

ZUR SHAMIR HOLDINGS LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2002

ZUR SHAMIR HOLDINGS LTD.
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AS OF DECEMBER 31, 2002
ADJUSTED TO THE NIS OF DECEMBER 2002

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AUDITORS' REPORT

To the Shareholders of
ZUR SHAMIR HOLDINGS LTD.

We have audited the accompanying balance sheets of Zur Shamir Holdings Ltd. (hereunder - the Company) as of December 31, 2002 and 2001, the consolidated balance sheets as of the same dates, and the related statements of profit and loss, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended as of December 31, 2002. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express our opinion on these financial statements based on our audits.

We did not audit the financial statements of subsidiaries whose consolidated assets constitute about 11% and 9% of the total consolidated assets as of December 31, 2002 and 2001, and their income constitutes about 4% total consolidated income for the years then ended. In addition, we did not audit the financial statements of a company which was included on an equity basis, in which the investment as of December 31, 2001 amounted to NIS 464 thousand and the Company's share in the losses of the above company for the year ended on that date amounted to NIS 412 thousand. The financial statements of that company were audited by other auditors whose reports were rendered to us and our opinion, insofar as it relates to the amounts included in respect of that company is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors Regulations (Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2002 and 2001, and the results of its operations, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended as of December 31, 2002, in conformity with generally accepted accounting principles in Israel. In addition, in our opinion the above financial statements are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993, taking into account that the details regarding a subsidiary which is an insurance company are prepared in conformity with the accounting, reporting and presentation principles prescribed by the Law for the Supervision of Insurance Business, 1981, and the regulations enacted in pursuance thereto.

As detailed in note 2, the aforementioned financial statements have been adjusted to reflect the changes in the general purchasing power of the Israeli currency in accordance with the Statements of the Institute of Certified Public Accountants in Israel and subject to the principles as determined in the Regulations of the Supervision of Insurance Business (Details of Accounts), 1998.

Tel Aviv, Israel
March 19, 2003

KOST FORER & GABBAY
A Member of Ernst & Young International

BALANCE SHEETS

Adjusted to the NIS of December 2002

	Note	CONSOLIDATED			COMPANY	
		December 31,		Convenience translation into U.S.\$ in thousands *)	December 31,	
		2002	2001		2002	2001
		Adjusted NIS in thousands		Adjusted NIS in thousands		
CURRENT ASSETS						
Cash and cash equivalents	3	112,851	42,700	23,823	898	3,027
Deposits with financial institutions	4	1,450	2,538	306	-	-
Short term investments	5	7,115	7,589	1,502	411	326
Customers	6	24,405	25,125	5,152	84	504
Insurance companies	7	43,246	26,492	9,129	-	-
Outstanding premiums	8	90,877	76,740	19,185	-	-
Debtors and debit balances	9	41,069	48,501	8,670	349	980
Inventory of buildings for sale	10	583	13,066	123	-	-
		<u>321,596</u>	<u>242,751</u>	<u>67,890</u>	<u>1,742</u>	<u>4,837</u>
INVESTMENTS AND LONG TERM LOANS						
Investments of an insurance company	11	666,089	579,540	140,614	-	-
Reinsurer's share in insurance reserves and outstanding claims	12	34,514	41,611	7,286	-	-
Investment in investees	13	-	464	-	324,745	252,095
Long term investments	14	21,670	26,057	4,575	-	-
Loans	15	24,640	15,429	5,202	-	-
		<u>746,913</u>	<u>663,101</u>	<u>157,677</u>	<u>324,745</u>	<u>252,095</u>
FIXED ASSETS						
Cost	16	1,180,707	946,276	249,252	56,538	113,694
Less accumulated depreciation		<u>151,323</u>	<u>121,231</u>	<u>31,945</u>	<u>12,738</u>	<u>28,355</u>
		<u>1,029,384</u>	<u>825,045</u>	<u>217,307</u>	<u>43,800</u>	<u>85,339</u>
DEFERRED ACQUISITION COSTS AND OTHER ASSETS, NET						
Other assets and deferred expenses, net	17	44,075	51,618	9,304	834	1,371
Deferred acquisition costs in an insurance company	18	56,877	45,890	12,007	-	-
Deferred taxes	29e	45,937	38,201	9,698	5,041	5,115
		<u>146,889</u>	<u>135,709</u>	<u>31,009</u>	<u>5,875</u>	<u>6,486</u>
		<u>2,244,782</u>	<u>1,866,606</u>	<u>473,883</u>	<u>376,162</u>	<u>348,757</u>

*) See note 2x

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

BALANCE SHEETS**Adjusted to the NIS of December 2002**

	Note	CONSOLIDATED			COMPANY	
		December 31,		Convenience translation into U.S.\$ in thousands *)	December 31,	
		2002	2001		2002	2001
		Adjusted NIS in thousands			Adjusted NIS in thousands	
CURRENT LIABILITIES						
Bank credit	19	370,614	293,545	78,238	167,562	76,647
Suppliers and service providers	20	21,242	12,441	4,484	130	450
Insurance companies		19,295	27,618	4,073	-	-
Creditors and credit balances	21	76,186	69,105	16,083	5,446	4,838
Current maturities of convertible capital notes	22	14,265	14,191	3,012	14,265	14,299
Current maturities of subsidiary's convertible capital notes	13b(2)(b))	31,596	15,767	6,670	-	-
Current maturities of subsidiary's convertible debentures	23	9	2,486	2	-	-
		<u>533,207</u>	<u>435,153</u>	<u>112,562</u>	<u>187,403</u>	<u>96,234</u>
LONG TERM LIABILITIES						
Convertible capital notes	22	33,393	47,199	7,049	33,393	47,522
Subsidiary's convertible capital notes	13b(2)(b)	-	31,513	-	-	-
Subsidiary's convertible debentures	23	41	14,911	9	-	-
Loans from banking institutions and others	24	679,757	466,026	143,499	26,621	75,847
Deferred taxes	29e	22,070	11,737	4,659	-	-
Liabilities for severance pay, net	25	2,007	1,671	424	-	-
		<u>737,268</u>	<u>573,057</u>	<u>155,640</u>	<u>60,014</u>	<u>123,369</u>
INSURANCE RESERVES AND OUTSTANDING CLAIMS	26	<u>750,008</u>	<u>610,156</u>	<u>158,330</u>	<u>-</u>	<u>-</u>
MINORITY INTEREST		<u>95,554</u>	<u>119,086</u>	<u>20,172</u>	<u>-</u>	<u>-</u>
CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES	27					
SHAREHOLDERS' EQUITY						
Share capital	34d	206,106	206,106	43,510	206,106	206,106
Capital reserves		25,923	25,549	5,472	25,923	25,549
Deficiency		(42,686)	(46,995)	(9,011)	(42,686)	(46,995)
		<u>189,343</u>	<u>184,660</u>	<u>39,971</u>	<u>189,343</u>	<u>184,660</u>
Shares held by the Company and subsidiaries		<u>(60,598)</u>	<u>(55,506)</u>	<u>(12,792)</u>	<u>(60,598)</u>	<u>(55,506)</u>
		<u>128,745</u>	<u>129,154</u>	<u>27,179</u>	<u>128,745</u>	<u>129,154</u>
		<u>2,244,782</u>	<u>1,866,606</u>	<u>473,883</u>	<u>376,162</u>	<u>348,757</u>

*) See note 2x

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

March 19, 2003

Date of approval of the
financial statementsShalom Schneidman
Chairman of the BoardMoshe Schneidman
Managing Director
and Member of the BoardRonen Nekar
Finance Manager

STATEMENTS OF PROFIT AND LOSS

Adjusted to the NIS of December 2002

	Note	CONSOLIDATED				COMPANY		
		Year ended December 31,			Convenience translation into U.S.\$ in thousands ***)	Year ended December 31,		
		2002	2001 *)	2000 *)		2002	2001 *)	2000 *)
Adjusted NIS in thousands (except per share data)		Adjusted NIS in thousands (except per share data)		Adjusted NIS in thousands (except per share data)		Adjusted NIS in thousands (except per share data)		
Income								
From insurance business	28a	513,684	459,833	304,652	108,441	-	-	-
From lease of assets		98,382	82,525	50,853	20,769	6,265	7,948	7,346
From construction business		16,589	4,389	31,737	3,502	-	-	-
From sales of software		1,876	7,412	5,977	396	-	-	-
Capital gain, net	28g	5,204	8,030	125	1,098	1,269	6,891	169
		<u>635,735</u>	<u>562,189</u>	<u>393,344</u>	<u>134,206</u>	<u>7,534</u>	<u>14,839</u>	<u>7,515</u>
Costs and expenses								
Insurance business	28b	470,586	410,779	273,524	99,343	-	-	-
Maintenance of assets:								
Depreciation		16,705	14,306	11,202	3,526	2,854	3,952	3,999
Others		5,685	3,602	3,405	1,200	537	818	652
Construction business	28c	14,138	4,264	22,732	2,985	-	-	-
Cost of sales of software	28d	10,692	13,687	6,330	2,257	-	-	-
Financing expenses, net	28e	52,517	40,354	23,216	11,087	7,355	14,682	5,373
Administrative and general expenses	28f	19,061	22,001	17,166	4,023	3,731	6,791	6,905
		<u>589,384</u>	<u>508,993</u>	<u>357,575</u>	<u>124,421</u>	<u>14,477</u>	<u>26,243</u>	<u>16,929</u>
Profit (loss) before income taxes		46,351	53,196	35,769	9,785	(6,943)	(11,404)	(9,414)
Income taxes	29c	27,286	35,557	16,154	5,760	74	74	86
Profit (loss) after income taxes		19,065	17,639	19,615	4,025	(7,017)	(11,478)	(9,500)
Company's share in results of investees	28h	-	(412)	(1,381)	-	21,280	14,645	14,579
Minority interest in profits of subsidiaries		(4,802)	(14,060)	(13,155)	(1,014)	-	-	-
Net profit for the year		<u>14,263</u>	<u>3,167</u>	<u>5,079</u>	<u>3,011</u>	<u>14,263</u>	<u>3,167</u>	<u>5,079</u>
Earnings per share	32							
Basic earnings per share for NIS 1 nominal value of shares (in adjusted NIS, US dollars)		<u>0.27</u>	<u>0.06</u>	<u>0.08</u>	<u>0.06</u>			
Fully diluted earnings per share for NIS 1 nominal value of shares (in adjusted NIS, US dollars)		<u>0.25</u>	<u>**)</u>	<u>0.07</u>	<u>0.05</u>			

*) Reclassified.

**) Not applicable this year.

***) See note 2x

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**Adjusted to the NIS of December 2002**

	Share capital	Share premium	Capital reserves	Adjustments due to translation of subsidiaries' financial statements	Deficiency	Less shares held by the company and by subsidiaries	Total
Adjusted NIS in thousands							
Balance as of January 1, 2000	194,902	4,311	(1,249)	2,879	(52,784)	(18,667)	129,392
Acquisition of Company shares by a subsidiary	-	-	-	-	-	(14,625)	(14,625)
Conversion of capital notes into shares	11,204	14,236	-	-	-	(24,813)	627
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	(711)	-	-	(711)
Dividend paid	-	-	-	-	(2,457)	1,699	(758)
Net profit for the year	-	-	-	-	5,079	-	5,079
Balance as of December 31, 2000	206,106	18,547	(1,249)	2,168	(50,162)	(56,406)	119,004
Exercise of a subsidiary's options	-	-	3,505	-	-	-	3,505
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	2,578	-	-	2,578
Distribution of Company shares as a dividend by a subsidiary	-	-	-	-	-	900	900
Net profit for the year	-	-	-	-	3,167	-	3,167
Balance as of December 31, 2001	206,106	18,547	2,256	4,746	(46,995)	(55,506)	129,154
Acquisition of subsidiary's convertible debentures [see note 13c(2)]	-	(7,602)	-	-	-	-	(7,602)
Acquisition of Company shares	-	-	-	-	-	(5,092)	(5,092)
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	7,976	-	-	7,976
Dividend paid	-	-	-	-	(9,954)	-	(9,954)
Net profit for the year	-	-	-	-	14,263	-	14,263
Balance as of December 31, 2002	<u>206,106</u>	<u>10,945</u>	<u>2,256</u>	<u>12,722</u>	<u>(42,686)</u>	<u>(60,598)</u>	<u>128,745</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Cont.)

	Convenience translation into U.S. dollars *)						Total
	Share capital	Share premium	Capital reserves	Adjustments	Deficiency	Less shares held by the company and by subsidiaries	
				due to translation of subsidiaries' financial statements			
	In thousands						
Balance as of December 31, 2001	43,510	3,915	476	1,002	(9,921)	(11,717)	27,265
Acquisition of subsidiary's convertible debentures [see note 13c(2)]	-	(1,605)	-	-	-	-	(1,605)
Acquisition of Company shares	-	-	-	-	-	(1,075)	(1,075)
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	1,684	-	-	1,684
Dividend paid	-	-	-	-	(2,101)	-	(2,101)
Net profit for the year	-	-	-	-	3,011	-	3,011
Balance as of December 31, 2002	<u>43,510</u>	<u>2,310</u>	<u>476</u>	<u>2,686</u>	<u>(9,011)</u>	<u>(12,792)</u>	<u>27,179</u>

*) See note 2x

STATEMENTS OF CASH FLOWS**Adjusted to the NIS of December 2002**

	CONSOLIDATED				Convenience translation into U.S.\$ in thousands *)	COMPANY		
	Year ended December 31,			Year ended December 31,				
	2002	2001	2000	2002		2001	2000	
	Adjusted NIS in thousands				Adjusted NIS in thousands			
CASH FLOWS FROM OPERATING ACTIVITIES								
Net profit for the year	14,263	3,167	5,079	3,011	14,263	3,167	5,079	
Adjustments necessary to present cash flows from operating activities (A)	69,814	46,122	(24,341)	14,738	(15,541)	1,998	(17,443)	
Net cash provided by (used in) operating activities	84,077	49,289	(19,262)	17,749	(1,278)	5,165	(12,364)	
CASH FLOWS FROM INVESTMENT ACTIVITIES								
Acquisition of shares and convertible debentures of subsidiaries from minority shareholders	(68,220)	(37,982)	(7,083)	(14,401)	(57,859)	(56,672)	(7,275)	
Acquisition of subsidiaries first consolidated (B)	-	(58,446)	27,923	-	-	-	-	
Proceeds from realization of investment in a subsidiary consolidated in the past (C)	-	-	(37)	-	19,809	-	-	
Proceeds from redemption of convertible debentures for shares of a subsidiary	-	-	-	-	41,268	-	-	
Investment in an affiliate	-	(876)	-	-	-	-	-	
Acquisition of Company shares held by a subsidiary	-	-	-	-	(39,831)	-	-	
Payments to creditors for acquisition of a company	-	(32,608)	-	-	-	-	-	
Acquisition of fixed assets	(146,263)	(132,311)	(102,703)	(30,877)	(1,327)	(1,562)	(459)	
Proceeds from sale of fixed assets	1,096	1,334	208	231	640	382	-	
Exercise of (investment in) marketable securities, net	7,029	719	(2,922)	1,484	-	-	(3,281)	
Long term loans granted	(7,456)	(12,499)	-	(1,574)	(42,882)	-	-	
Redemption of long term loans	1,486	1,370	505	314	44,998	2,934	-	
Realization of deposits with financial institutions, net	1,250	6,674	8,402	264	-	-	-	
Other assets and deferred expenses	(22)	(1,166)	(3,335)	(5)	-	-	-	
Net cash provided by (used in) investment activities	(211,100)	(265,791)	(79,042)	(44,564)	(35,184)	(54,918)	(11,015)	
Balance carried forward	(127,023)	(216,502)	(98,304)	(26,815)	(36,462)	(49,753)	(23,379)	

*) See note 2x

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

STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2002

	CONSOLIDATED				COMPANY		
	Year ended December 31,			Convenience translation into U.S.\$ in thousands*)	Year ended December 31,		
	2002	2001	2000		2002	2001	2000
	Adjusted NIS in thousands				Adjusted NIS in thousands		
Balance brought forward	(127,023)	(216,502)	(98,304)	(26,815)	(36,462)	(49,753)	(23,379)
CASH FLOWS FROM FINANCING ACTIVITIES							
Acquisition of Company's shares by the Company and a subsidiary	(5,092)	-	(14,625)	(1,075)	(5,092)	-	-
Redemption of convertible capital notes	(14,249)	(14,039)	(16,109)	(3,008)	(14,707)	(14,145)	(16,201)
Redemption of subsidiary's convertible capital notes	(9,936)	-	-	(2,098)	-	-	-
Redemption of subsidiary's convertible debentures	(366)	(5,831)	(7,652)	(77)	-	-	-
Issue of shares to minority in subsidiaries (net of issue expenses)	4,912	14,295	989	1,037	-	-	-
Redemption of long term loans from banking institutions	(88,544)	(58,261)	(58,123)	(18,693)	(36,568)	(22,314)	(5,073)
Receipt of long term loans from banking institutions	251,377	129,013	230,799	53,067	10,389	55,485	35,228
Increase in credit from banking institutions, net	62,403	98,831	24,772	13,174	90,242	31,292	(8,841)
Payment of dividend to minority and to public shareholders	(9,954)	(2,615)	(758)	(2,101)	(9,954)	-	(2,064)
Net cash provided by financing operations	190,551	161,393	159,293	40,226	34,310	50,318	3,049
Translation differences in respect of cash balances in foreign autonomic subsidiaries	6,623	4,965	(692)	1,398	23	84	(105)
Increase (decrease) in cash and cash equivalents	70,151	(50,144)	60,297	14,809	(2,129)	649	(20,435)
Balance of cash and cash equivalents at the beginning of the year	42,700	92,844	32,547	9,014	3,027	2,378	22,813
Balance of cash and cash equivalents at the end of the year	112,851	42,700	92,844	23,823	898	3,027	2,378

*) See note 2x

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

STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 2002

	CONSOLIDATED				COMPANY		
	Year ended December 31,			Convenience translation into U.S.\$ in thousands*)	Year ended December 31,		
	2002	2001	2000		2002	2001	2000
	Adjusted NIS in thousands				Adjusted NIS in thousands		
(A) Adjustments necessary to present cash flows from operating activities							
Income and expenses not involving cash flows:							
Company's share in losses (profits) of investees net of dividend	-	412	1,381	-	(21,280)	1,902	(14,579)
Minority interest in profits of subsidiaries	4,802	14,060	13,155	1,014	-	-	-
Depreciation and amortization	35,355	31,987	20,637	7,464	4,073	5,654	5,665
Capital gain, net	(5,204)	(8,030)	(125)	(1,099)	(1,269)	(6,891)	(169)
Change in deferred taxes, net	5,698	663	3,340	1,203	74	74	73
Change in liability for severance pay, net	336	(3,913)	479	71	-	-	-
Increase in insurance reserves and outstanding claims net of reinsurance	146,949	136,472	58,071	31,021	-	-	-
Increase in deferred acquisition costs	(10,987)	(10,929)	(4,822)	(2,319)	-	-	-
Decrease (increase) in value of marketable securities, net	(1,704)	2,142	(1,262)	(360)	(85)	2,538	416
Interest and erosion of loans and long term liabilities, net	(10,628)	(5,760)	(4,374)	(2,244)	(659)	1,964	2,832
Interest on deposits from subsidiaries	-	-	-	-	(554)	(2,388)	(1,544)
	<u>164,617</u>	<u>157,104</u>	<u>86,480</u>	<u>34,751</u>	<u>(19,700)</u>	<u>2,853</u>	<u>(7,306)</u>
Changes in assets and liabilities:							
Decrease (increase) in inventory of apartments for sale	12,483	2,769	(1,428)	2,635	-	-	-
Decrease (increase) in customers	3,499	(13,617)	(6,126)	739	380	(199)	279
Decrease (increase) in insurance companies, net	(25,077)	(34,214)	39,077	(5,294)	-	-	-
Increase in outstanding premiums	(14,137)	(10,645)	(8,226)	(2,984)	-	-	-
Increase in investments of insurance companies, net	(86,549)	(79,151)	(86,565)	(18,271)	-	-	-
Decrease (increase) in debtors and debit balances	1,495	11,222	(2,268)	316	585	(524)	1,485
Increase (decrease) in suppliers and service providers	8,524	(3,384)	3,557	1,799	(31)	(7)	204
Increase (decrease) in creditors and credit balances	4,959	16,038	(48,842)	1,047	3,225	(125)	(12,105)
	<u>(94,803)</u>	<u>(110,982)</u>	<u>(110,821)</u>	<u>(20,013)</u>	<u>4,159</u>	<u>(855)</u>	<u>(10,137)</u>
	<u>69,814</u>	<u>46,122</u>	<u>(24,341)</u>	<u>14,738</u>	<u>(15,541)</u>	<u>1,998</u>	<u>(17,443)</u>

*) See note 2x

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

STATEMENTS OF CASH FLOWS**Adjusted to the NIS of December 2002**

	CONSOLIDATED			Convenience translation into U.S.\$ in thousands *)	COMPANY		
	Year ended December 31,				Year ended December 31,		
	2002	2001	2000		2002	2001	2000
	Adjusted NIS in thousands				Adjusted NIS in thousands		
(B) Acquisition of subsidiaries first consolidated							
Assets and liabilities of subsidiaries as of consolidation date:							
Working capital (except for cash and cash equivalents)	-	757	(43,419)	-	-	-	-
Investments of insurance companies	-	-	(83,088)	-	-	-	-
Fixed assets, net (including allocated initial difference of NIS 1,041 thousand)	-	(59,203)	(9,974)	-	-	-	-
Other assets, net (including initial difference of NIS 47,892 thousand)	-	-	(88,259)	-	-	-	-
Insurance reserves and outstanding claims	-	-	167,704	-	-	-	-
Liabilities for severance pay	-	-	4,345	-	-	-	-
Creditors for acquisition of a company	-	-	79,889	-	-	-	-
Excess of losses over investment in an affiliate	-	-	725	-	-	-	-
	-	(58,446)	27,923	-	-	-	-
(C) Proceeds from realization of investments in a subsidiary consolidated in the past							
Deficiency in working capital (except for cash and cash equivalents)	-	-	(74)	-	(2,583)	-	-
Fixed assets, net	-	-	-	-	44,735	-	-
Related companies	-	-	-	-	(13,783)	-	-
Capital gain	-	-	37	-	-	-	-
Capital reserves from acquisition of a related company	-	-	-	-	15,777	-	-
Loans from banking institutions (including current maturities)	-	-	-	-	(24,337)	-	-
	-	-	(37)	-	19,809	-	-

*) See note 2x

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

STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2002

	CONSOLIDATED			Convenience translation into U.S.\$ in thousands *)	COMPANY		
	Year ended December 31,				Year ended December 31,		
	2002	2001	2000		2002	2001	2000
	Adjusted NIS in thousands				Adjusted NIS in thousands		
(D) Material activities not involving cash flows							
Capital issue against conversion of convertible capital notes	-	-	627	-	-	-	25,440
Acquisition of shares and conversion of capital notes by a subsidiary against investment in subsidiaries	-	-	-	-	-	-	39,438
Receipts on account of a subsidiary's options against capital reserve	-	3,505	-	-	-	3,505	-
Minority interest in distribution of the Company's shares as a dividend by a subsidiary	-	900	-	-	-	900	-
Acquisition of a building against investment in long term securities	-	50,683	-	-	-	-	-
Netting of dividend paid to a subsidiaries	-	-	-	-	-	-	1,306
Capital issue to minority in a subsidiary against conversion of liability	-	-	1,193	-	-	-	-
Issue of capital notes convertible into shares of a subsidiary against creditors for acquisition of a company	-	47,281	-	-	-	-	-

*) See note2x

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. The Company is a public company whose shares are registered for trade on the Tel-Aviv Stock-Exchange.

b. The Company's activities

The Company, through its investees, operates in the following lines:

- 1) Real estate business - leasing and management of revenue earning assets in Israel and abroad.
 - residential construction project.
 - entrepreneurship and development.
- 2) Insurance business - insurance through direct marketing in the general insurance branch (motor vehicles, motor act, apartments, businesses and health) and in the life assurance branch (risk, disability income insurance and savings).
- 3) Sales and software projects in direct insurance.

c. Definitions

In these financial statements

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

The group - the Company and its investees which are listed in the attached list.

Subsidiaries - companies which are not real estate companies and in which the Company has control (as defined by Statement No. 57) and whose financial statements are consolidated with the Company's financial statements.

Proportionally consolidated subsidiaries - companies held by a number of parties who have a contractual agreement for joint control and whose financial statements are proportionally consolidated with the Company's financial statements.

Affiliates - companies in which the Company has material influence who are not consolidated companies and whose investment is included in the financial statements on an equity basis.

Investees - subsidiaries, proportionally consolidated subsidiaries or affiliates.

Other companies - companies that are not investees and whose investment is presented on a cost basis.

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1:- GENERAL: (Cont.)

- d. The notes relate to the Company's financial statements and the consolidated financial statements, except where stated that the note relates to the Company only or consolidated only.

NOTE 2:- ACCOUNTING PRINCIPLES

The main accounting policies which are applied in the financial statements are as follows:

- a. Financial statements in adjusted values
- 1) The Company and its Israeli subsidiaries maintain their accounting records in nominal NIS. In accordance with the Statements of the Certified Public Accountants in Israel, all the amounts in the financial statements (including the comparative figures), are stated in adjusted NIS of the same purchasing power. The adjusted purchasing power of the NIS reflects the average price level in December 2002, based on the consumer price index (hereunder - the CPI) published on January 15, 2003 (182.0 points on an average basis of 1993 = 100).
 - 2) The values of the non-monetary assets do not purport to reflect their realization or financial value but, rather, their original historical value as adjusted to changes in the general purchasing power of the Israeli currency.
 - 3) The term "cost" in the financial statements represents adjusted cost in NIS.
 - 4) The Company's condensed nominal data is presented in note 34.
- b. Principles of adjustment
- 1) Balance sheet
 - (a) The values of non-monetary items (items whose amounts in the balance sheet reflect their historical value at the time of their acquisition or creation - see hereunder), have been adjusted according to changes in the CPI since their acquisition or creation.

The following items have been treated as non-monetary items: prepaid expenses, inventory of buildings for sale, long term investments, fixed assets and their accumulated depreciation, other assets and deferred expenses, net, income in advance and payments in advance from customers, the accounts of the capital and reserves of a capital nature which were received from the shareholders.
 - (b) The equity value of investments in investees is determined on the basis of these companies' adjusted statements.
 - (c) Monetary items (items whose amounts in the balance sheet reflect the updated or realization value as of balance sheet date) are presented in the adjusted balance sheet as of December 31, 2002, in the same amount as their nominal value for that day (comparative figures have been adjusted to the NIS of December 2002).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)b. Principles of adjustment2) Statement of profit and loss

- (a) Profit and loss components (except for financing), which express transactions during the reporting year - income, expenses, etc. - have been adjusted on the basis of the timing of the transactions, according to monthly CPIs. The erosion of monetary balances which relate to the above transactions is included under the financing item.
- (b) Profit and loss components which are related to non-monetary items in the balance sheet, have been adjusted according to the same basis that served as the basis for the adjustment of the relating balance sheet items: depreciation and amortization, capital profit (loss), etc.
- (c) The profit and loss components which are related to the provisions included in the balance sheet - liabilities for severance pay, net, provision for vacation, etc. are determined on the basis of the change in the balance of the relating balance sheet items, after taking the relative cash flows into account.
- (d) Income and expenses from insurance business:

The balance of insurance reserves and outstanding claims, the reinsurers share therein, and the deferred acquisition costs as of the beginning of the year have been adjusted based on the change of the known CPI in the reporting year, according to the CPI last published before balance sheet date (hereunder the known CPI).

Current activities in Israeli currency - Premiums and fees are adjusted based on the changes in the CPI from the CPI last published before the inception of the related policies up to the CPI last published before balance sheet date.

Other activities are adjusted based on the changes in the CPI from the last CPI published before the month of transaction to that CPI last published before balance sheet date.

Activities in foreign currency - At the representative exchange rate of the last day in the month in which the transaction was performed and are adjusted from that date as mentioned for activities recorded in Israeli shekels.

- (e) Expenses in respect of current taxes on income include the erosion of tax payments from the date of payment up to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)

b. Principles of adjustment (Cont.)

2) Profit and loss statement (Cont.)

(f) The Company's share in the results of investees is determined on the basis of the adjusted statements of these companies.

(g) The financing item, net reflects the real financing income and expenses, including the erosion of monetary items during the year.

3) Statement of changes in shareholders' equity

Any dividend which was announced and paid during the year of account, is adjusted on the basis of the CPI at the time of payment.

According to Standard 7 of the Accounting Standards Institute, from December 31, 2002, dividend announced after the balance sheet date and before the date of approval of the financial statements, will not be included as a liability in the financial statement until actual payment is made.

4) Adjustment in accordance with exchange rates and foreign subsidiaries:

Certain subsidiaries, that operate autonomically, adjust their financial statements in accordance with Clarification No. 8 to Statement No. 36 of the Institute of Certified Public Accountants in Israel, based on the changes in the foreign currency exchange rates.

The difference in respect of these companies in the balance sheets of the holding companies, between the adjustment of the investment of the holding companies based on the changes in the CPI and that of the adjustment of the shareholders' equity of investees in accordance with the changes in the exchange rate, is charged to a separate item under shareholders' equity ("adjustments due to translation of subsidiaries' financial statements").

c. The business cycle period

The group companies operate in varied and diverse activities and the ordinary business cycle of operations may exceed one year, especially in respect of construction work and building projects, whose operation cycle may extend to over a year. In consideration of the above, current assets include items which are intended and expected to be realized during the ordinary business cycle for all the activities.

d. Consolidated financial statements

The Company's financial statements have been consolidated with the financial statements of the subsidiaries and proportionally consolidated subsidiaries. Mutual balances and material transactions between the Company and subsidiaries which were fully consolidated or proportionally consolidated have been eliminated in the consolidated financial statements. The Company's shares which were acquired by subsidiaries were presented according to the Treasury Stock method.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)

e. Investments in investees

- 1) The Company's investment in investees is included based on the equity value method.
- 2) The excess of cost of investment in a number of subsidiaries over their equity value at the time of acquisition, is allocated to fixed assets and amortized from the profit and loss statement parallel to the depreciation of the assets.

The excess of cost of investment which was not allocated, was credited to goodwill which is reported under the other assets and is amortized at equal annual rates during ten years, from the acquisition date.

- 3) Deferred taxes - see note 2n hereunder.

f. Cash equivalents

The Company regards cash equivalents as highly liquid investments, which include short term deposits in banking institutions that are not originally invested for more than three months and are not bound by any pledge.

g. Deposits with financial institutions

Including deposits with financial institutions redeemable upon request and which are not restricted.

h. Investments in securities

1) Marketable securities

- a. Pursuant to Statement No. 44 of the Institute of Certified Public Accountants in Israel, marketable securities invested for short terms and realizable immediately, are reported at their market value in the stock exchange as of balance sheet date. Change in their value is charged to the profit and loss statements under the financing item, net.
- b. Marketable securities invested as long term investments are reported at cost, net of a provision for decrease in value, if there is a decrease in their value which is of a permanent nature.

2) Non-marketable securities (investment in another company)

The investment in another company is represented according to cost, net the provision for loss of value, if there is a permanent decrease of value.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**i. Inventory of buildings under construction

Each project which is constructed by a subsidiary represents one building or a set of buildings. A set of buildings is regarded as one project if the buildings are at the same site, built according to the same construction and license program and offered for sale at the same time.

Joint construction costs for a number of neighboring projects (such as: land, engineering planning, environmental development, etc.) are charged to the projects according to the proportion of the anticipated proceeds from each project.

Buildings under construction are recorded at cost which does not exceed the realization value less advances received from customers. The cost includes direct cost of the land, cost of land development and taxes and costs of construction by the performing contractor. In cases where a loss is expected from the construction of the project, the total anticipated loss is allocated until the project is completed.

j. Fixed assets

- 1) Fixed assets are reported at cost net of accumulated depreciation. Improvements are allocated to cost.
- 2) Depreciation is calculated on the straight-line method at annual rates which are considered to be sufficient for the depreciation of assets over their estimated useful lives as follows:

	<u>%</u>	
Real estate for rent and office buildings	1-3	2-10%)
Vehicles	15-20	(mainly 15%)
Machinery, equipment and office furniture	6-33	(mainly 33%)
Installments and leasehold improvements	(during the leasing period including the option period).	

k. Other assets and deferred expenses

- 1) Convertible debentures and capital notes issue expenses - are amortized during the period the capital notes and debentures are in issue, in accordance with their repayment dates.
- 2) Costs of computer software development -

The manufacture and development costs of prototypes of software, passed to the customer, after achieving technological probability, are discounted according to the principles defined in FASB 86 and are included under other assets. The capitalized software costs are amortized according to the higher value of the ratio of the current sales of the software and the total current and projected sales or the rate of amortization according to the expected useful/working lifetime of the software. In any instance, the amortization period does not exceed three years.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)

- 3) Goodwill - is amortized according to the straight line method over the period of ten years (see note 2e(2) above).
- 4) Deferred expenses relating to raising capital are amortized over three to five years (at present three years).
- 5) Selling expenses for lease of buildings are amortized over the leasing period.

l. Provision for doubtful debts

The provision is determined specifically in relation to debts the management is doubtful as to their collection.

m. Convertible capital notes and debentures

Capital notes and debentures are included based on probability of conversion tests, as determined in Statement No. 55 of the Institute of Certified Public Accountants in Israel. In case their conversion is not expected, they are presented as liability based on their liability value. In case their conversion is expected, they are included between liabilities and shareholders' equity, at the higher of the liability or capital value.

n. Deferred taxes

- 1) Deferred taxes are calculated for timing differences between the amounts included in the adjusted statements and the amounts taken into account for tax purposes. Deferred taxes are calculated in the following cases:

Differences between the value of real estate and fixed assets in the adjusted statements and that of their value for tax purposes (taking into account the determinations in Statement No. 40 to the Certified Public Accountants in Israel), provision for vacation, liabilities for severance pay, net, differences in timing of registration of contractual profit, deferred acquisition costs in life assurance, investments in securities and losses carried forward for tax purposes if there is a certainty of taxable income in the future.

The balances of the deferred taxes are calculated at the tax rates expected to be in force when these taxes are charged to the profit and loss statement. The amount of the deferred taxes in the profit and loss statement reflects the changes in the above balances during the reporting year.

- 2) For calculating deferred taxes, the taxes that would be applicable at the time of realization of investments in investees were not taken into account, since the Company intends to keep these investments and not to realize them.

In addition, deferred taxes in relation to distribution of profits by investees as dividends were not taken into account, since the distribution of the dividend does not involve any additional tax liability.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)o. Insurance business1) Life assurance business

(a) Premiums including savings premiums, are recorded as income when they become due.

(b) Maturities are accounted for on the policy maturity date.

Annuities are accounted for when due for payment.

Surrenders are accounted for when paid.

Death claims are accounted for when notified.

(c) Life assurance reserves, the reinsurers share therein, and deferred acquisition costs in life assurance, are determined on basis of annual actuarial valuations, taking into account the actual expenses in relation to the issue of the policies. The actuarial valuation is performed by the subsidiary's actuary who declared that the calculations were made on the basis of the data from the subsidiary according to accepted actuarial methods in Israel and consistent with last year. For calculating the reserve, the actuary used the same interest rates and mortality tables used by the subsidiary for the preparation of the insurance tariff.

(d) The Financial Statements Details Regulations set principles for determining the amount of deferred acquisition costs of new policies in life assurance (the "DAC"). According to the principles the DAC includes expenses involved in the issue of new policies, including selling, administrative and general expenses. According to the principles, the company amortizes the DAC in equal parts during the policy period but not over more than 15 years.

(e) The reserve for extraordinary risks is calculated as a percentage of the sum assured.

The Supervisor of Insurance issued the insurance companies a draft regulation regarding the reserve for extraordinary risks in life assurance based on the principles previously agreed between them, detailed below:

The insurance company will hold reserves for extraordinary risks in life assurance at a rate of 0.2% of the retained sum assured. Insurance companies whose retained extraordinary risk reserve as at December 31, 2001 is lower than the above rate are required to increase the reserve in equal parts over no more than twelve years financial statements. The set up of reserves according to changes in the retained sum assured from the prior year, beginning at January 1, 2002, will be executed in equal parts over no more than eight years financial statements. It is possible to release funds from the reserve, on the condition that the reserve is larger than 0.25% of the retained sum assured. The current reserve amount is calculated according to the designated 0.2% of the retained sum assured and therefore there is no need to increase the reserve according to the regulation.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)o. Insurance business1) Life assurance business

- (f) The subsidiary maintains a separation of the life assurance business pursuant to the regulations for separation of accounts in life assurance.

2) General insurance business

- (a) The reserve for unexpired risks, outstanding claims, including the reinsurers share in the reserve and the outstanding claims, and the deferred acquisition costs in general insurance, are calculated in accordance with the Supervision of Insurance Business Regulations (Ways of Calculating Provisions for Future Claims in General Insurance) 1984, as amended. In accordance with the above regulations, for liability branches, the excess of income over expenses, is calculated using insurance fees, acquisition costs, claims incurred and a share of the investment income and is reported according to the relevant underwriting year. In accordance with the above regulations, the Company cannot record a profit from the excess of income over expenses less provision (hereunder - "the accumulation"), in motor and other liability branches, before the end of three from the policy inception. Any deficiency is charged as an expense in the year of occurrence.
- (b) Premiums written are accounted for in the year in which the policy incepts. Part of this income is transferred to the reserve for unexpired risks in order to spread them out over the term of the policies.
- (c) A share of the acquisition expenses, relating to unearned premium is carried forward as deferred acquisition costs. These expenses are calculated for each line of business according to the subsidiary company's actual rates which are lower than the standard rates.
- (d) Claims comprise the settlement and handling cost of paid and outstanding claims arising from events occurring in the reporting year and adjustments to outstanding claims reserves recorded in prior years. Any such adjustments are reflected in current earnings.

Outstanding claims comprise:

- (1) Known outstanding claims which include a provision set-up for the settlement and handling costs of all claims incurred, but not paid, as of the financial statements date, based primarily on individual case estimates and reports received by the lawyers who handle the claims.
- (2) Provision for claims incurred but not reported to the Company (hereunder - I.B.N.R.)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)

o. Insurance business (Cont.)

2) General insurance business

- (3) Provision for claims incurred but not enough reported which is computed based on past experience (hereunder - I.B.N.E.R.).
 - (4) The accumulation amount as mentioned in note 2(o)(2)(a) which is additional to the I.B.N.R and the I.B.N.E.R.
- (e) Outstanding claims in the motor act line of business are included at the higher of individual estimates plus the accumulation and a valuation based on an actuarial calculation. The comparison is calculated separately for each underwriting year. The actuarial calculation was calculated by the subsidiary's actuary Mr. Stephen Kosryn, based on an actuarial model which was approved by the Supervisor of Insurance Business. In addition, according to the instructions of the Supervisor of Insurance outstanding claims are included in the motor and comprehensive apartment branches based on the actuarial calculation.
- (f) Business from other insurance companies are included to the extent such results are reported in statements received by the balance sheet date.
- (g) Subrogations receivable from insurance companies in relation to claims which the subsidiaries paid to their policyholders are recorded under debtors and debit balances. Subrogations recorded in respect of outstanding claims are netted off from the outstanding claims.

The Company made an appropriate provision in relation to the above subrogations, which is computed according an actuarial estimate based on previous experience in the collection of subrogations.

(h) Reinsurance

- (1) As of balance sheet date there are no doubtful or bad debts in respect of the reinsurers, for which there is no sufficient provision.

The reinsurers liabilities towards the subsidiaries do not release the companies from their liabilities towards their policyholders as a direct insurer in accordance with the insurance policies. Any reinsurer who will not fulfill his future obligations based on the reinsurance agreements, may cause the companies future losses.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)o. Insurance business (Cont.)2) General insurance business(h) Reinsurance (Cont.)(2) Reinsurance agreements in the motor car lines in a subsidiary

Reinsurance agreements of a subsidiary that was acquired on December 31, 2000 in the motor car lines stipulated a ceiling of maximum loss to a reinsurer according to a cumulative calculation. Up to the end of 1999, the liability to reinsurers was calculated under the assumption that there will be an improvement in the underwriting results in a number of years and the reinsurers will not record accumulated losses in the future. For the purpose of the financial statements as of December 31, 2000, it was decided not to operate under the above assumption and to renew the calculation of the liabilities to reinsurers, according to the agreements. As a result, the liability to reinsurers increased by about NIS 25 million as of December 31, 2000.

In addition, there is an additional exposure to reinsurers' claims in relation to reinsurance agreements in motor casco the amount of which cannot be estimated at this stage. This exposure is included in the subsidiary's previous shareholders' liability to bear certain claims of the subsidiary (see note 13b(2)(b) below).

p. Recognition of income

- | | | |
|--------------------------------|---|---|
| (1) Leasing of assets | - | allocated on an accrual basis over the period the assets are leased. |
| (2) From construction business | - | The subsidiary's recognition of income from sale of projects is usually upon its sale, but not before the proceeds from the sales of the project constitute at least 50% of its total expected income and at least 25% of the project is completed. The recognition of income in these cases is by multiplying the proceeds from the sale with the rate of completion of the project. |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)

p. Recognition of income (Cont.)

- (3) From insurance business - See note o' above.
- (4) Software sales - Income from software sales is recognized according to the American Standard SOP 97-2 (as updated by SOP 98-4). According to this Standard, income from sale of software licenses is recognized when the following conditions are fulfilled: the software is passed to the customer, the collection of the payment is probable, the amount of the agreement is determined or can be determined and there is an objective and convincing proof that there is an agreement and the company is able to allocate the proceeds amongst the components of the agreement.

q. Derivative financial instruments

The Company engages in option agreements in order to reduce the risks involved in exposure to changes in the interest rates of foreign currency balances. The results from the option agreements are allocated to the financing item in the statement of profit and loss during the period of change in the interest rate for the protected balances.

r. Earnings per share

The earnings per share is calculated in accordance with Statement No. 55 of the Certified Public Accountants in Israel.

s. Exchange rates and linkage

- 1) Assets and liabilities in foreign currency or linked thereto are included at the representative exchange rates published by the Bank of Israel and which were effective as of balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**s. Exchange rates and linkage (Cont.)

- 2) Assets and liabilities linked to the CPI are included in accordance with the CPI that matches the asset or the liability.

Hereunder is information regarding the foreign exchange rate and the CPI:

As of	Representative exchange rate of				CPI for December in points *)	
	Dollar	Canada dollar	Euro	Pound Sterling		
31.12.2002	4.737	3.001	4.970	7.633	182.0	
31.12.2001	4.416	2.776	3.907	6.400	170.9	
31.12.2000	4.041	2.691	3.763	6.032	168.5	
31.12.1999	4.153	2.857	4.175	6.711	168.5	
	Rate of change in the year ended	%	%	%	%	
31.12.2002		7.3	8.1	27.2	19.3	6.5
31.12.2001		9.3	3.2	3.8	6.1	1.4
31.12.2000		(2.7)	(5.8)	(9.9)	(10.1)	-
31.12.1999		(0.2)	6.3	(14.0)	(3.0)	1.3

* The CPI average for 100 = 1993.

t. Fair value of financial instruments

The Company and its subsidiaries have financial instruments which include, amongst others, cash and cash equivalents, marketable securities, debtors and customers as well as financial liabilities which include, amongst others, short term credit, creditors, suppliers, convertible capital notes and debentures and long term liabilities.

The fair value of the above financial instruments, based on management's estimate, is not materially different from their value in the balance sheet, except for the market value of convertible capital notes and debentures (see notes 22 and 23 hereunder).

u. Use of estimates for the preparation of financial statements

For the preparation of financial statements in accordance with generally accepted accounting principles, the management is required to utilize valuations and estimates which affect the reported amounts of assets and liabilities, and the disclosures in relation to contingent assets and outstanding liabilities in the financial statements, as well as amounts of income and expenses during the reported periods. The actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)v. Presentation of transactions between a corporation and its shareholder in control

Transactions between the Company and its shareholder in control are presented in accordance with the Securities Regulations (Presentation of transactions between a Corporation and its Shareholder in Control in the Financial Statements), 1996. Accordingly, the difference between the proceeds paid to the shareholder in control for the transfer of the asset to the Company and that of the asset's value in the shareholder in control's books is allocated to the Company's shareholders' equity.

w. Adoption of recently issued accounting standards and their impact on the financial statements

During October 2001, the Israel Accounting Standards Board published Accounting Standard No. 12 that deals with the discontinuance of adjusting financial statements and Accounting Standard No. 13 that deals with the effects of changes in foreign exchange rates. In August 2002, Accounting Standard No. 14 was published which discusses financial reporting for interim periods and in December 2002, Accounting Standard No. 17 that defers the application of Accounting Standards No. 12 and 13 to January 1, 2004. In February 2003, Accounting Standard No. 15 regarding the impairment of assets was published.

According to Standard No. 12 and 17 that deal with the discontinuance of adjusting financial statements, beginning January 1, 2004, financial statements will discontinue to be adjusted for inflation in Israel. Until December 31, 2003, the Company will continue to prepare adjusted financial statements in conformity with Opinion No. 36 of the Institute of Certified Public Accountants in Israel. The adjusted amounts included in the financial statements as of December 31, 2003, will serve as the starting point for nominal financial reporting beginning January 1, 2004.

Accounting Standards No. 13 and 17 determine the rules dealing with the effect of the change in foreign exchange rates. These Standards replace Interpretation No. 8 and Interpretation No. 9 to Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which are eliminated at the time of discontinuance of the adjustment of the financial statements. The Standard deals with translation of foreign currency transactions and translation of financial statements of foreign operations for the purpose of their inclusion in the financial statements of the reporting company. The translation principles of Accounting Standard No. 13 are different from those applied until now. Accounting Standard No. 13 will apply to financial statements for periods beginning after December 31, 2002.

The aim of Standard No. 14 regarding financial reporting for interim periods is to determine the minimum content of financial statements for interim periods as well as to determine the recognition and measurement regulations in the financial statements for interim periods. Also, the interim financial statements will include a summary of segmental information similar to the information included in the annual financial statements. This Accounting Standard, based on the International Accounting Standard No. 34, Financial Reporting for Interim Periods, replaces the Opinion No. 43 of the Israeli Accounting Standards Board regarding interim financial statements, and Opinion No. 60 regarding the correction of Opinion No. 43 regarding the cancellation of the obligation to include information on nominal data in the interim financial statements. This Standard will apply to financial statements for periods beginning on or after January 1, 2003.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**

- w. Adoption of recently issued accounting standards and their impact on the financial statements (Cont.)

On January 27, 2003 Accounting Standard No. 15 regarding the impairment of assets was published. The Standard is based on the International Accounting Standard No. 36 and determines the accounting and disclosure, required in the case of impairment/cancellation of Company assets, including investments in investees that are not subsidiaries, goodwill resulting from the acquisition of a subsidiary and adjustments in fair value. This Standard will apply to financial statements for periods beginning on or after January 1, 2003.

The transitory instructions of the Standard state that losses due to impairment, resulting from the application of this Accounting Standard will be recognized in the profit before income tax, except for an asset impairment loss not previously recognized only when the total net uncapitalized future cash flows is greater than the book value, which will be attributed to the profit and loss statement in the item "accumulated effect at the beginning of the year of change in accounting principle".

As a result of the application of Accounting Standards No. 12, 13 and 17 beginning in the year 2004, Company management estimate, without the correction of other Accounting Standards, the effects of the real state results yield, the Company's profits, as it will be reported in the future, may be significantly lower compared to the Company's income reported in recent years based on the existing Accounting Standards. This change will have no effect on the Company's cash flows.

The adoption of the new Standards, as discussed above, will have a significant effect on its results of operations, financial position and cash flows.

- x. Convenience translation into U.S. Dollars

The adjusted financial statements as of December 31, 2002 and for the year then ended, have been translated into United States dollars using the representative exchange rate of the United States dollar as of December 31, 2002 (U.S. \$ 1 = NIS 4.737). The translation was made solely for the convenience of the readers. It should be noted that the adjusted New Israeli Shekel figures do not necessarily represent the current cost amounts of the various elements presented and that the translated United States dollar figures should not be construed to represent amounts that are receivable, payable or convertible into dollars.

NOTE 3:- CASH AND CASH EQUIVALENTS

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Bank and cash in NIS	26,894	17,592	461	238
Bank and cash in foreign currency	86	203	3	149
Short term deposits in NIS	8,469	2,287	434	389
Short term deposits in foreign currency	77,402	22,618	-	2,251
	<u>112,851</u>	<u>42,700</u>	<u>898</u>	<u>3,027</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 4:- DEPOSITS WITH FINANCIAL INSTITUTIONS**

	<u>Interest rate *)</u>	<u>Consolidated</u>	
		<u>December 31,</u>	
		<u>2002</u>	<u>2001</u>
<u>Adjusted NIS in thousands</u>			
Deposits in financial institutions - Linked to the CPI	6%	<u>1,450</u>	<u>2,538</u>

* The interest rates are as of December 31, 2002.

NOTE 5:- SHORT TERM INVESTMENTS

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
<u>Adjusted NIS in thousands</u>				
a. Marketable securities are presented at market value:				
Shares	<u>652</u>	<u>996</u>	<u>411</u>	<u>326</u>
b. Marketable securities are presented at cost:				
Current maturities of bonds (see note 14)	<u>6,463</u>	<u>6,593</u>	<u>-</u>	<u>-</u>
	<u>7,115</u>	<u>7,589</u>	<u>411</u>	<u>326</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 6:- CUSTOMERS**

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Lease of real estate *)	22,185	22,416	84	504
Purchasers of apartments in a construction project	943	195	-	-
Others	1,317	2,536	-	-
Total	24,445	25,147	84	504
Less: provision for doubtful debts	40	22	-	-
	<u>24,405</u>	<u>25,125</u>	<u>84</u>	<u>504</u>
* Including customers in foreign currency (mainly Pounds Sterling)	<u>21,188</u>	<u>16,024</u>	<u>-</u>	<u>422</u>

NOTE 7:- INSURANCE COMPANIES – DEBIT BALANCES

	CONSOLIDATED	
	December 31,	
	2002	2001
	Adjusted NIS in thousands	
Debit balances for insurance companies and reinsurance - current account	8,071	-
Debit balances of local companies for subrogations as of reporting date – maturity:		
One year before reporting date	17,492	13,481
Over a year and less than two years before reporting date	11,556	7,516
More than two years before reporting date	6,127	5,495
	<u>43,246</u>	<u>26,492</u>

NOTE 8:- OUTSTANDING PREMIUMS

	CONSOLIDATED	
	December 31,	
	2002	2001
	Adjusted NIS in thousands	
Unlinked	38,726	26,673
Linked to the CPI	52,650	50,504
	<u>91,376</u>	<u>77,177</u>
Less: provision for doubtful debts	499	437
	<u>90,877</u>	<u>76,740</u>
<u>Divided into:</u>		
General insurance	90,785	76,631
Life assurance	92	109
	<u>90,877</u>	<u>76,740</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 9:- DEBTORS AND DEBIT BALANCES**

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Prepaid expenses in respect of insurance claims	9,522	8,727	-	-
Other prepaid expenses	11,792	9,803	79	622
Income receivable	-	52	-	130
Deferred taxes [see note 29e]	8,360	13,932	-	-
Income taxes	5,748	7,858	203	222
VAT	1,022	-	-	-
Related companies	-	-	67	-
Deposit for acquisition of a company [see note 13b(2)(b)]	1,846	2,030	-	-
Current maturity of long term loan [see note 15]	5	523	-	-
Others	2,774	5,576	-	6
	<u>41,069</u>	<u>48,501</u>	<u>349</u>	<u>980</u>

NOTE 10:- INVENTORY OF BUILDINGS FOR SALE

a. Composition:

	CONSOLIDATED	
	December 31,	
	2002	2001
	Adjusted NIS in thousands	
Costs:		
Land	57	1,530
Cost of land development and construction (through a performing contractor)	526	11,536
Total *)	<u>583</u>	<u>13,066</u>
*) Out of this inventory of completed apartments	<u>430</u>	<u>12,973</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 10:- INVENTORY OF BUILDINGS FOR SALE (Cont.)**

- b. According to building permits issued to the Company, the Company built six residential apartment buildings in three construction units which include 200 residential units in the Chen Hatzafon Project in Petach Tikva.

Hereunder are details regarding the apartments that were sold in each construction unit:

	Number of apartments in each unit	Number of apartments sold in the reporting year	Number of apartments sold	
			2002	2001
First unit	66	-	66	66
Second unit	68	-	67	67
Third unit	66	23	66	43
	<u>200</u>	<u>23</u>	<u>199</u>	<u>176</u>

NOTE 11:- INVESTMENTS OF AN INSURANCE COMPANY

		CONSOLIDATED	
		2002	2001
		December 31,	
		Adjusted NIS in thousands	
Cash and cash equivalents		90,908	86,676
Bonds	(a)	314,720	261,938
Marketable shares		25,770	45,101
Mutual funds		20,287	15,897
Options		384	17,799
Loans	(b)	2,867	3,016
Bank deposits	(c)	211,153	149,113
		<u>666,089</u>	<u>579,540</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 11:- INVESTMENTS OF INSURANCE COMPANIES (Cont.)**a. Bonds

		CONSOLIDATED	
		December 31,	
		2002	2001
		Adjusted NIS in thousands	
<u>Issuers and linkage basis of bonds</u>			
(1)	Israeli Government issue or guarantee:		
	Marketable in Israel		
	Linked to the CPI	142,487	136,894
	Linked to the dollar rate of exchange	20,384	7,386
	Unlinked	46,344	36,206
		<u>209,215</u>	<u>180,486</u>
	Marketable outside Israel	<u>5,849</u>	<u>9,461</u>
		<u>215,064</u>	<u>189,947</u>
(2)	Other issuers:		
	Marketable in Israel:		
	Linked to the CPI	89,162	50,617
	Linked to the dollar rate of exchange	3,313	7,705
	Unlinked	6,420	2,259
		<u>98,895</u>	<u>60,581</u>
	Marketable outside Israel	<u>761</u>	<u>11,410</u>
		<u>99,656</u>	<u>71,991</u>
	Total bonds	<u>314,720</u>	<u>261,938</u>

b. Loans:

		CONSOLIDATED	
		December 31,	
		2002	2001
		Adjusted NIS in thousands	
	Linked to the CPI:		
	Secured by mortgages on buildings	1,892	2,140
	Loans to employees	975	876
		<u>2,867</u>	<u>3,016</u>
	Average interest rates (%)	<u>3.0</u>	<u>3.3</u>
	Average life span (years)	<u>8.1</u>	<u>8.8</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 11:- INVESTMENTS OF INSURANCE COMPANIES (Cont.)**c. Bank deposits

	<u>Average interest rate</u>	<u>Average life span</u>	<u>Linkage basis</u>
	<u>%</u>	<u>Years</u>	<u>Adjusted NIS in thousands</u>
As of December 31, 2002:			
Linked to the CPI	6.06	6.09	199,843
Unlinked	7.94	0.13	<u>11,310</u>
			<u><u>211,153</u></u>
As of December 31, 2001:			
Linked to the CPI	6.07	2.72	120,701
Unlinked	4.60	1.04	<u>28,412</u>
			<u><u>149,113</u></u>

NOTE 12:- REINSURERS' SHARE IN INSURANCE RESERVES AND OUTSTANDING CLAIMS

	<u>CONSOLIDATED</u>	
	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS in thousands</u>	
Insurance reserves:		
Life assurance	1,611	175
General insurance	<u>4,357</u>	<u>3,099</u>
	<u>5,968</u>	<u>3,274</u>
Outstanding claims:		
Life assurance	588	107
General insurance	<u>27,958</u>	<u>38,230</u>
	<u>28,546</u>	<u>38,337</u>
	<u><u>34,514</u></u>	<u><u>41,611</u></u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- INVESTMENT IN INVESTEES

a. CompositionConsolidated balance sheet

	<u>Cost of shares</u>	<u>Accumulated losses</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>		
As of December 31, 2001			
Earnix Inc. *)	<u>876</u>	<u>(412)</u>	<u>464</u>

*) Earnix Inc. (hereunder - Earnix)

Earnix Inc. (hereunder - Earnix) is registered in the United States and holds a subsidiary, Earnix Ltd., in Israel which operates in development and marketing of software for management of pricing and income. Earnix is held by a subsidiary, Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance) and began its business activities in May 2001. The rate of ownership and control in Earnix dropped from 38.25% as of December 31, 2001 to 17.9% as of December 31, 2002 as a result of the allocation of additional stock to an existing shareholder at the beginning of the year 2002. In accordance with this the investment in Earnix was classified as a fixed investment as of the reporting year, see note 14 below.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- INVESTMENT IN INVESTEEES (Cont.)

a. Composition (Cont.)Company balance sheet

		<u>Percentage in equity and control</u>	<u>Cost of shares</u>	<u>Company's shares held by a subsidiary</u>	<u>Reserves and accumulated surplus (losses)</u>	<u>Profit from issue to third party and expiry of a subsidiary's options</u>	<u>T o t a l</u>	<u>Loans</u>	<u>T o t a l</u>
<u>As of December 31, 2002:</u>									
Direct Insurance - Financial Investments Ltd.	(b)	52.25%	38,801	-	49,674	2,935	91,410	-	91,410
Adgar Investments and Development Ltd.	(c)	100%	186,345	-	4,040	6,838	197,223	41,688	238,911
Zur Shamir Finances (1997) Ltd.	(d)	100%	-	-	(10,750)	-	(10,750)	5,174	(5,576)
			<u>225,146</u>	<u>-</u>	<u>42,964</u>	<u>9,773</u>	<u>277,883</u>	<u>46,862</u>	<u>324,745</u>
<u>As of December 31, 2001:</u>									
Direct Insurance - Financial Investments Ltd.	(b)	50.70%	37,466	-	47,147	1,766	86,379	-	86,379
Adgar Investments and Development Ltd.	(c)	86.82%	171,088	-	-	6,834	177,922	-	177,922
Zur Shamir Finances (1997) Ltd.	(d)	100%	-	(41,941)	(5,246)	-	(47,187)	34,981	(12,206)
			<u>208,554</u>	<u>(41,941)</u>	<u>41,901</u>	<u>8,600</u>	<u>217,114</u>	<u>34,981</u>	<u>252,095</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- INVESTMENT IN INVESTEES (Cont.)Additional information:b. Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance)

1) Direct Insurance began operating in October 1994. Direct Insurance operates through its subsidiaries in the field of insurance. In December 1999 Direct Insurance issued shares and an offer for sale was effected resulting in the listing of shares for trade in the Tel Aviv Stock Exchange. Detailed in sections 2) - 4) hereunder, are the main details relating to subsidiaries of Direct Insurance.

2) Direct - I.D.I. Insurance Company Ltd. (hereunder - Direct I.D.I.)

a. Direct I.D.I., held 100% by Direct Insurance, operates in Israel in general insurance and life assurance by way of direct marketing of policies.

b. On December 14, 2000 Direct Insurance signed an agreement of principles with the shareholders of Personal Direct Insurance Company (1996) Ltd. (hereunder - Personal Direct), which deals in a similar field of insurance operations as Direct Insurance. The acquisition consideration was set in the amount of NIS 32,608 thousand in cash (out of this amount NIS 11,150 thousand was deposited with a trustee. As of reporting date the deposit balance is NIS 1,846 thousand), and the allocation of convertible capital notes in the amount of NIS 47,281 thousand.

The capital notes are linked to the CPI but they do not bear interest. The balance of the capital notes as of December 31, 2002 is NIS 31,596 (NIS 15,809 thousand of the capital notes were repaid in January 2003, the balance is due to be converted or repaid in November 2003).

c. In the framework of the reorganization plan Direct Insurance's activities were spun-off to the subsidiary Direct I.D.I. Insurance Company Ltd. (previously: Personal Direct). The spin-off received all necessary approvals according to the law.

3) Idit I.D.I. Technologies Ltd. (hereunder - Idit)

a. Idit, is held 58.14% by Direct Insurance (previous year 75.76%), and operates in the marketing, distribution, and technological application of computer software, expertise and systems in the business field of direct insurance abroad.

b. On October 21, 2001 an agreement was signed with Formula Vision Technologies Ltd. (hereunder - Formula) according to which shares in Idit were issued to Formula in the years 2001 and 2002. Formula's holding as of December 31, 2002 is 41.86% and is likely to rise to 44.41% according to the adjustment mechanism based on Idit's value.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- INVESTMENT IN INVESTEES (Cont.)Additional information: (Cont.)b. Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance) (Cont.)3) Idit I.D.I. Technologies Ltd. (hereunder - Idit) (Cont.)

b. (Cont.)

The capital gain from the transaction amounts to NIS 7,977 thousand. Nevertheless, in view of the value system a provision for profit adjustment was recorded in the amount of NIS 176 thousand. In addition, the surplus in the amount of NIS 2,347 thousand was spread in the manner that the capital gain that was allocated in the financial statements in the amount of NIS 3,858 thousand and NIS 1,596 thousand for the year 2002 and 2001, respectively, reflects the Company's share in Idit's losses since the date of the transaction.

4) GDII Global Direct Insurance Investments B.V. (hereunder - GDII)

GDII is a foreign company registered in the Netherlands, wholly owned by the Company. GDII wholly owns a company in Poland Spolka Akcyjna LINK4 Towarzystwo Ubezpieczen ("LINK4"), that was established by GDII in December 2002, to be used as an insurance company in Poland.

Prior to the establishment of the Polish insurance company, was the establishment of the company IDIP Spolka Z Organiczona Odpowiedzialnoscia ("IDIP") that dealt in initiating the insurance operations in Poland in 2002. The expenses and investment that were made in connection with the abovementioned initiating transactions were in the amount of approximately NIS 25 million.

In July 2002, the Company invested in GDI in the amount of NIS 47.9 million (Euro 10.5 million).

In December 2002, LINK4 received, from the Polish Ministry of Finance, a Polish insurance license to operated in the motor, property and other general insurance branches. According to the conditions of the license GDII invested NIS 47 million (Euro 10 million) of shareholder equity of LINK4, and purchased from IDIP all of its shares in initiating transactions as mentioned above for the amount of NIS 25 million. In January 2003, LINK4 began selling motor insurance policies.

- 5) Senior employees of Direct I.D.I. have a option plan and in the framework of the plan options were issued. As of balance sheet date the balance of the options was 2,634,250. The options are exercisable into shares of Direct Insurance. The option realization increment is linked to the CPI and varies with date of issue.
- 6) The Company's rate of holding in Direct Insurance, under the assumption of realization of the options and the capital notes as described above, is 44.8%.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 13:- INVESTMENT IN INVESTEES (Cont.)**

Additional information: (Cont.)

b. Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance) (Cont.)

- 7) Hereunder is information regarding the market value and the Company's equity value in Direct Insurance:

<u>December 31, 2002</u>		<u>December 31, 2001</u>	
<u>Equity value</u>	<u>Market value</u>	<u>Equity value</u>	<u>Market value</u>
<u>Adjusted NIS in thousands</u>			
<u>91,410</u>	<u>109,136</u>	<u>86,379</u>	<u>148,732</u>

- 8) As a result of the acquisition of additional shares of Direct Insurance by the Company during the years 1999 - 2002 in the grand total of NIS 4,600 thousand and as a result of the self-purchase of shares by Direct Insurance in the amount of NIS 10,360 thousand in the year 2002, goodwill was recorded in the amount of NIS 3,869 thousand and the amortized balance as of the reporting date is NIS 2,622 thousand.

c. Adgar Investments and Development Ltd.

- 1) Adgar Investments and Development Ltd. (hereunder - "Adgar"), deals in leasing of buildings in Israel and abroad, the building of a residential construction project, and project development.
- 2) Acquisition offer of the Company for securities of Adgar

On November 15, 2001 the Company announced, in an immediate report to the stock exchange, that in the Board's meeting and following the Company's auditing committee, it was decided to approve an acquisition offer for the acquisition of all the issued and paid-up ordinary shares of NIS 1 each ("the ordinary shares") and the debentures (Serial C) ("the debentures") of Adgar, from all the holders of the ordinary shares and debentures except for debentures held by Adgar Nachalot Ltd. (a subsidiary fully owned and controlled by Adgar, hereunder - Adgar Nachalot).

On January 8, 2002, pursuant to the Securities Regulations (Acquisition offer), 2000 and the Companies' Law, 1999, the Company published a specification of a full plan for an acquisition offer (hereunder - the acquisition offer) by which the Company, which held 86.82% of the Adgar's share capital as of the date of the specification, requested to acquire all Adgar's issued and paid-up shares of NIS 1 each and the debentures (Serial C) from all the holders of the ordinary shares and the debentures, except for the debentures held by Adgar Nachalot, for the price of NIS 3.9 per share and NIS 1.32203 per debenture (Serial C). The acquisition offer was subject to the approval of the general assembly of the Company which was received on January 31, 2002, as well as a minimum rate of response, a condition which was fulfilled, see hereunder. The acquisition offer was addressed, as mentioned, to all the shareholders including Messrs. Shalom Shneidman and Doron Shneidman who hold 0.42% and 2.74%, respectively, of Adgar's shares and who are "the shareholders in control" in Adgar as implied in Section 268 to the Companies' Law.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- INVESTMENT IN INVESTEES (Cont.)Additional information (Cont.)c. Adgar Investments and Development Ltd. (Cont.)2) Acquisition offer for of the Company for securities of Adgar (Cont.)

The results of the full acquisition offer which was published by the Company provided the Company a 100% holding of Adgar's issued and paid-up share capital. The public still holds 1,997,491.5 nominal value of debentures (Serial C). On February 5, 2002 the Company issued a specification for an ordinary acquisition offer to acquire the balance of the debentures from the owners of Adgar's debentures at the price of NIS 1.32 per debenture (Serial C). The holders of 987,773.78 debentures (Serial C) nominal value responded to this acquisition offer, thus the public still holds 1,009,717.72 nominal value of debentures (Serial C).

In view of the results of the acquisition offer Adgar's shares were cancelled for trade in the stock exchange on January 31, 2002 and therefore the shares in cycle are convertible into non-marketable shares. In accordance with the instructions of the stock exchange, since the value of the public's holdings of the debentures (Serial C) based on the stock price of the debentures during 90 days before February 20, 2002 (NIS 1.32 per debenture), is lower than NIS 1.6 million, the debentures (Serial C) will be cancelled from trade in the stock exchange within 60 days of the date for reporting the results of the ordinary acquisition offer to the owners of the debentures which was published on February 20, 2002.

On March 12, 2002, the Stock Exchange informed Adgar of its decision, pursuant to which it will delist the debentures (Series C) from trade on the Stock Exchange on May 11, 2002 and, accordingly, the trade of the debentures will be suspended on that date.

In light of the afore-mentioned, and in accordance with the Company's Prospectus as at July 24, 1997 the Company announced the prepayment of debentures, which will be made on May 1, 2002. As of May 11, 2002 debenture trading on the Stock Exchange was ceased.

The Company's total investment in Adgar's shares and debentures amounted to about NIS 77 million, out of which NIS 7.8 million is to the shareholders in control. As a result of the investment in shares the Company recorded a net initial difference less the deferred taxes relating the buildings in the amount of NIS 8,684 thousand. In addition, the Company recorded for the acquisition of debentures and capital reserves liability in the amount of NIS 7,602 thousand.

- 3) In the reporting year the Company sold a wholly owned company that is a real estate organization and a subsidiary of Zur Shamir Belgium Properties N.V. to Adgar in consideration of NIS 25,268 thousand.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 13:- INVESTMENT IN INVESTEES (Cont.)**Additional information (Cont.)c. Adgar Investments and Development Ltd. (Cont.)

- 4) Linkage and interest rates conditions of the loans:

	Interest rate *)	December 31,	
		2002	2001
	%	Adjusted NIS in thousands	
Linked to the Euro	-	27,026	-
Unlinked	10.9	14,662	-
		<u>41,688</u>	<u>-</u>

*) The interest rate is as of December 31, 2002. The maturity date of the loans is undetermined.

d. Zur Shamir Finances (1997) Ltd.

- 1) Zur Shamir Finances (1997) Ltd. (hereunder - "Zur Shamir Finances") was incorporated on June 29, 1997 and deals in financing and investments. Zur Shamir Finances has the status of a financial institution, as implied in the Value Added Tax Law 1976.
- 2) The loans are linked to the consumer index and bear an interest rate of between 3.5% to 7.85%. The maturity date of the loans is undetermined.

NOTE 14:- LONG TERM INVESTMENTS

	December 31,	
	2002	2001
	Adjusted NIS in thousands	
Debentures of Meshulam Levinstein Engineering and Contractors Ltd.	27,669	32,650
Less current maturities of debentures (see note 5)	<u>6,463</u>	<u>6,593</u>
	21,206	26,057
Investment in Earnix (see note 13a.)	<u>464</u>	<u>-</u>
	<u>21,670</u>	<u>26,057</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 15:- LOANS**a. Composition

	Annual interest rate (1) %	CONSOLIDATED	
		December 31,	
		2002	2001
		Adjusted NIS in thousands	
Loans linked to the CPI:			
To shareholders in control secured by a mortgage	4	-	1,426
To related parties 2)	4	4,843	-
To others – unsecured loans	4	420	502
Loans linked to foreign currency: 3)			
Linked to Pounds Sterling redeemable in one installment in March 2010	7.0	16,052	13,400
Linked to the Canadian dollar	9.6	3,330	624
		24,645	15,952
Less: current maturities		5	523
		24,640	15,429

- 1) The interest rates are in relation to December 31, 2002.
- 2) The loans are secured by subsidiary shares. See note 33d below.
- 3) The loans are granted to minority in subsidiaries and secured by a pledge on subsidiaries' shares held by the minority.

b. Maturity dates

	Consolidated	
	December 31,	
	2002	2001
	Adjusted NIS in thousands	
First year - current maturities	5	523
Second year	-	493
Third year	-	511
Fourth year onwards	20,895	13,400
With no determined maturity date	3,745	1,025
	24,645	15,952

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16:- FIXED ASSETS

a. CompositionConsolidated

	<u>Real estate for rent</u>	<u>Office premises</u>	<u>Office equipment furniture and computer s</u>	<u>Machines and equipment</u>	<u>Vehicles</u>	<u>Total</u>
	<u>(b)</u>	<u>(b)</u>	<u>s</u>	<u>equipment</u>	<u>Vehicles</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>					
Cost						
Balance at the beginning of the year	833,583	54,155	49,056	249	9,233	946,276
Adjustments relating to foreign subsidiaries operating independently	80,872	85	38	-	-	80,995
Additions	129,989	2,629	20,906	12	3,142	156,678
Disposals	-	-	(1,003)	-	(2,239)	(3,242)
Balance at the end of the year	<u>1,044,444</u>	<u>56,869</u>	<u>68,997</u>	<u>261</u>	<u>10,136</u>	<u>1,180,707</u>
Accumulated depreciation						
Balance at the beginning of the year	76,422	10,751	30,531	71	3,456	121,231
Adjustments relating to foreign subsidiaries operating independently	5,838	25	24	-	-	5,887
Additions	16,507	1,210	7,277	19	1,379	26,392
Disposals	-	-	(818)	-	(1,369)	(2,187)
Balance at the end of the year	<u>98,767</u>	<u>11,986</u>	<u>37,014</u>	<u>90</u>	<u>3,466</u>	<u>151,323</u>
Depreciated cost as at December 31,2002	<u>945,677</u>	<u>44,883</u>	<u>31,983</u>	<u>171</u>	<u>6,670</u>	<u>1,029,384</u>
Depreciated cost as at December 31,2001	<u>757,161</u>	<u>43,404</u>	<u>18,525</u>	<u>178</u>	<u>5,777</u>	<u>825,045</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16:- FIXED ASSETS (Cont.)

a. Composition (Cont.)

Company

	Real estate for rent (b)	Office buildings (b)	Office equipment furniture and computers	Vehicles	Total
	Adjusted NIS in thousands				
Cost					
Balance at the beginning of the year	97,351	7,286	7,067	1,990	113,694
Adjustments relating to foreign subsidiaries operating independently	8,257	85	38	-	8,380
Additions	96	-	47	1,184	1,327
Disposals for a property subsidiary that was consolidated and sold to another subsidiary [see note 13c(3)]	(64,732)	(647)	(208)	-	(65,587)
Disposals	-	-	-	(1,276)	(1,276)
Balance at the end of the year	40,972	6,724	6,944	1,898	56,538
Accumulated depreciation					
Balance at the beginning of the year	22,251	1,351	4,013	740	28,355
Adjustments relating to foreign subsidiaries operating independently	2,610	25	24	-	2,659
Additions	2,438	132	521	217	3,308
Disposals for a property subsidiary that was consolidated and sold to another subsidiary	(20,465)	(203)	(184)	-	(20,852)
Disposals	-	-	-	(732)	(732)
Balance at the end of the year	6,834	1,305	4,374	225	12,738
Depreciated cost as of December 31, 2002	<u>34,138</u>	<u>5,419</u>	<u>2,570</u>	<u>1,673</u>	<u>43,800</u>
Depreciated cost as of December 31, 2001	<u>75,100</u>	<u>5,935</u>	<u>3,054</u>	<u>1,250</u>	<u>85,339</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16:- FIXED ASSETS (Cont.)

b. Real estate for rent and office buildings

	CONSOLIDATED			
	December 31,			
	2002		2001	
Real estate for rent	Office buildings	Real estate for rent	Office buildings	
Adjusted NIS in thousands				
The Company:				
An apartment	193	-	206	-
A subsidiary - Zur Shamir Properties (1989) Ltd.:				
Building for lease on No. 1 Karlibach St., Tel Aviv	-	38,103	-	38,693
Shop for lease on Karlibach St., Tel Aviv	1,261	-	1,280	-
	1,261	38,103	1,280	38,693
A subsidiary - Adgar Investments and Development Ltd. and its subsidiaries:				
Investments abroad:				
Commercial building and office premises, in Antwerp, Belgium	47,017	444	40,454	401
Seven office buildings in Antwerp, Belgium	73,461	-	62,697	-
Four office buildings in London, United Kingdom	361,973	-	307,261	-
Real estate and two office buildings in Warsaw, Poland	164,010	-	159,144	-
Three office buildings in Montreal, Canada	118,447	-	28,220	-
In Israel:				
Two office buildings on Nachalat Benjamin St., Tel Aviv	23,336	-	23,574	-
An office building on Hamasger St., Tel-Aviv	30,968	-	31,387	-
A building on Shlomo Ben Yosef St., Haifa	9,714	-	9,818	-
Real estate and building for lease in Kiryat Tivon	14,114	-	14,298	-
Building for lease in Ofakim	3,485	-	3,595	-
Office premises for lease on Efal St., Kiryat Aryeh	25,707	-	16,622	-
Office premises on Hamifalim St., Kiryat Aryeh	4,523	-	4,605	-
Office premises on Hanechoshet St., Tel Aviv	53,332	-	54,000	-
Office premises on Shaham St., Petah Tikva	14,136	-	-	-
Improvements in leased property	-	56	-	77
	944,223	500	755,675	478
A subsidiary - Direct Insurance - Financial Investments Ltd. and its subsidiaries:				
Improvements in leased property	-	5,389	-	3,329
Building in Jerusalem	-	891	-	904
	-	6,280	-	4,233
Total	945,677	44,883	757,161	43,404

NOTES TO THE FINANCIAL STATEMENTS**NOTE 16:- FIXED ASSETS (Cont.)**

- c. The depreciated cost of buildings including land is composed as follows

	December 31,	
	2002	2001
	Adjusted NIS in thousands	
<u>The Company:</u>		
Ownership	39,557	40,179
Lease for generations	-	40,856
Total in the Company's balance sheet	<u>39,557</u>	<u>81,035</u>
<u>Subsidiaries:</u>		
Ownership	716,062	488,494
Lease for generations	234,941	231,036
	<u>951,003</u>	<u>719,530</u>
Total in the consolidated balance sheet	<u>990,560</u>	<u>800,565</u>

- d. Real estate as of December 31, 2002 which is not yet registered with the Land Registrar for technical reasons:

	Consolidated Adjusted NIS in thousands
Depreciated cost	<u>30,968</u>

- e. Pledges - see note 27 hereunder.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17:- OTHER ASSETS AND DEFERRED EXPENSES, NET

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS in thousands</u>			
Expenses in relation to issue of convertible capital notes and debentures				
Initial amount	12,761	15,845	12,761	12,761
Less - accumulated amortization	<u>11,927</u>	<u>13,244</u>	<u>11,927</u>	<u>11,390</u>
	<u>834</u>	<u>2,601</u>	<u>834</u>	<u>1,371</u>
Software development costs				
Initial amount	2,663	2,663	-	-
Less - accumulated amortization	<u>2,663</u>	<u>216</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>2,447</u>	<u>-</u>	<u>-</u>
Goodwill				
Initial amount	52,337	50,190	-	-
Less - accumulated amortization	<u>10,916</u>	<u>5,335</u>	<u>-</u>	<u>-</u>
	<u>41,421</u>	<u>44,855</u>	<u>-</u>	<u>-</u>
Foundation cost, capital increase and capital issue expenses				
Initial amount	259	217	-	-
Less - accumulated amortization	<u>95</u>	<u>57</u>	<u>-</u>	<u>-</u>
	<u>164</u>	<u>160</u>	<u>-</u>	<u>-</u>
Selling expenses regarding real estate for rent				
Initial amount	2,035	1,765	-	-
Less - accumulated amortization	<u>379</u>	<u>210</u>	<u>-</u>	<u>-</u>
	<u>1,656</u>	<u>1,555</u>	<u>-</u>	<u>-</u>
	<u>44,075</u>	<u>51,618</u>	<u>834</u>	<u>1,371</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 18:- DEFERRED ACQUISITION COSTS IN AN INSURANCE COMPANY**

	CONSOLIDATED	
	2002	2001
	Adjusted NIS in thousands	
In general insurance	39,367	34,540
In life insurance	17,510	11,350
	<u>56,877</u>	<u>45,890</u>

NOTE 19 - BANK CREDIT

a. <u>Composition</u>	<u>Interest rates *)</u> <u>%</u>	<u>CONSOLIDATED</u>		<u>COMPANY</u>	
		<u>December 31,</u>		<u>December 31,</u>	
		<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
		<u>Adjusted NIS in thousands</u>			
Short term loans:					
Unlinked	10.0-10.9	118,850	74,291	118,278	38,992
Linked to the dollar	3.3-4.0	74,819	103,543	11,042	-
Linked to the Pound Sterling	5.7	3,808	31,661	-	-
Linked to the Canadian dollar	5.0-5.1	30,671	8,642	-	-
Linked to the Euro	4.2-5.9	69,010	5,361	-	-
Overdrafts:					
In NIS		-	86	-	86
		297,158	223,584	129,320	39,078
Current maturities of long term loans (note 24)		73,456	69,961	38,242	37,569
		<u>370,614</u>	<u>293,545</u>	<u>167,562</u>	<u>76,647</u>

*) The interest rates are for December 31, 2002.

b. For information on Pledges - see note 27 hereunder.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 20:- SUPPLIERS AND SERVICE PROVIDERS**

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Open accounts in Israeli currency	16,058	9,882	125	204
Open accounts in foreign currency	5,184	2,559	5	246
	<u>21,242</u>	<u>12,441</u>	<u>130</u>	<u>450</u>

NOTE 21:- CREDITORS AND CREDIT BALANCES

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Creditors in relation to claims in an insurance company	12,403	10,113	-	-
Prepaid premium in an insurance company	22,649	14,222	-	-
Prepaid income	4,641	3,287	-	831
Provision for vacation, recreation pay, thirteenth month salary and bonuses	7,786	7,990	3	55
Employees	6,387	9,840	1,333	170
Institutions	7,343	8,188	499	583
VAT	-	-	566	-
Interest payable	6,249	6,135	2,887	2,901
Unrealized profit	2,347	1,190	-	-
Accrued expenses and sundry creditors	6,381	8,140	158	298
	<u>76,186</u>	<u>69,105</u>	<u>5,446</u>	<u>4,838</u>

NOTES TO THE FINANCIAL STATEMENTS
NOTE 22:- CONVERTIBLE CAPITAL NOTES

 a. Composition

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
Capital notes - serial B (1)	27,076	35,843	27,076	36,274
Capital notes - serial C	20,956	26,150	20,956	26,150
	48,032	61,993	48,032	62,424
Less: current maturities	14,265	14,191	14,265	14,299
	33,767	47,802	33,767	48,125
Less: discount in respect of capital notes - serial C *)	374	603	374	603
	<u>33,393</u>	<u>47,199</u>	<u>33,393</u>	<u>47,522</u>
*) Initial amount	3,765	3,765	3,765	3,765
Less: amortization (including for conversions)	3,391	3,162	3,391	3,162
	<u>374</u>	<u>603</u>	<u>374</u>	<u>603</u>
(1) After the netting of NIS 274,393 (nominal) held by a subsidiary	<u>-</u>	<u>431</u>	<u>-</u>	<u>-</u>

 b. Repayment dates

	CONSOLIDATED		C O M P A N Y	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
First year - current maturities	14,265	14,191	14,265	14,299
Second year	14,265	14,191	14,265	14,299
Third year	14,265	14,191	14,265	14,299
Fourth year	5,237	14,191	5,237	14,299
Fifth year	-	5,229	-	5,228
	<u>48,032</u>	<u>61,993</u>	<u>48,032</u>	<u>62,424</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22:- CONVERTIBLE CAPITAL NOTES (Cont.)c. Additional information1) Convertible capital notes - Serial B:

The Company issued, by virtue of a prospectus published on February 15, 1994, NIS 40,000,000 out of a serial of up to 60,000,000 capital notes, redeemable in 8 equal annual consecutive installments, on the 31st of December of each of the years 1998 to 2005 (inclusive). The capital notes bear 3.5% interest rate per annum and are linked (principal and interest) to the U.S. dollar exchange rate. The capital notes are convertible to preferred shares on every banking business day, starting from the date they will first be traded in the stock-exchange and up to December 11, 2005, at the conversion rate of NIS 2 (200%) nominal value of the capital notes for every preferred share, subject to adjustments for distribution of bonus shares.

In 1996 the Company acquired 1,931,126 nominal value capital notes. In the years 1999 and 2000, 903,584 capital notes were converted to preferred shares. During the years 1998 – 2001 62.5% of the capital notes in circulation were redeemed (12.5% each year). The balance of capital notes in circulation is 17,096,169 nominal value and their market value is NIS 25,302 thousand.

For information on Collateral - see note 27 a (1) hereunder.

2) Convertible capital notes - serial C:

The Company issued, by virtue of a prospectus published on November 6, 1997, registered capital notes (Serial C) in the total amount NIS 63,000,000 nominal value, redeemable in 8 equal annual consecutive installments, on the 5th of April of each of the years 1999 to 2006 (inclusive). The capital notes bear 4.6% interest rate per annum and are linked (principal and interest) to the CPI. The capital notes are convertible to preferred shares paying 3% dividend linked to the CPI, cumulative, participating and registered, per share of NIS 1 nominal value each, on every banking business day, starting from the date they will first be traded in the stock-exchange and up to March 15, 2006, based on the conversion rate of NIS 2.20 (220%) nominal value of the capital notes (Serial C), for every preferred share, subject to adjustments for the distribution of bonus shares.

On April 5, 1999 - 2002, 50% of the capital notes in circulation were redeemed (12.5% each year). In the years 1999 and 2000, 24,542,657 nominal value capital notes were converted into preferred shares (22,183,088 nominal value out of these capital notes were converted by a subsidiary). The balance of capital notes in cycle is 17,475,625 nominal value and their market value is NIS 20,184 thousand.

For information on Collateral - see note 27 a (2) hereunder.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 23:- SUBSIDIARY'S CONVERTIBLE DEBENTURES**

- a. In the framework of a prospectus issued by the subsidiary, Adgar Investments and Development Ltd. (hereunder - Adgar) from July 24, 1997, registered debentures (Serial C) were issued in the total amount of NIS 71,000 thousand nominal value. In January 1998, 346,410 registered options (Serial 4) were exercised in consideration for NIS 34,641 thousand nominal values debentures Serial C, by a subsidiary of Adgar. The difference between the debenture fund and the amount ascribed to their issue constitutes the discount net of liabilities.

The principal and interest are linked to the CPI of June 1997. The debentures bear interest of 1.85% per annum which is paid on the 31st of July every year. The debentures will be redeemed in ten equal consecutive installments on the 31st of July in each of the years from 1999 to 2008 (inclusive).

During the years 2002, 2001, 2000 and 1999, 80,703, 9,763,456, 1,372,281 and 1,729,175 nominal value debentures (Serial C) were converted, respectively, into 27,357, 3,309,646, 465,180 and 586,161 nominal value ordinary shares of NIS 1 nominal value, respectively.

As a result of the acquisition offer for debentures by the Company, described in note 13c(2) above, Adgar informed of an early redemption of debentures and dealing of debentures was ceased on May 11, 2002. The balance of debentures as of reporting date constitutes the balance of non-marketable debentures held by the public.

- b. Hereunder is the nominal value balance and the balance sheet value

	CONSOLIDATED			
	December 31, 2002		December 31, 2001	
	Balance sheet value	Nominal value	Balance sheet value	Nominal value
	Adjusted NIS in thousands		Adjusted NIS in thousands	
Debentures (Serial C) **)	50	<u>41</u>	20,842	<u>17,182</u>
Less - discount *)	-		<u>3,445</u>	
	<u>50</u>		17,397	
Less current maturities	9		<u>2,486</u>	
	<u>41</u>		<u>14,911</u>	
*) Initial amount	-		5,753	
Less: amortization (including for conversion)	-		<u>2,308</u>	
	<u>-</u>		<u>3,445</u>	
***) Less mutual holding by a subsidiary and the company		<u>-</u>		<u>45,721</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 23:- SUBSIDIARY'S CONVERTIBLE DEBENTURES (Cont.)**c. Redemption dates

	Consolidated	
	December 31,	
	2002	2001
	Balance	Balance
	sheet value	
	Adjusted NIS in thousands	
First year - current maturities	9	2,486
Second year	9	2,486
Third year	8	2,486
Fourth year	8	2,486
Fifth year	8	2,486
Sixth year onwards	8	4,967
	<u>50</u>	<u>17,397</u>

NOTE 24:- LOANS FROM BANKING INSTITUTIONS AND OTHERSa. Composition

	Annual interest rate *	CONSOLIDATED		COMPANY	
		December 31,		December 31,	
	%	2002	2001	2002	2001
		Adjusted NIS in thousands			
From banking institutions:					
Linked to the CPI	4.5-6.2	96,466	56,520	49,863	56,520
Linked to the CPI	5.0 **)	-	8,340	-	-
Linked to the Euro	4.0-4.8	20,402	26,630	-	22,351
Linked to the Euro	4.2-4.6 **)	86,375	70,166	-	-
Linked to the Pound Sterling	4.9-5.2 **)	13,238	13,640	-	-
Linked to the Pound Sterling	6.3-7.5	350,704	265,479	-	-
Linked to the dollar	3.9-4.1 **)	84,230	49,354	-	10,582
Linked to the Canadian dollar	6.8-7.0	85,766	20,984	-	-
Unlinked	10.3 **)	15,000	23,963	15,000	23,963
		<u>752,181</u>	<u>535,076</u>	<u>64,863</u>	<u>113,416</u>
From others:					
Linked to the CPI	6.0	1,032	911	-	-
		<u>753,213</u>	<u>535,987</u>	<u>64,863</u>	<u>113,416</u>
Less: current maturities		<u>73,456</u>	<u>69,961</u>	<u>38,242</u>	<u>37,569</u>
		<u>679,757</u>	<u>466,026</u>	<u>26,621</u>	<u>75,847</u>

*) The interest rates are for December 31, 2002.

**) At a variable interest.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 24:- LOANS FROM BANKING INSTITUTIONS AND OTHERS (Cont.)**b. Redemption dates

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
First year - current maturities	73,456	69,961	38,242	37,569
Second year	83,164	61,145	26,621	40,896
Third year	43,841	42,480	-	17,757
Fourth year	83,239	28,835	-	1,719
Fifth year	94,526	65,240	-	1,719
Sixth year onwards	374,987	268,326	-	13,756
	<u>753,213</u>	<u>535,987</u>	<u>64,863</u>	<u>113,416</u>

c. For information on Securities - see note 27 hereunder.

NOTE 25:- LIABILITIES FOR SEVERANCE PAY, NETa. Composition

	CONSOLIDATED	
	December 31,	
	2002	2001
	Adjusted NIS in thousands	
Liabilities for severance pay	2,796	2,301
Less: fund deposited	<u>789</u>	<u>630</u>
	<u>2,007</u>	<u>1,671</u>

- b. The subsidiaries' liabilities for severance pay are calculated on the basis of the employees' last salary as of balance sheet date and in accordance with the Severance Pay Law, and are fully covered by current payments to insurance companies for managers insurance policies and provident funds and by the balance of liability for severance pay.
- c. The accumulated amounts in the management insurance policies and in the provident funds in the names of the employees and the liability thereto are not included in the balance sheet, since they are neither controlled nor managed by the Company.
- d. The fund which is deposited in the severance pay funds includes profits accumulated up to balance sheet date. Withdrawals from the fund are subject to the fulfillment of the instructions in accordance with the Severance Pay Law or labour agreements.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 26:- INSURANCE RESERVES AND OUTSTANDING CLAIMS**

	CONSOLIDATED	
	December 31,	
	2002	2001
	Adjusted NIS in thousands	
Life assurance:		
Assurance reserve	4,974	2,332
Reserve in respect of savings policies	20,732	9,561
Reserve for extraordinary risks	8,325	5,176
Outstanding claims	1,728	392
	<u>35,759</u>	<u>17,461</u>
General insurance:		
Reserve for unexpired risks	237,732	206,151
Outstanding claims	476,517	386,544
	<u>714,249</u>	<u>592,695</u>
	<u>750,008</u>	<u>610,156</u>

NOTE 27:- CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEESa. CompanyPledges

- 1) In order to secure the payment of the convertible capital notes (serial B) (principal, linkage differences and interest) in the amount of NIS 27,076 thousand, which were issued by virtue of a prospectus dated February 15, 1994 (see note 22 (c)(1) above), the Company gave a nominal pledge of NIS 1, which was deposited with a trustee. In addition, the Company undertook not to make any future pledge, and will ensure that Zur Shamir Properties (1989) Ltd. will also not make any future pledge on its present assets on Karlibach St., in Tel-Aviv, as long as the capital notes (serial B) are in circulation, unless the Company will create at the same time a pledge of the same type at an equal degree, to secure the redemption of the capital notes (serial B).
- 2) In order to secure the redemption of the capital notes (serial C) (principal, interest and linkage differences) in the amount of NIS 20,956 thousand, which were issued by virtue of a prospectus dated November 6, 1997 (see note 22 (c)(2) above), the Company created a nominal pledge in the amount of NIS 1 from the proceeds of the issuance. In addition, the Company undertook not to create any type of current pledge on its assets, at an equal degree or prior to the pledge of the capital notes (Serial C) in favour of any third party, unless the Company will create a current pledge in favour of the holders of the capital notes (Serial C), at an equal degree, Pari Passu, to the pledge in favour of a third party.
- 3) In the framework of receiving credit from the banks, Adgar and its subsidiary, Adgar Investments and Developments Ltd., signed promissory notes to the banks according to which the Company balance sheets will continuously fulfill the minimum financial conditions: minimum capital and equity to the balance sheet total. The Company is fulfilling the stipulation of the promissory note to the banks.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27:- CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES

(Cont.)

b. A subsidiary, Adgar Investments and Development Ltd. (hereunder - Adgar)

1) Pledges

- (a) In order to secure its liabilities to the banks in the amount of NIS 121,874 thousand, Adgar registered permanent unlimited pledges on the assets, insurance rights, non-paid-up share capital and its goodwill as well as outstanding checks to the banks. In addition, Adgar registered a first degree mortgage on its real estate assets in favour of banks.
- (b) The long term liabilities of Adgar's subsidiaries in the amount of NIS 597,929 thousand are secured by first degree permanent pledges on real estate assets and all the contractual rights in their respect.

2) Guarantees

- (a) Discount Bank Israel Ltd. is a guarantor to the purchasers of the apartments in the Chen Hatzafon project, in the amount of about NIS 1,839 thousand, to secure Adgar's liabilities, pursuant to the instructions laid down in Section 2(1) to the Sales Law (apartments) (security of investments of purchasers of apartments), 1974.
- (b) Adgar deposited with the municipality a bank guarantee in the amount of NIS 30 thousand, linked to the building input index, to guarantee the work it undertook to perform. The guarantee will be effective up to the completion of the work.
- (c) Adgar and its subsidiary are guarantors, at the rate of 74% of a loan in the amount of NIS 12.1 million which was granted to another subsidiary of Adgar by Bank Leumi Le-Israel B.M.

3) Commitments

Adgar entered an agreement with a banking institution for the acquisition and sale of an option to hedge against changes in interest on foreign currency balances. The amount of the commitment as of December 31, 2002 is 10 million Pounds Sterling. The option will expire on February 10, 2003. As of balance sheet date and as of the date of approval of the financial statements no loss was recorded for the above mentioned transaction.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27:- CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES (Cont.)

- c. A subsidiary, Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance)

—

1) Contingent liabilities

- a. On October 24, 1999 a claim was filed in the Tel-Aviv District Court against Direct Insurance, together with a request to recognize the claim as a class action, regarding the payment of reduced insurance claims payments, as claimed by the applicant, in the motor casco branch, in the event of total loss. The claim is in the amount of NIS 8,625 thousand.

On August 18, 2002, a hearing regarding this case took place. At the hearing the Court expressed its position that the hearing should be delayed until after the Supreme Court's evaluation of the appeal of the decision of the District Court that rejected the request to approve a representative claim identical to the claim against Direct Insurance. At this stage, the petitioner refused a delay and the Court moved the case to the Judge for his ruling. On March 2, 2003 a hearing before the ruling Judge took place. The Court set a date for an additional hearing before him on April 2, 2003, in order to give both sides another and final opportunity to cancel the hearing. The Court ruled that if the two sides do not reach an agreement between them, at the appeal hearing, a date will be set for a hearing to present proof of claim.

In management's opinion, based on the opinion of its legal advisors, at this stage it is impossible to estimate the extent of the exposure, the chance to approve the claim as a class action and/or the chance of the claim in itself. In view of the above, no provision for this claim was included in the financial statements.

- b. In accordance with an underwriting agreement regarding Direct Insurance's prospectus dated November 25, 1999, Direct Insurance undertook to compensate the underwriters or anyone of them, against any amount that the underwriters or anyone of them will be ordered to pay, according to the court's decision, or according to a compromise that Direct Insurance will agree to and in respect of any amount which the underwriters or anyone of them will pay, due to and during handling the claim and/or a request and/or negotiations for a compromise which is directly connected to them, as a result of any misleading detail in the prospectus. Or from an amount they would have to pay if any detail which may be important to any reasonable investor who is considering the acquisition of securities that are offered in the prospectus, is not included in the prospectus, or due to any claim relating to the prospectus or resulting from it, and the underwriters are charged with it, as mentioned, or will come to a compromise in this respect, with Direct Insurance's approval.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27:- CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES (Cont.)

- c. A subsidiary, Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance)

—

1) Contingent liabilities

- b. (Cont.)

The above liability to compensate, is not applicable to any underwriter, for any amount whatsoever that he will be charged with due to the inclusion of any misleading detail in the prospectus, or if there is any missing detail which may be important to a reasonable investor who is considering the purchase of securities by virtue of the prospectus, which was based on information which was given in writing to Direct Insurance by that underwriter, in order to make use of this information for the preparation of the prospectus.

2) Commitments

Direct Insurance subsidiary Idit I.D.I. Technologies Ltd. (hereunder: Idit) is committed to a software licensing, consultation and modification of software agreement with Aon Belgium N.V. (hereunder: Aon). According to the agreement, Idit gave a license to Aon for the use of software that Idit developed, for the sale and management of policies and insurance plans. In the framework of the agreement, Idit agreed to modify the software and Idit also committed with Aon to a warranty and maintenance agreement. In exchange for the abovementioned agreement Aon will pay Idit the amount of Euro 870 thousand, and an additional payment for consulting services in the amount of approximately Euro 220 thousand. Furthermore, an annual payment will be paid for maintenance services as detailed in the agreement. The shareholders of Idit including Direct Insurance have guaranteed the implementation of all Idit's commitments that result from the abovementioned agreements to the value of Euro 2.3 million. The guarantee is limited in time to June 2005. In addition, the guarantee is subject to the use of legal aid by Aon against Idit before the realization of the guarantee. In addition, Idit committed in a letter of understanding with Aon International B.V. (hereunder: Aon Europe), according to which Aon Europe is likely to purchase from Idit additional software licenses for transactions in additional countries, for the price per license that was set in the letter of understanding with an additional payment for modification of the system that will be agreed upon between the two sides.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 28:- INFORMATION REGARDING THE STATEMENTS OF PROFIT AND LOSS**a. Income from insurance business

	CONSOLIDATED				
	2002		2001	2000	
	Life assurance business	General insurance business	Total	Total	Total
	Adjusted NIS in thousands				
Premiums and fees	37,572	554,659	592,231	499,152 *)	313,583 *)
Less: reinsurance	8,553	34,341	42,894	19,202	12,127
	29,019	520,318	549,337	479,950	301,456
Increase in insurance reserves	(12,135)	-	(12,135)	(7,091)	(3,014)
Increase in reserve for unexpired risks net of reinsurance	-	(29,968)	(29,968)	(40,618)	(4,484)
Investment income	(40)	6,490	6,450	27,592	10,694
	16,844	496,840	513,684	459,833	304,652

b. Expenses of insurance business

	CONSOLIDATED				
	2002		2001	2000	
	Life assurance business	General insurance business	Total	Total	Total
	Adjusted NIS in thousands				
Claims in respect of insurance policies	6,800	326,395	333,195	293,979	198,556
Selling, administrative and general expenses	15,491	108,557	124,048	119,388	79,238
Increase in deferred acquisition costs	(6,141)	(4,767)	(10,908)	(10,932)	(4,797)
Commission from reinsurance, net	(3,151)	4,738	1,587	(2,905)*)	(2,077)*)
Amortization of initial difference relating to general insurance business	-	5,481	5,481	5,111	195
	12,999	440,404	453,403	404,641	271,115
Establishment and promotion expenses of insurance company abroad (Poland)			12,329	495	-
Expenses not included in the insurance business statements			4,854	5,643	2,409
			470,586	410,779	273,524

*) Reclassified.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 28:- INFORMATION REGARDING THE STATEMENTS OF PROFIT AND LOSS (Cont.)**c. Expenses of construction business

	CONSOLIDATED		
	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
Cost of apartments sold *)	12,926	2,804	20,724
Selling, administrative and general expenses in respect of Chen Hatzafon construction project	<u>1,212</u>	<u>1,460</u>	<u>2,008</u>
	<u>14,138</u>	<u>4,264</u>	<u>22,732</u>
*) Cost of apartments sold:			
Land	1,498	328	2,430
Costs of land development and construction (through a performing contractor)	<u>11,428</u>	<u>2,476</u>	<u>18,294</u>
	<u>12,926</u>	<u>2,804</u>	<u>20,724</u>

d. Cost of sales and software

	CONSOLIDATED		
	Year ended December 31,		
	2002	2001	2000 8)
	Adjusted NIS in thousands		
Cost of sales and work	1,072	6,678	3,320
Research and development expenses	1,568	804	107
Selling and marketing expenses	2,449	1,136	328
Administrative and general expenses	3,696	3,664	1,838
Depreciation and amortization	<u>1,907</u>	<u>1,405</u>	<u>737</u>
	<u>10,692</u>	<u>13,687</u>	<u>6,330</u>

*) Relates to the period from July 1, 2000.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 28:- INFORMATION REGARDING THE STATEMENTS OF PROFIT AND LOSS (Cont.)**e. Financing expenses, net

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
In respect of short term credit, net (including erosion of monetary items, net)	4,885	9,335	10,622	1,046	1,449	2,886
Erosion and interest of long term liabilities, net	36,297	33,644	15,162	5,628	9,750	943
Amortization of issue expenses and discount of capital notes and convertible debentures	766	2,883	3,082	766	945	1,128
Loss (profit) from securities of a company not included in insurance business	(1,704)	1,442	(1,262)	(85)	2,538	416
Loss (profit) from securities	12,273	(6,950)	(4,388)	-	-	-
	<u>52,517</u>	<u>40,354</u>	<u>23,216</u>	<u>7,355</u>	<u>14,682</u>	<u>5,373</u>

f. Administrative and general expenses

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Salaries and related expenses	8,662	12,766	6,217	4,888	3,796	3,706
Fees of external members of the board of directors	429	505	631	307	315	308
Elimination of advances for excess expenses	127	137	35	127	137	35
Legal expenses, audit expenses and professional services	4,292	3,763	5,346	625	441	546
Municipal and government taxes and maintenance expenses	1,162	1,190	1,023	994	876	858
Financial surveys and locating of projects	922	1,519	1,194	-	85	213
Depreciation and amortization	1,761	1,071	840	454	757	538
Others	1,706	1,050	1,880	793	384	701
	<u>19,061</u>	<u>22,001</u>	<u>17,166</u>	<u>8,188</u>	<u>6,791</u>	<u>6,905</u>
Less fees from a subsidiary	-	-	-	(4,457)	-	-
	<u>19,061</u>	<u>22,001</u>	<u>17,166</u>	<u>3,731</u>	<u>6,791</u>	<u>6,905</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 28:- INFORMATION REGARDING THE PROFIT AND LOSS STATEMENTS (Cont.)**g. Capital gain, net

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Profit from expiry of a subsidiary's options	-	7,045	-	-	7,045	-
Capital gain from sale of shares in a subsidiary and from issue to a third party	5,031	1,312	125	1,173	(284)	169
Capital profit (loss) from sale of fixed assets, net	173	(327)	-	96	130	-
	<u>5,204</u>	<u>8,030</u>	<u>125</u>	<u>1,269</u>	<u>6,891</u>	<u>169</u>

h. Company's share in results of investees

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Subsidiaries:						
Direct Insurance - Financial Investments Ltd.	-	-	-	2,377	11,009	9,108
Adgar Investments and Development Ltd.	-	-	-	22,297	6,763	7,695
Zur Shamir Finances (1997) Ltd.	-	-	-	(3,394)	(3,127)	(2,224)
Affiliates:						
Idit I.D.I. Technologies Ltd.	-	-	(1,381)	-	-	-
Earnix Inc.	-	(412)	-	-	-	-
	<u>-</u>	<u>(412)</u>	<u>(1,381)</u>	<u>21,280</u>	<u>14,645</u>	<u>14,579</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 29:- INCOME TAXES**

- a. Pursuant to the Income Tax Law (Inflationary Adjustments), 1985, the business results are measured on a real basis in accordance with the increase in the CPI.
- b. Accumulated loss for tax purposes transferred to subsequent years
- 1) The Company has accumulated loss for tax purposes in the amount of about NIS 77 million (December 31, 2001 about NIS 65 million) for which no deferred taxes in the amount of about NIS 28 million were recorded.
 - 2) Subsidiaries, except for an insurance subsidiary, have losses carried forward for tax purposes in the amount of about NIS 53 million (December 31, 2001 about NIS 25 million). The subsidiaries recorded deferred taxes in respect of part of the losses in the amount of about NIS 9 million (December 31, 2001 about NIS 6 million). An insurance subsidiary has a loss carried forward for tax purposes in the amount of about NIS 72 million (December 31, 2001 about NIS 84 million) for which deferred taxes were recorded.
- c. Income taxes included in the statement of profit and loss

Composition:

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Current taxes	23,045	32,433	14,225	-	-	13
Taxes in respect of previous years	(37)	2,716	(1,591)	-	-	-
Deferred taxes	5,698	663	3,340	74	74	73
Taxes in respect of adjustments resulting from the translation of financial statements of independently held units	(1,420)	(255)	180	-	-	-
Income taxes	<u>27,286</u>	<u>35,557</u>	<u>16,154</u>	<u>74</u>	<u>74</u>	<u>86</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 29:- INCOME TAXES (Cont.)**

- d. Adjustment of the theoretical tax amount due, had the business results been liable to taxes at the statutory tax rate applicable to the Company, compared to the actual tax amounts:

	CONSOLIDATED			C O M P A N Y		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Profit (loss) before income taxes	46,351	53,196	35,769	(6,943)	(11,404)	(9,414)
Statutory tax rate	36%	36%	36%	36%	36%	36%
Tax amount based on statutory tax rates	16,687	19,151	12,877	(2,499)	(4,106)	(3,389)
Tax (tax saving) in relation to:						
Disallowable expenses net of exempt income	378	552	674	192	192	21
Adjustment of depreciation and amortization	2,132	2,230	154	-	-	97
Profit from exercise of a subsidiary's shares and from dilution of holdings	(422)	102	(61)	(422)	102	(61)
Profit from expiry of a subsidiary's options	-	(2,536)	-	-	(2,536)	-
Profit tax on salary tax	892	673	449	-	-	-
Profits of subsidiaries consolidated in the balance sheet at the tax rates of an insurance company	4,016	5,643	1,864	-	-	-
Utilization of losses and deferred taxes from previous years	(1,135)	(2,479)	-	-	-	-
Inflationary deduction and loss for which no deferred taxes were provided	9,659	11,305	4,826	2,803	6,422	3,418
Taxes in respect of previous years	(37)	2,716	(1,591)	-	-	-
Exercise of shares according to Section 102	-	-	(384)	-	-	-
Income based on other tax rates and timing differences in respect of foreign companies	(5,130)	(1,800)	(2,654)	-	-	-
Erosion of tax payments and deductions at source	246	-	-	-	-	-
	<u>27,286</u>	<u>35,557</u>	<u>16,154</u>	<u>74</u>	<u>74</u>	<u>86</u>

NOTES TO THE FINANCIAL STATEMENTS
NOTE 29:- INCOME TAXES (Cont.)

e. Composition and movement in deferred taxes (Cont.)

	Depreciable fixed assets	In respect of buildings under construction	In respect of deferred acquisition costs in insurance	Investment in securities	In respect of other balance sheet items	In respect of loss carried forward	Total
	Adjusted NIS in thousands						
<u>Consolidated</u>							
Balance as of January 1, 2002	(4,589)	3,065	(2,043)	3,469	7,450	33,044	40,396
Adjustments relating to foreign subsidiaries that operate independently	(1,277)	-	-	-	180	357	(740)
For initial difference ascribed to fixed assets	(1,731)	-	-	-	-	-	(1,731)
Allocation to profit and loss statement	<u>(1,810)</u>	<u>(3,127)</u>	<u>(1,436)</u>	<u>(2,869)</u>	<u>1,965</u>	<u>1,579</u>	<u>(5,698)</u>
Balance as of December 31, 2002	<u><u>(9,407)</u></u>	<u><u>(62)</u></u>	<u><u>(3,479)</u></u>	<u><u>600</u></u>	<u><u>9,595</u></u>	<u><u>34,980</u></u>	<u><u>32,227</u></u>
<u>Company</u>							
Balance as of January 1, 2002	5,115	-	-	-	-	-	5,115
Allocation to profit and loss statement	<u>(74)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74)</u>
Balance as of December 31, 2002	<u><u>5,041</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>5,041</u></u>

The deferred taxes were calculated at the rate of 36% (except for a foreign subsidiary).

NOTES TO THE FINANCIAL STATEMENTS**NOTE 29:- INCOME TAXES (Cont.)**e. Composition and movement in deferred taxes (Cont.)

Deferred taxes are presented in the balance sheet as follows:

	<u>CONSOLIDATED</u>		<u>COMPANY</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS in thousands</u>			
Current assets	8,360	13,932	-	-
Other assets	45,937	38,201	5,041	5,115
Long term liabilities	(22,070)	(11,737)	-	-
	<u>32,227</u>	<u>40,396</u>	<u>5,041</u>	<u>5,115</u>

- f. The Company received final tax assessments up to the year 1992. A number of subsidiaries received final tax assessments up to and including the tax years 1991 and 1992, respectively. One subsidiary received tax assessments up to and including the tax year 1998. Three subsidiaries received tax assessments up to and including the tax year 1999. Other subsidiaries have not yet received tax assessments since their establishment.

The reports issued for the years up to and including 1998 are considered as final tax assessments pursuant to Section 145 to the Income Tax Ordinance, subject to the conditions stated in the Income Tax Ordinance.

NOTE 30:- SEGMENTS OF ACTIVITIESa. General

- 1) The Group companies operate in three main business segments: insurance, lease of assets and construction.
- 2) The total income and expenses are allocated directly to the business segments.
- 3) The segment's business results include sales between business segments.
- 4) The segment's assets and liabilities include all the operational assets and liabilities utilized by the segment. The assets and liabilities do not include deferred taxes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 30:- SEGMENTS OF ACTIVITIES (Cont.)

a. Information according to business segments

2002:

1) Business results of segments for the year ended as of December 31, 2002:

	<u>Insurance</u>	<u>Construction</u>	<u>Lease of assets</u>	<u>Others</u>	<u>Adjustments</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>					
Income from external sources	513,684	16,589	98,382	1,876	-	630,531
Inter-company income	-	-	3,179	7,359	(10,538)	-
Capital gain and other income, net	-	-	-	5,204	-	5,204
Total	<u>513,684</u>	<u>16,589</u>	<u>101,561</u>	<u>14,439</u>	<u>(10,538)</u>	<u>635,735</u>
Business results of the segment	<u>30,773</u>	<u>2,451</u>	<u>24,871</u>	<u>(3,560)</u>		54,535
Unallocated expenses:						
Administrative and general expenses						(4,331)
Financing expenses, net						(3,853)
						<u>46,351</u>
Profit before income taxes						
Income taxes						(27,286)
Profit after income taxes						19,065
Minority share in profits of subsidiaries						(4,802)
Net profit for the year						<u>14,263</u>
2) Segment assets	<u>1,074,676</u>	<u>1,526</u>	<u>1,098,680</u>	<u>10,356</u>		2,185,238
Joint unallocated assets						59,544
Total consolidated assets						<u>2,244,782</u>
Liabilities of the segment	<u>938,636</u>	<u>-</u>	<u>793,432</u>	<u>3,491</u>		1,735,559
Joint unallocated liabilities						284,924
Total consolidated liabilities						<u>2,020,483</u>
3) Capital investments	<u>24,098</u>	<u>-</u>	<u>131,489</u>	<u>415</u>		156,002
Unallocated capital investments						676
Total capital investments						<u>156,678</u>
4) Depreciation and amortization	<u>12,769</u>	<u>39</u>	<u>16,802</u>	<u>3,022</u>		32,632
Unallocated depreciation and amortization						2,723
Total depreciation and amortization						<u>35,355</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 30:- SEGMENTS OF ACTIVITIES (Cont.)

a. Information according to business segments

2001:

1) Business results of segments for the year ended as of December 31, 2001:

	<u>Insurance</u>	<u>Construction</u>	<u>Lease of assets</u>	<u>Others</u>	<u>Adjustments</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>					
Income from external sources	459,833	4,389	82,525	7,412	-	554,159
Inter-company income	-	-	3,143	-	(3,143)	-
Capital gain and other income, net	-	-	-	8,030	-	8,030
Total	<u>459,833</u>	<u>4,389</u>	<u>85,668</u>	<u>15,442</u>	<u>(3,143)</u>	<u>562,189</u>
Business results of the segment	<u>56,146</u>	<u>763</u>	<u>13,151</u>	<u>1,679</u>		71,739
Unallocated expenses:						
Administrative and general expenses						(2,870)
Financing expenses, net						(15,673)
Profit before income taxes						53,196
Income taxes						(35,557)
Profit after income taxes						17,639
Company's share in losses of an affiliate						(412)
Minority share in profits of subsidiaries						(14,060)
Net profit for the year						<u>3,167</u>
2) Assets utilized for the segment	<u>873,798</u>	<u>13,261</u>	<u>908,249</u>	<u>11,121</u>		1,806,429
Investments in an affiliate						464
Joint unallocated assets						59,713
Total consolidated assets						<u>1,866,606</u>
Liabilities of the segment	<u>742,063</u>	<u>-</u>	<u>654,014</u>	<u>2,127</u>		1,398,204
Joint unallocated liabilities						220,162
Total consolidated liabilities						<u>1,618,366</u>
3) Capital investments	<u>8,724</u>	<u>-</u>	<u>231,168</u>	<u>772</u>		240,664
Unallocated capital investments						1,534
Total capital investments						<u>242,198</u>
4) Depreciation and amortization	<u>12,689</u>	<u>11</u>	<u>16,592</u>	<u>696</u>		29,988
Unallocated depreciation and amortization						1,999
Total depreciation and amortization						<u>31,987</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 30:- SEGMENTS OF ACTIVITIES (Cont.)**

a. Information according to business segments

2000:

1) Business results of segments for the year ended as of December 31, 2000:

	<u>Insurance</u>	<u>Construction</u>	<u>Lease of assets</u>	<u>Others</u>	<u>Adjustments</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>					
Income from external sources	304,652	31,737	50,853	5,977	-	393,219
Inter-company income	-	-	3,041	-	(3,041)	-
Capital gain, net	-	-	-	125	-	125
Total	<u>304,652</u>	<u>31,737</u>	<u>53,894</u>	<u>6,102</u>	<u>(3,041)</u>	<u>393,344</u>
Business results of the segment	<u>35,535</u>	<u>9,383</u>	<u>(987)</u>	<u>(204)</u>		43,727
Unallocated expenses:						
Administrative and general expenses						(2,983)
Financing expenses, net						<u>(4,975)</u>
Profit before income taxes						35,769
Income taxes						<u>(16,154)</u>
Profit after income taxes						19,615
Company's share in losses of an affiliate						(1,381)
Minority share in profits of subsidiaries						<u>(13,155)</u>
Net profit for the year						<u>5,079</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 30:- SEGMENTS (Cont.)**b. Information according to geographic segments

1) Income according to geographic segment:

	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
Israel	549,903	494,535	351,346
Great Britain	42,377	34,453	23,673
Belgium	12,425	10,881	10,372
Poland	22,897	21,707	7,953
Canada	8,133	613	-
	<u>635,735</u>	<u>562,189</u>	<u>393,344</u>

2) Assets according to geographic segments:

	Year ended	
	December 31,	
	2002	2001
	Adjusted NIS in thousands	
Israel	1,360,048	1,221,918
Great Britain	395,698	347,262
Belgium	125,574	107,124
Poland	236,435	160,272
Canada	127,027	30,030
	<u>2,244,782</u>	<u>1,866,606</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 31:- LINKAGE TERMS OF BALANCES

a. Consolidated balance sheet

As of December 31, 2002:

	<u>CPI</u>	<u>Euro</u>	<u>Pound Sterling</u>	<u>U.S. Dollar</u>	<u>Canadian Dollar</u>	<u>Zloty</u>	<u>Unlinked</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>							
Assets								
Cash and cash equivalents	-	27,197	12,557	7,432	4,815	25,487	35,363	112,851
Deposits with financial institutions	1,450	-	-	-	-	-	-	1,450
Customers	2,135	1,061	19,262	348	517	-	1,082	24,405
Insurance companies	35,175	-	-	4,615	-	-	3,456	43,246
Outstanding premiums	52,365	-	-	-	-	-	38,512	90,877
Debtors and debit balances	9,206	11	94	-	248	23	1,808	11,390
Loans (including current maturity)	5,263	-	16,052	-	3,330	-	-	24,645
Investments of an insurance company	202,710	-	-	-	-	-	102,218	304,928
Reinsurers share in insurance reserves and outstanding claims	34,514	-	-	-	-	-	-	34,514
	<u>342,818</u>	<u>28,269</u>	<u>47,965</u>	<u>12,395</u>	<u>8,910</u>	<u>25,510</u>	<u>182,439</u>	<u>648,306</u>
Liabilities								
Bank credit	-	69,010	3,808	74,819	30,671	-	118,850	297,158
Suppliers and service providers	-	887	420	670	801	2,406	16,058	21,242
Insurance companies	-	-	-	19,295	-	-	-	19,295
Creditors and credit balances	287	1,177	2,634	181	759	290	41,221	46,549
Convertible debentures (including current maturities)	20,582	-	-	27,076	-	-	-	47,658
Loans from banking institutions and from others (including current maturity)	97,498	106,777	363,942	84,230	85,766	-	15,000	753,213
Convertible debentures and capital notes to subsidiary shares	31,646	-	-	-	-	-	-	31,646
Insurance reserves and outstanding claims in an insurance company	750,008	-	-	-	-	-	-	750,008
	<u>900,021</u>	<u>177,851</u>	<u>370,804</u>	<u>206,271</u>	<u>117,997</u>	<u>2,696</u>	<u>191,129</u>	<u>1,966,769</u>

NOTES TO THE FINANCIAL STATEMENTS
NOTE 31:- LINKAGE TERMS OF BALANCES (Cont.)

 a. Consolidated balance sheet (Cont.)

As of December 31, 2001:

	<u>CPI</u>	<u>Euro</u>	<u>Pound Sterling</u>	<u>U.S. Dollar</u>	<u>Canadian Dollar</u>	<u>Zloty</u>	<u>Unlinked</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>							
Assets								
Cash and cash equivalents	-	3,598	13,559	4,590	990	84	19,879	42,700
Deposits with financial institutions	2,538	-	-	-	-	-	-	2,538
Customers	6,558	1,276	14,617	131	-	-	2,543	25,125
Insurance companies	26,492	-	-	-	-	-	-	26,492
Outstanding premiums	50,067	-	-	-	-	-	26,673	76,740
Debtors and debit balances	5,868	196	111	263	4	76	8,998	15,516
Loans (including current maturity)	1,928	-	13,400	-	624	-	-	15,952
Investments of an insurance company	123,717	-	-	-	-	-	115,088	238,805
Reinsurers share in insurance reserves and outstanding claims	41,611	-	-	-	-	-	-	41,611
	<u>258,779</u>	<u>5,070</u>	<u>41,687</u>	<u>4,984</u>	<u>1,618</u>	<u>160</u>	<u>173,181</u>	<u>485,479</u>
Liabilities								
Bank credit	-	5,361	31,661	103,543	8,642	-	74,377	223,584
Suppliers and service providers	-	807	432	840	480	-	9,882	12,441
Insurance companies	-	-	-	22,721	-	-	4,897	27,618
Creditors and credit balances	320	2,537	3,689	25,354	234	173	18,099	50,406
Convertible debentures (including current maturities)	25,547	-	-	35,843	-	-	-	61,390
Loans from banking institutions and from others (including current maturity)	65,771	96,797	279,118	49,354	20,984	-	23,963	535,987
Convertible debentures and capital notes								
to subsidiary shares	64,677	-	-	-	-	-	-	64,677
Insurance reserves and outstanding claims in an insurance company	610,156	-	-	-	-	-	-	610,156

<u>766,471</u>	<u>105,502</u>	<u>314,900</u>	<u>237,655</u>	<u>30,340</u>	<u>173</u>	<u>131,218</u>	<u>1,586,259</u>
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NOTES TO THE FINANCIAL STATEMENTS**NOTE 31:- LINKAGE TERMS OF BALANCES (Cont.)**a. Company's balance sheet (Cont.)

As of December 31, 2002:

	<u>CPI</u>	<u>Euro</u>	<u>U.S. Dollar</u>	<u>Unlinked</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>				
Assets					
Cash and cash equivalents	-	1	2	895	898
Customers	84	-	-	-	84
Debtors and debit balances	203	-	-	67	270
Loans to a subsidiary	<u>5,174</u>	<u>27,026</u>	<u>-</u>	<u>14,662</u>	<u>46,862</u>
	<u>5,461</u>	<u>27,027</u>	<u>2</u>	<u>15,624</u>	<u>48,114</u>
Liabilities					
Bank credit	-	-	11,042	118,278	129,320
Suppliers and service providers	-	5	-	125	130
Creditors and credit balances	-	17	-	5,429	5,446
Convertible capital notes (including current maturity)	20,582	-	27,076	-	47,658
Loans from banking institutions (including current maturity)	<u>49,863</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>64,863</u>
	<u>70,445</u>	<u>22</u>	<u>38,118</u>	<u>138,832</u>	<u>247,417</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 31:- LINKAGE TERMS OF BALANCES (Cont.)**a. Company's balance sheet (Cont.)

As of December 31, 2001:

	<u>CPI</u>	<u>Euro</u>	<u>U.S. Dollar</u>	<u>Unlinked</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>				
Assets					
Cash and cash equivalents	-	2,400	-	627	3,027
Customers	82	422	-	-	504
Debtors and debit balances	199	82	-	77	358
Loans to a subsidiary	<u>34,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,981</u>
	<u>35,262</u>	<u>2,904</u>	<u>-</u>	<u>704</u>	<u>38,870</u>
Liabilities					
Bank credit	-	-	-	39,078	39,078
Suppliers and service providers	-	246	-	204	450
Creditors and credit balances	-	86	-	3,921	4,007
Convertible capital notes (including current maturity)	25,547	-	36,274	-	61,821
Loans from banking institutions (including current maturity)	<u>56,520</u>	<u>22,351</u>	<u>10,582</u>	<u>23,963</u>	<u>113,416</u>
	<u>82,067</u>	<u>22,683</u>	<u>46,856</u>	<u>67,166</u>	<u>218,772</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 32:- EARNINGS PER SHARE**

Hereunder are details about the net profit and the nominal value of share capital taken into account for the calculation of the net earnings per share and the adjustments made for the purpose of determining the fully diluted profit:

	Year ended December 31,		
	2002	2001	2000
	Adjusted NIS in thousands		
Net profit per profit and loss statements	14,263	3,167	5,079
Accumulated preferred shares dividend	(126)	(243)	(432)
Net profit used in determination of the basic net profit per share	14,137	2,924	4,647
Following components added:			
Effect of conversion of capital notes Serial B	1,604	*)	422
Effect of conversion of capital notes Serial C	1,354	*)	*)
	<u>17,095</u>	<u>2,924</u>	<u>5,069</u>
	Weighted number of share capital (number of shares in thousands)		
	Year ended December 31,		
	2002	2001	2000
Total ordinary and preferred shares issued and fully redeemed	81,733	81,733	79,171
Less the following components:			
Mutual holding of ordinary shares	(10,216)	(9,833)	(7,450)
Mutual holding of preferred shares	(19,423)	(19,094)	(14,162)
Number of shares used in calculation of basic net profit per share	52,094	52,806	57,559
Addition of the following components:			
Effect of conversion of capital notes (Serial B)	8,548	*)	14,247
Effect of conversion of capital notes (Serial C)	7,943	*)	*)
Number of shares used in calculation of diluted earnings per share	<u>68,585</u>	<u>52,806</u>	<u>71,806</u>

*) Anti dilution effect.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 33:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED AND RELATED PARTIES**

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2002	2001	2002	2001
	Adjusted NIS in thousands			
a. Balances of related parties are included in the following <u>balance sheet items</u>				
Loans to subsidiaries	-	-	46,862	34,981
In the loans item *):				
Loan to chairman and member of the board	680	-	-	-
Loan to subsidiary's chairman and director	1,388	1,426**)	-	-
Loan to subsidiary's chairman	2,775	-	-	-

*) See note 33d hereunder.

***) Repaid in the year 2002.

b. Income (expenses) during the reporting year

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2002	2001	2000	2002	2001	2000
	Adjusted NIS in thousands					
Income from rent	-	-	-	2,910	2,882	2,862
Management fees from subsidiary	-	-	-	4,457	-	-
Interest to a subsidiary	-	-	-	(554)	(2,183)	1,313
Interest received for loans to related parties	246	70	83	-	-	-
Salary of directors who are not interested parties	(307)	(315)	(308)	(307)	(315)	(308)
Number of directors	5	4	4	5	4	4
Salary and related expenses to interested parties	(7,096)	(8,295)*)	(4,741)	(3,944)	(2,885)	(2,874)
Number of salary receivers	4	4	4	3	3	3

*) Including compensation for cancellation of an option plan in the amount of NIS 3,050 thousand to the chairman of the board in a subsidiary who serves as a director in the Company.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 33:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED AND RELATED PARTIES: (Cont.)c. Officeholders' insurance and liability compensation

The Company insured the officeholders' liability, in accordance with the Regulations of the Memorandum of Association. The insurance is within the group which includes the Company, Adgar Investments and Development Ltd., Direct Insurance - Financial Investments Ltd. and their subsidiaries.

The amount of the insurance for each year in the years 1998 - 2000 is \$ 5 million. For the year 2001 - \$ 7.5 million and for the year 2002 \$ 10 million for each case and for the period. In addition, the insurance includes a refund for legal expenses in Israel only in the amount of \$ 1 million for each year in the years 1998 - 2001 and \$ 2 million for the year 2002.

In addition, the Company issued compensation notes to all its directors and officeholders in the total amount of up to \$ 5 million for each case and for each period. The compensation notes are in relation to any monetary liability, including litigation expenses, pursuant to a judgment, on condition that they acted in a bona fide manner and for the benefit of the Company.

- d. On September 30, 2001 the general meeting of the subsidiary, Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance) approved the granting of loans by Direct Insurance and/or through its subsidiary, to the chairman of the board of directors and to the chairman of Direct Insurance, who serve as directors in the Company, for financing the acquisition of Direct Insurance's shares. The acquired shares will be pledged against the loans at a first degree pledge in favour of Direct Insurance. The loan agreements determine, amongst others, that the loans will bear interest of 4% per annum and they will be linked to the CPI. The loans will be redeemed at the end of five years from the date of approval of the loan agreements by the general meeting. The loan agreements are non-recourse agreements, therefore the Company is entitled to realize the pledge if the loans are not redeemed. On January 9, 2002, a subsidiary, Direct - I.D.I. Insurance Company Ltd. granted loans in the amount of NIS 464 thousand to the chairman of the board and NIS 1,317 thousand to the general manager. The acquired shares were deposited with a trustee to secure the borrowers' liabilities in the loan agreements that were signed with them.

On January 9, 2002 Direct - I.D.I. Insurance Company Ltd. granted loans in the amount of NIS 2,634 thousand to the general manager of the insurance company. The acquired shares were deposited with a trustee to secure the borrowers' loan liabilities. The loan agreements determine, amongst others, that the loans will bear interest of 4% per annum and they will be linked to the CPI. The loans will be redeemed at the end of five years from the date of approval of the loan agreements by the general meeting. The loan agreements are non-recourse agreements, therefore Direct Insurance is entitled to realize the pledge if the loans are not redeemed.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 34:- COMPANY'S FINANCIAL STATEMENTS IN TERMS OF NOMINAL VALUES**a. Balance sheets

	December 31,	
	2002	2001
	NIS in thousands	
Current assets		
Cash and cash equivalents	898	2,842
Short term investments	411	306
Customers	84	473
Debtors and debit balances	349	921
	<u>1,742</u>	<u>4,542</u>
Investments in investees	<u>244,614</u>	<u>198,566</u>
Fixed Assets, net	<u>24,313</u>	<u>51,641</u>
Other assets, net	<u>588</u>	<u>962</u>
Deferred taxes	<u>3,424</u>	<u>3,474</u>
	<u>274,681</u>	<u>259,185</u>
Current liabilities		
Bank credit	167,562	71,969
Suppliers and service providers	130	423
Creditors and credit balances	5,446	4,543
Current maturity of capital notes convertible into shares	14,265	13,426
	<u>187,403</u>	<u>90,361</u>
Long term liabilities		
Capital notes convertible into shares	33,454	44,684
Loans from banking institutions and from others	26,621	71,218
	<u>60,075</u>	<u>115,902</u>
Shareholders' equity	<u>27,203</u>	<u>52,922</u>
	<u>274,681</u>	<u>259,185</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 34:- COMPANY'S FINANCIAL STATEMENTS IN TERMS OF NOMINAL VALUES (Cont.)**b. Statements of profit and loss

	Year ended December 31,		
	2002	2001	2000
	NIS in thousands		
Income			
From lease of real estate	6,212	7,742	7,102
Capital gain, net	<u>1,232</u>	<u>4,602</u>	<u>553</u>
	<u>7,444</u>	<u>12,344</u>	<u>7,655</u>
Costs and expenses			
Maintenance of assets	2,597	3,960	3,824
Financing, net	19,635	15,527	5,042
Administrative and general expenses	<u>3,563</u>	<u>6,234</u>	<u>6,263</u>
	<u>25,795</u>	<u>25,721</u>	<u>15,129</u>
Loss before income taxes	(18,351)	(13,377)	(7,474)
Income taxes	<u>(50)</u>	<u>(50)</u>	<u>(62)</u>
Loss after income taxes	(18,401)	(13,427)	(7,536)
Company's share in profits of investees, net	<u>11,727</u>	<u>13,045</u>	<u>11,375</u>
Net profit (loss) for the year	<u><u>(6,674)</u></u>	<u><u>(382)</u></u>	<u><u>3,839</u></u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 34:- COMPANY'S FINANCIAL STATEMENTS IN TERMS OF NOMINAL VALUES (Cont.)

c. Statements of changes in shareholders' equity

	Share capital	Share premium	Capital reserves	Adjustments due to translation of subsidiaries financial statements	Deficiency	Less shares held by the Company and by subsidiaries	Total
	NIS in thousands						
<u>Balance as of January 1, 2000</u>	71,485	11,950	(2,141)	5,674	(14,255)	(12,897)	59,816
Acquisition of Company's shares by a subsidiary	-	-	-	-	-	(13,554)	(13,554)
Conversion of capital notes into shares	10,248	13,023	-	-	-	(22,828)	443
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	(903)	-	-	(903)
Dividend paid	-	-	-	-	(2,284)	1,579	(705)
Net profit for the year	-	-	-	-	3,839	-	3,839
<u>Balance as of December 31, 2000</u>	81,733	24,973	(2,141)	4,771	(12,700)	(47,700)	48,936
Conversion of capital notes into shares	-	-	2,935	-	-	-	2,935
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	864	-	-	864
Distribution of Company's shares as dividend by a subsidiary	-	-	-	-	-	569	569
Loss for the year	-	-	-	-	(382)	-	(382)
<u>Balance as of December 31, 2001</u>	81,733	24,973	794	5,635	(13,082)	(47,131)	52,922
Acquisition of convertible debentures of a subsidiary	-	(6,919)	-	-	-	-	(6,919)
Acquisition of Company shares	-	-	-	-	-	(4,857)	(4,857)
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	2,731	-	-	2,731
Dividend paid	-	-	-	-	(10,000)	-	(10,000)
Loss for the year	-	-	-	-	(6,674)	-	(6,674)
<u>Balance as of December 31, 2002</u>	81,733	18,054	794	8,366	(29,756)	(51,988)	27,203

NOTES TO THE FINANCIAL STATEMENTS**NOTE 34:- COMPANY'S FINANCIAL STATEMENTS IN TERMS OF NOMINAL VALUES****(Cont.)**d. Shareholders' equity1) Composition of share capital

	<u>December 31,</u>		<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>Registered</u>		<u>Issued and paid-up</u>	
	<u>Number of shares</u>			
Ordinary shares of NIS 1 each	120,000	120,000	58,126	58,126
Preferred shares paying 3% dividend linked to the CPI, cumulative and participating of NIS 1 each	<u>120,000</u>	<u>120,000</u>	<u>23,607</u>	<u>23,607</u>
	<u>240,000</u>	<u>240,000</u>	<u>81,733</u>	<u>81,733</u>

*) Including shares held by the Company (previous year by the Company and subsidiaries):

Ordinary shares of NIS 1	10,498	9,208
Preferred shares of NIS 1	<u>19,565</u>	<u>18,958</u>
	<u>30,063</u>	<u>28,166</u>
Percentage of capital issued and realized	<u>36.78%</u>	<u>34.46%</u>

2) Changes in shareholders' equity during the year 2002a. Acquisition of Company shares

During the reporting period the Company acquired 1,289,877 ordinary shares at a nominal value of NIS 1 each and 607,365 preferred shares at a nominal value of NIS 1 each of the Company in the amount of NIS 4,857 thousand (NIS 5,092 thousand adjusted).

b. Dividend paid

On June 17, 2002, the Company's Board of Directors decided to distribute a cash dividend to the Company's Preferred shareholders and Ordinary shareholders in a total amount of NIS 10,000 thousand. Part of the dividend was paid to the Preferred shareholders and the balance was paid to the Ordinary shareholders.

Pursuant to the Company's notice, as stated above, the Company paid a cash dividend to its Preferred shareholders on July 10, 2002 in a gross amount of NIS 623,789 for the years 2000, 2001 and 2002. The date for the payment of the balance of the dividend is September 9, 2002.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 35:- EVENTS AFTER BALANCE SHEET DATE

Acquisition of a building

On March 10, 2003, a wholly owned subsidiary of Adgar acquired an office building in Toronto, Canada. The area of the building is about 9,600 square meters. The current occupancy rate is about 92%. On the basis of the present occupancy rate, the lease fees received amount to \$ 0.9 million. The cost of the building is approximately \$ 10.5 million. About 60% of the cost of the acquisition will be financed by a long-term loan from a Canadian bank with a fixed interest of about 6% of the cost. The balance of the cost will be financed by credit from Israel with a variable interest. To secure the loans, the subsidiary company recorded a pledge on the building.

APPENDIX TO THE FINANCIAL STATEMENTS

List of Subsidiaries

Rate of ownership and control by the holding company as of December 31, 2002:

<u>Holding company</u>	<u>Name of the company</u>	<u>Rate of ownership %</u>	<u>Rate of control %</u>
Zur Shamir holdings Ltd.	Direct Insurance - Financial Investments Ltd.	52.25%	52.25%
	Adgar Investments and Development Ltd.	100.00%	100.00%
	Zur Shamir Finances Ltd.	100.00%	100.00%
	Zur Shamir Investment and Development (Belgium) N.V.	100.00%	100.00%
	Zur Shamir Properties (1989) Ltd.	100.00%	100.00%
	Nachalot Zur Ltd.	100.00%	100.00%
Direct Insurance - Financial Investments Ltd.	Direct - I.D.I. Insurance Company Ltd.	100.00%	100.00%
	Idit I.D.I. Technologies Ltd.	58.14%	58.14%
	GDII Global Direct Insurance Investments B.V.	100.00%	100.00%
Direct - I.D.I. Insurance Co. Ltd.	Dr. Can and Color Ltd.	50.00%	50.00%
	Shamir Direct Assessments Ltd.	100.00%	100.00%
	Earnix Inc.	17.9%	17.9%
GDII Global Direct Insurance Investments B.V.	IDIP Direct Insurance B.V.	100.00%	100.00%
	Spolka Akcyjna Link4 Towarzystwo Ubezpieczen	100.00%	100.00%
IDIP Direct Insurance B.V.	IDIP Spolka Zorganiznoscia Odpowiedzialnoscia	100.00%	100.00%
Zur Shamir Properties (1989) Ltd.	Karlibach Management and Services Ltd.	100.00%	100.00%
Adgar Investments and Development Ltd.	Adgar Nof Tivon Ltd.	74.00%	74.00%
	Adgar Capital Investments Ltd.	100.00%	100.00%
	Adgar Hatzafon Management and Services Ltd.	100.00%	100.00%
	Adgar International Holdings Ltd.	100.00%	100.00%
	Adgar Trust	100.00%	100.00%
Dr. Can and Color Ltd.	Dr. Can and Color Jerusalem Ltd.	50.00%	50.00%
	Dr. Can and Color Haifa Ltd.	50.00%	50.00%
	Dr. Can and Color Ra'anana Ltd.	100.00%	100.00%
Adgar International Holdings Ltd.	Adgar Investment and Development Belgium N.V.	100.00%	100.00%

APPENDIX TO THE FINANCIAL STATEMENTS

List of Subsidiaries (Cont.)

Rate of ownership and control by the holding company as of December 31, 2001: (Cont.)

<u>Holding company</u>	<u>Name of the company</u>	<u>Rate of ownership %</u>	<u>Rate of control %</u>
Adgar Investment and Development Belgium B.V.	Antwerp Invest N.V.	100.00%	100.00%
	Mondriaan N.V.	100.00%	100.00%
	Adgar Properties N.V.	100.00%	100.00%
	Adgar UK N.V.	82.50%	82.50%
	Adgar Sutherland N.V.	90.00%	90.00%
	Adgar Building N.V.	100.00%	100.00%
	Adgar Jezusstreet N.V.	100.00%	100.00%
	Adgar Aartselaar N.V.	100.00%	100.00%
	Adgar Lemanstreet N.V.	75.00%	75.00%
	Adgar Plantin N.V.	100.00%	100.00%
	Adgar Investment and Development Poland N.V.	100.00%	100.00%
	Adgar Solar House B.V.	100.00%	100.00%
	Wingate Ltd.	100.00%	100.00%
	Gilquest Ltd.	100.00%	100.00%
Zur Shamir Belgium Properties N.V.	100.00%	100.00%	
Adgar Investment and Development Poland N.V.	Adgar Postepu S.P.Z.O.O.	100.00%	100.00%
Adgar Trust	AD-AM LP.	92.50%	92.50%
	AD-AM Albert Building L.P.	82.50%	82.50%
	1881 Yonge Street L.P.	100.00%	100.00%

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