Financial Statement for the Year
Ending as of December 31, 2009**

I, Jimmy Ashkenazi, state as follows:

1. I reviewed the annual financial statements of S. Shlomo Insurance Company Ltd. (the “**Insurance Company**”) for the year that ended as of December 31, 2009 (the “**Statement**”).
2. Based on my knowledge, the Statement neither contains any false representation of any material fact nor omits the representation of any material fact that is required in order for the representation included therein, in light of the circumstances in which these representations were included, not to be misleading with respect to the period covered by the Statement.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Statement duly represent, in all material aspects, the financial position, results of operation, changes in the shareholders' equity and cash flows of the Insurance Company for the days and period reported in the Statement.
4. I and others in the Insurance Company who make this statement are responsible for the setting-up and performance of controls and procedures for the disclosure required in the Insurance Company’s Statement; and –
 - (a) We set up or had set up under our supervision such controls and procedures, which are designed to ensure that material information with respect to the Insurance Company, including its consolidated corporations, is brought to our knowledge by others in the Insurance Company and such corporations, in particular during the Statement’s preparation period;
 - (b) We evaluated the efficiency of the controls and procedures with respect to the disclosure of the Insurance Company and presented our conclusions concerning the efficiency of the controls and procedures with respect to the disclosure as of the end of the period covered by the Statement, based on our evaluations; and –
 - (c) We discovered in the Statement any change in the internal control of the Insurance Company on financial reporting that occurred in the course of this year, which materially affected or is reasonable expected to materially affect the Insurance Company’s internal control and financial reporting. And -
5. I and others in the Insurance Company who make this statement disclosed to the auditing certified public accountant, the board of directors and the board of directors’ audit committee of the Insurance Company, based on our most updated evaluation concerning the internal control on financial reporting:

- (a) All of the significant deficiencies and material weaknesses in setting up or performing the internal control on financial reporting, which are reasonably expected to affect the Insurance Company's ability to record, process, summarize and report financial information; and –
- (b) Any fraud, whether or not material, in which the management or other employees who have a significant function in the Insurance Company's internal control on financial reporting are involved.

The aforesaid may not derogate from my responsibility or from the responsibility of any other person under any law.

March 24, 2010

Jimmy Ashkenazi, CFO

Date

Name and Title

Signature

S. Shlomo Insurance Company Ltd.

Condensed Financial Statements

as of December 31, 2009

S. Shlomo Insurance Company Ltd.

Condensed Financial Statements

As of December 31, 2009

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S. Shlomo Insurance Company Ltd.

Dear Sirs,

We have audited, in accordance with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements as prescribed by the Regulator of Insurance pursuant to the Supervision of Financial Services (Insurance) Law, 1981, the statements of financial position of S. Shlomo Insurance Company Ltd. as of December 31, 2009 and 2008, and the related statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the years ended as of December 31, 2009, 2008 and 2007, and in our report dated March 24, 2010, we expressed an unqualified opinion on those financial statements.

The accompanying financial statements are condensed financial statements and do not include the disclosures required by International Financial Reporting Standards. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the financial position and the results of operations of the Company.

Tel-Aviv, Israel

April 12, 2010

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

Statements of Financial Position

Assets

	As of December 31	
	2009	2008
	NIS in thousands	
Intangible assets	6,380	5,932
Deferred tax assets	4,614	636
Deferred acquisition costs in general insurance	20,450	7,707
Fixed assets	2,331	2,893
Reinsurance assets	16,667	275
Current tax assets	4,379	1,192
Debtors and receivables	15,087	14,504
Outstanding premiums	75,384	18,699
Financial investments:		
Quoted debt assets	147,098	86,076
Unquoted debt assets	83,457	58,408
Shares	2	1,803
Other	-	3,623
Total financial investments	230,557	149,910
Cash and cash equivalents	106,913	35,847
Total assets	482,762	237,595

Statements of Financial Position

Capital and liabilities

	As of December 31	
	2009	2008
	NIS in thousands	
Capital:		
Share capital	7,700	7,200
Premium on shares	69,300	64,800
Receipts on account of shares	6,500	-
Capital reserves	(326)	1,054
Surplus	(29,715)	(17,498)
Total capital	53,459	55,556
Liabilities:		
Liabilities for insurance contracts	391,182	119,336
Net liabilities for transactions of the Group companies	-	2,082
Liabilities for employee benefits, net	1,280	157
Creditors and payables	36,841	60,464
Total liabilities	429,303	182,039
Total capital and liabilities	482,762	237,595

Statements of Comprehensive Income

	For the year ended as of		
	December 31		
	2009	2008	2007
	NIS in thousands		
Gross earned premiums	393,408	109,126	-
Premiums earned by reinsurers	(11,927)	(5,675)	-
Premiums earned on retention	381,481	103,451	-
Profits (losses) from investments, net and finance income	15,103	(1,300)	319
Revenues from commissions	96	12	-
Other revenues	1,946	6,111	-
Total revenues	398,626	108,274	319
Payments and change in liabilities due to insurance contracts gross	385,755	91,555	-
Share of the reinsurers in payments and in change in liabilities due to insurance contracts	15,994	14	-
Payments and change in liabilities due to insurance contracts on retention	369,761	91,541	-
Commissions, marketing expenses and other acquisition expenses	36,287	13,642	-
General and administrative expenses	7,078	5,510	-
Other expenses	910	2,369	14,140
Finance expenses	48	93	-
Total expenses	414,084	113,155	14,140
Loss before taxes on income	(15,458)	(4,881)	(13,821)
Income tax benefit	3,241	1,204	-
Loss for the period	(12,217)	(3,677)	(13,821)
Other comprehensive income (loss):			
Net change in the fair value of financial assets classified as available for sale	5,779	263	-
Net change in the fair value of financial assets classified as available for sale, which was transferred to the income statement	(7,896)	-	-
Loss from impairment of financial assets classified as available for sale, which was transferred to the income statement	-	1,359	-
Taxes on income that refer to components of comprehensive income	737	(568)	-
Other comprehensive income (loss), net	(1,380)	1,054	-
Total comprehensive loss	(13,597)	(2,623)	(13,821)
Loss per share			
Basic loss per share (in NIS)	(0.168)	(0.051)	(0.192)

Statements of Cash Flows

	Share Capital	Premium on Shares	Receipts on Account of Shares	Capital Reserve from Financial Assets Available for Sale	Surplus Balance	Total
NIS in thousands						
Share capital issue (November 2007)	7,200	64,800	-	-	-	72,000
Total comprehensive loss	-	-	-	-	(13,821)	(13,821)
<u>Balance as of December 31, 2007</u>	7,200	64,800	-	-	(13,821)	58,179
Total comprehensive income (loss)	-	-	-	1,054	(3,677)	(2,623)
<u>Balance as of December 31, 2008</u>	7,200	4,800	-	1,054	(17,498)	55,556
Share capital issue	500	4,500	-	-	-	5,000
Receipts on account of shares	-	-	6,500	-	-	6,500
Total comprehensive loss	-	-	-	(1,380)	(12,217)	(13,597)
<u>Balance as of December 31, 2009</u>	7,700	69,300	6,500	(326)	(29,715)	53,459

	For the year ended as of December 31		
	2009	2008	2007
NIS in thousands			
Cash flows from current activity (A)	62,913	(11,428)	(12,846)
Cash flows from investment activity			
Investment in fixed assets	(299)	(605)	(2,408)
Proceeds from sale of fixed assets	2	-	-
Investment in intangible assets	(3,062)	(7,208)	(1,677)
Net cash used in investment activity	(3,359)	(7,813)	(4,085)
Cash flows from finance activity			
Proceeds from share capital issue	5,000	-	72,000
Proceeds from receipts on account of shares	6,500	-	-
Cash flows provided by finance activity	11,500	-	72,000
Effect of fluctuations in the exchange rate on cash and cash equivalent balances	12	19	-
Increase (decrease) in cash and cash equivalents	71,066	(19,222)	55,069
Cash and cash equivalent balance as of beginning of year	35,847	55,069	-
Cash and cash equivalent balance as of end of year	106,913	35,847	55,069

Statements of Cash Flows

	For the year ended as of		
	December 31		
	2009	2008	2007
	NIS in thousands		
Appendix A – Cash flows from current activity			
Loss	(12,217)	(3,677)	(13,821)
Items not involving cash flows:			
Net losses (profits) from financial investments:			
Quoted debt assets	(6,529)	(2,280)	-
Shares	(2,919)	2,389	-
Other investments	(1,192)	799	-
	(10,640)	908	-
Interest expenses	20	-	-
Interest income from cash and cash equivalents	(291)	(729)	(319)
Loss from sale of fixed assets	2	-	-
Depreciation and amortization:			
Fixed assets	932	733	-
Intangible assets	2,806	3,118	-
Change in liabilities due to insurance contracts	271,846	119,336	-
Change in reinsurance assets	(16,392)	(275)	-
Change in deferred acquisition costs	(12,743)	(7,707)	-
Taxes on income	(3,241)	(1,204)	-
Changes in other balance sheet items:			
Purchases, net of financial investments	(75,717)	(151,023)	-
Outstanding premiums	(56,685)	(18,699)	-
Salary tax receivables	(2,754)	(955)	-
Debtors and receivables	(583)	(14,493)	(11)
Change in liabilities due to transactions with the Groupcompanies	(2,082)	2,082	-
Creditors and payables	(23,890)	58,800	886
Liabilities for employee benefits, net	1,123	5	152
Total adjustments required for presenting cash flows from current activity	71,711	(10,103)	708
Cash paid and received during the year for:			
Interest received	3,580	2,402	319
Interest paid	(20)	-	-
Taxes paid	(433)	(185)	(52)
Dividend received	292	135	-
	3,419	2,352	267
Total cash flows from current activity	62,913	(11,428)	(12,846)