

**Translated from the  
Hebrew original**

**ZUR SHAMIR HOLDINGS LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2009**

**UNAUDITED**

**ZUR SHAMIR HOLDINGS LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**INDEX**

	<u>Page</u>
<b>Auditors' Review Report</b>	<b>2</b>
<b>Consolidated Balance Sheets</b>	<b>3 - 4</b>
<b>Consolidated Statements of Income</b>	<b>5</b>
<b>Consolidated Statements of Comprehensive Income</b>	<b>6</b>
<b>Consolidated Statements of Changes in Equity</b>	<b>7</b>
<b>Consolidated Statements of Cash Flows</b>	<b>8 - 10</b>
<b>Notes to Interim Consolidated Financial Statements</b>	<b>11 - 34</b>

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## **Auditors' review report to the shareholders of Zur Shamir Holdings Ltd.**

### **Introduction**

We have reviewed the accompanying financial information of Zur Shamir Holdings Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of March 31, 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period in accordance with IAS 34, "Interim Financial Reporting" and with the disclosure requirements prescribed by the Regulator of the Insurance in accordance with the Supervision of Financial Services (Insurance) Law, 1981, and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a jointly controlled entity, whose assets constitute approximately 0.7% of total consolidated assets as of March 31, 2009, and whose revenues constitute approximately 1.3% of total consolidated revenues for the three months then ended.

### **Scope of review**

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 and with the disclosure requirements prescribed by the Regulator of the Insurance in accordance with the Supervision of Financial Services (Insurance) Law, 1981.

In addition to the abovementioned, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970, insofar as those regulations apply to insurance companies.

Without qualifying our abovementioned conclusion, we draw attention to Note 7 to the financial statements regarding the exposure to the approval of claims as class actions.

**CONSOLIDATED BALANCE SHEETS**

	December 31, 2008	March 31,		Convenience translation (Note 1f) March 31, 2009
	Audited	*) 2008 N I S	2009 Unaudited	Unaudited U.S. \$
	(In thousands)			
Cash and cash equivalents	468,710	374,209	540,630	129,090
Accounts receivable	197,923	177,315	220,063	52,546
Current tax assets	68,280	46,284	32,778	7,827
Outstanding premium	304,821	269,039	271,650	64,864
Receivables for issue of shares	-	57,689	-	-
Assets held for sale (Note 4)	-	-	329,481	78,673
Financial assets	1,500,578	1,331,736	1,436,339	342,965
Investment properties and real estate under construction	2,922,694	2,723,911	3,051,101	728,534
Fixed assets, net	220,255	209,827	187,216	44,703
Reinsurance assets	197,585	173,676	196,215	46,852
Deferred taxes	60,483	62,085	32,248	7,700
Deferred acquisition costs	132,630	133,750	111,020	26,509
Intangible assets	433,471	429,773	398,280	95,100
Financial derivatives	7,080	14,246	10,092	2,410
Total assets	6,514,510	6,003,540	6,817,113	1,627,773

\*) Reclassified, see Note 2b.

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

**CONSOLIDATED BALANCE SHEETS**

	December 31,	March 31,		Convenience
	2008	*) 2008	2009	translation
	Audited	Unaudited		(Note 1f)
		NIS		March 31,
	(In thousands)			2009
				Unaudited
				U.S. \$
<b>LIABILITIES:</b>				
Advance from sale of subsidiary	-	-	111,472	26,617
Accounts payable	270,587	277,812	218,639	52,206
Liabilities for assets held for sale (Note 4)	-	-	249,886	59,667
Financial liabilities	3,582,251	2,873,539	3,649,053	871,312
Financial derivatives	17,482	210	29,555	7,057
Current taxes	84	65	1,065	254
Liabilities for yield-dependent contracts	278,232	241,544	301,596	72,014
Liabilities for non- yield dependent insurance and investment contracts	1,639,801	1,498,346	1,490,245	355,837
Employee benefit liabilities, net	9,073	6,032	9,823	2,346
Deferred taxes	80,131	124,805	97,011	23,164
	<u>5,877,641</u>	<u>5,022,353</u>	<u>6,158,345</u>	<u>1,470,474</u>
<b>EQUITY:</b>				
Share capital	216,299	213,993	216,299	51,647
Receipts on account of capital	916	916	916	219
Capital reserves	(70,981)	(4,816)	(41,904)	(10,006)
Retained earnings	137,183	302,318	122,821	29,327
	<u>283,417</u>	<u>512,411</u>	<u>298,132</u>	<u>71,187</u>
Less - treasury shares	<u>(61,174)</u>	<u>(61,174)</u>	<u>(61,174)</u>	<u>(14,607)</u>
	<u>222,243</u>	<u>451,237</u>	<u>236,958</u>	<u>56,580</u>
Minority interests	<u>414,626</u>	<u>529,950</u>	<u>421,810</u>	<u>100,719</u>
Total equity	<u>636,869</u>	<u>981,187</u>	<u>658,768</u>	<u>157,299</u>
Total liabilities and equity	<u>6,514,510</u>	<u>6,003,540</u>	<u>6,817,113</u>	<u>1,627,773</u>

\*) Reclassified, see Note 2b.

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

May 31, 2009			
Date of approval of the financial statements	Shalom Schneidman Chairman of the Board	Moshe (Muki) Schneidman Member of the Board and Managing Director	Ronen Nakar Deputy Chief Financial Officer

**CONSOLIDATED STATEMENTS OF INCOME**

	Year ended December 31, 2008 Audited	Three months ended March 31,		Convenience translation (Note 1f)
		*) 2008		Three months ended March 31, 2009
		Unaudited		Unaudited
		NIS		U.S. \$
(In thousands, except per share data)				
Premiums earned on retention	809,593	191,134	222,841	53,209
Revenues from rental of properties	170,140	43,004	45,868	10,952
Increase (decrease) in value of investment properties and real estate under construction, net	29,383	1,527	(3,374)	(806)
Net gains (losses) on investments and other financial income (expenses)	(11,014)	5,558	30,000	7,163
Revenues from management fees	107,592	24,594	24,231	5,786
Revenues from consumer credit	23,764	4,053	7,275	1,737
Revenues from commissions	14,679	4,696	3,571	853
Other income	3,149	-	61	16
<b>Total revenues</b>	<b>1,147,286</b>	<b>274,566</b>	<b>330,473</b>	<b>78,910</b>
Payments and change in liabilities in respect of insurance contracts on retention	586,817	142,255	159,452	38,074
Marketing expenses and acquisition costs	199,320	49,497	47,227	11,277
General and administrative expenses	207,569	54,106	57,731	13,785
Financial expenses	254,967	56,316	32,876	7,850
Other expenses	3,570	-	1,189	284
<b>Total expenses</b>	<b>665,426</b>	<b>159,919</b>	<b>139,023</b>	<b>33,196</b>
Income (loss) before tax	(104,957)	(27,608)	31,998	7,640
Taxes on income (tax benefit)	(2,227)	872	19,205	4,585
Income (loss) from continuing operations	(102,730)	(28,480)	12,793	3,055
Loss from activities held for sale, net	(121,900)	(30,606)	(35,129)	(8,388)
<b>Net loss for the period</b>	<b>(224,630)</b>	<b>(59,086)</b>	<b>(22,336)</b>	<b>(5,333)</b>
Net loss for the period attributable to:				
Equity holders of the Company	(158,075)	(42,940)	(14,362)	(3,429)
Minority interests	(66,555)	(16,146)	(7,974)	(1,904)
	<b>(224,630)</b>	<b>(59,086)</b>	<b>(22,336)</b>	<b>(5,333)</b>
Net loss per share attributable to equity holders of the Company:				
Basic loss:				
Income (loss) from continuing operations	(1.09)	(0.36)	0.14	0.03
Loss from discontinued activities	(1.40)	(0.32)	(0.36)	(0.09)
	<b>(2.49)</b>	<b>(0.68)</b>	<b>(0.22)</b>	<b>(0.06)</b>

\*) Reclassified, see Note 2b.

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Year ended December 31, 2008</b>	<b>Three months ended March 31,</b>		<b>Convenience translation (Note 1f)</b>	
		<b>2008</b>	<b>2009</b>	<b>Three months ended March 31, 2009</b>	
		<b>Audited</b>	<b>Unaudited</b>		<b>Unaudited</b>
			<b>N I S</b>		<b>U.S. \$</b>
	<b>(In thousands)</b>				
Net loss for the period	<u>(224,630)</u>	<u>(59,086)</u>	<u>(22,336)</u>	<u>(5,333)</u>	
Other comprehensive income (loss):					
Gain (loss) from available-for-sale financial assets, net	(9,280)	(7,279)	8,511	2,032	
Loss from cash flow hedges, net	(10,116)	-	(9,511)	(2,271)	
Foreign currency translation adjustments of foreign operations, net	<u>(157,458)</u>	<u>(62,762)</u>	<u>48,133</u>	<u>11,493</u>	
Other comprehensive income (loss), net	<u>(176,854)</u>	<u>(70,041)</u>	<u>47,133</u>	<u>11,254</u>	
Total other comprehensive income (loss)	<u>(401,484)</u>	<u>(129,127)</u>	<u>24,797</u>	<u>5,921</u>	
Comprehensive income (loss) for the period attributable to:					
Equity holders of the Company	(266,208)	(84,856)	14,715	3,514	
Minority interests	<u>(135,276)</u>	<u>(44,271)</u>	<u>10,082</u>	<u>2,407</u>	
	<u>(401,484)</u>	<u>(129,127)</u>	<u>24,797</u>	<u>5,921</u>	

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Receipts on								
	Share capital	Share premium	account of capital	Retained earnings	Capital reserves	Treasury shares	Total	Minority interests	Total equity
	N I S								
(In thousands)									
Balance at January 1, 2008 (audited)	213,993	34,887	916	345,258	1,240	(61,174)	535,120	589,968	1,125,088
Comprehensive loss	-	-	-	(158,075)	(108,133)	-	(266,208)	(135,276)	(401,484)
Exercise of options into shares	2,306	-	-	-	-	-	2,306	4,389	6,695
Issue of shares (net of issue expenses)	-	-	-	-	-	-	-	19,251	19,251
Capital reserve for loan given to jointly controlled entity	-	-	-	-	1,025	-	1,025	500	1,525
Purchase of minority interests	-	-	-	-	-	-	-	(15,734)	(15,734)
Cost of share-based payment	-	-	-	-	-	-	-	2,986	2,986
Dividend paid	-	-	-	(50,000)	-	-	(50,000)	-	(50,000)
Dividend paid to minority	-	-	-	-	-	-	-	(51,458)	(51,458)
Balance at December 31, 2008 (audited)	216,299	34,887	916	137,183	(105,868)	(61,174)	222,243	414,626	636,869
Comprehensive income	-	-	-	(14,362)	29,077	-	14,715	10,082	24,797
Cost of share-based payment	-	-	-	-	-	-	-	177	177
Dividend declared to minority	-	-	-	-	-	-	-	(3,075)	(3,075)
Balance at March 31, 2009 (unaudited)	216,299	34,887	916	122,821	(76,791)	(61,174)	236,958	421,810	658,768

  

	Attributable to equity holders of the Company								
	Receipts on								
	Share capital	Share premium	account of capital	Retained earnings	Capital reserves	Treasury shares	Total	Minority interests	Total equity
	N I S								
(In thousands)									
Balance at January 1, 2008 (audited)	213,993	34,887	916	345,258	1,240	(61,174)	535,120	589,968	1,125,088
Comprehensive loss	-	-	-	(42,940)	(41,916)	-	(84,856)	(44,271)	(129,127)
Capital reserve for loan given to jointly controlled entity	-	-	-	-	973	-	973	475	1,448
Purchase of minority interests	-	-	-	-	-	-	-	(1,162)	(1,162)
Cost of share-based payment	-	-	-	-	-	-	-	776	776
Dividend paid to minority	-	-	-	-	-	-	-	(15,836)	(15,836)
Balance at March 31, 2008 (unaudited)	213,993	34,887	916	302,318	(39,703)	(61,174)	451,237	529,950	981,187

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2008 Audited	Three months ended March 31,		Convenience translation (Note 1f)
				Three months ended
		*) 2008	2009	March 31, 2009
		Unaudited		Unaudited
	N I S		U.S. \$	
	(In thousands)			
Net cash provided by (used in) continuing operating activities (Schedule A)	(189,813)	(983)	44,218	10,558
Net cash used in operating activity held for sale	(131,226)	(27,286)	(38,713)	(9,244)
Net cash provided by (used in) operating activities	(321,039)	(28,269)	5,505	1,314
<u>Cash flows from investing activities:</u>				
Purchase of subsidiaries' shares from minority shareholders	(14,818)	(2,911)	-	-
Purchase of deposit	3,563	5,105	377	90
Purchase of assets and investment properties	(537,344)	(146,654)	(44,024)	(10,512)
Advance received from sale of subsidiary	-	-	111,472	26,617
Proceeds from issue of shares in subsidiary and jointly controlled entity	89,000	30,288	-	-
Proceeds from sale of fixed assets and investment properties	160,226	123,866	35,543	8,487
Long-term loans repaid (granted), net	(1,707)	3,046	(665)	(159)
Purchase of intangible assets	(22,851)	(3,948)	(3,055)	(729)
Net cash provided by (used in) continuing investing activities	(323,931)	8,792	99,648	23,794
Net cash used in investing activity held for sale	(47,046)	(7,405)	(3,756)	(897)
Net cash provided by (used in) investing activities	(370,977)	1,387	95,892	22,897
<u>Cash flows from financing activities:</u>				
Issue of subsidiary's debentures, net	6,735	49,118	-	-
Exercise of stock options into shares	2,306	-	-	-
Increase (decrease) in short-term credit from banks, net	372,684	(84,765)	(33,759)	(8,061)
Receipt (repayment) of long-term loans from banks and others, net	366,803	(68,170)	40,837	9,751
Redemption of Company debentures	(98,030)	-	-	-
Repayment of subsidiary's subordinated deeds	(56,871)	-	-	-
Net cash provided by (used in) continuing financing activities	593,627	(103,817)	7,078	1,690
Net cash provided by financing activity held for sale	38,687	-	39,584	9,452
Net cash provided by (used in) financing activities	632,314	(103,817)	46,662	11,142
Capital reserve from translation differences of activity held for sale	44,428	18,127	3,022	722
Effect of exchange rate fluctuations on balances of cash and cash equivalents	(10,233)	(7,436)	(1,359)	(324)
Increase (decrease) in cash and cash equivalents	(25,507)	(120,008)	149,722	35,750
Cash and cash equivalents at beginning of period	494,217	494,217	468,710	111,917
Cash and cash equivalents at end of period (Schedule B)	468,710	374,209	618,432	147,667

\*) Reclassified, see Note 2b.

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended	Three months ended		Convenience
	December 31,	March 31,		translation
	2008	*) 2008	2009	(Note 1f)
	Audited	Unaudited		Three months
		N I S		ended
		(In thousands)		March 31,
				2009
				Unaudited
				U.S. \$
(a) <u>Cash flows from continuing operating activities:</u>				
Net income (loss) for the period from continuing operations	(102,730)	(28,480)	12,793	3,055
<u>Net purchases of financial investments:</u>				
Financial investments in yield-dependent contracts	(60,406)	(14,281)	(17,186)	(4,104)
Other financial investments	(227,051)	(15,047)	3,534	844
<u>Income and expenses not involving cash flows:</u>				
Impairment of intangible assets	1,000	-	-	-
Depreciation and amortization	40,970	10,531	10,021	2,393
Gain from sale of fixed assets	(402)	(336)	-	-
Capital loss from issue to third party	3,571	-	-	-
Cost of share-based payment	2,986	775	177	42
Change in financial derivatives, net	100	-	-	-
Financial expenses and erosion of long-term loans and liabilities, net	254,967	56,316	32,876	7,850
Net investment income, financial and other income	(14,781)	(7,809)	(3,204)	(765)
Increase in deferred acquisition costs	(1,024)	(1,110)	(1,947)	(465)
Increase (decrease) in value of investment properties	(29,383)	-	3,374	806
Tax expenses (benefit)	(2,227)	872	19,205	4,586
Excess of negative cost arising on acquisition of subsidiaries' shares	(2,687)	-	-	-
	(34,367)	29,911	46,850	11,187
<u>Changes in asset and liability items:</u>				
Losses (gains) from financial investments in yield-dependent contracts	8,837	221	(13,573)	(3,241)
Losses (gains) from other financial investments	12,565	(4,677)	(17,380)	(4,150)
Increase in liabilities for non-yield dependent insurance contracts	141,128	18,821	28,357	6,771
Increase in liabilities for yield-dependent contracts	53,673	16,985	23,364	5,579
Increase in reinsurance assets	(27,971)	(3,853)	1,186	283
Employee benefit liabilities, net	4,074	1,033	750	179
Increase in outstanding premium	(33,004)	(2,573)	(5,233)	(1,250)
Decrease (increase) in accounts receivable	(11,994)	7,457	(26,539)	(6,337)
Increase (decrease) in accounts payable	12,234	(2,899)	(15,702)	(3,749)
	159,542	30,515	(24,770)	(5,915)
<u>Cash paid and received during the period for:</u>				
Interest paid	(157,057)	(25,827)	(40,636)	(9,703)
Interest received	81,613	12,869	19,615	4,684
Taxes on income paid	(37,822)	(5,861)	(1,810)	(432)
Taxes received	-	-	32,176	7,682
Dividend paid to Company shareholders	(50,000)	-	-	-
Dividend paid to minority in subsidiary	(51,460)	(14,734)	-	-
Dividend received	2,468	624	-	-
	(212,258)	(32,929)	9,345	2,231
Total cash provided by (used in) continuing operating activities	(189,813)	(983)	44,218	10,558

\*) Reclassified, see Note 2b.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31, 2008 <u>Audited</u>	Three months ended March 31, 2008                      2009 <u>Unaudited</u>		Convenience translation (Note 1f) <u>Three months ended March 31, 2009 Unaudited</u>
		N I S		U.S. \$
	(In thousands)			
(b) <u>Cash and cash equivalents at end of period:</u>				
Cash And cash equivalents presented in assets held for sale	-	-	77,802	18,577
Other cash and cash equivalents	468,710	374,209	540,630	129,090
	<u>468,710</u>	<u>374,209</u>	<u>618,432</u>	<u>147,667</u>

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1:- GENERAL

- a. These financial statements have been prepared in a condensed format as of March 31, 2009 and for the three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2008 and for the year then ended and accompanying notes ("annual financial statements").
- b. As of March 31, 2009, the Company has liabilities of which an amount of approximately NIS 140 million is repayable in the coming year (of which amount approximately NIS 120 million in respect of debentures). In January 2009, Standard & Poor's Maalot announced the lowering of the rating of the Company's debentures (series E) from (ilA) to (ilBB-), with a forecast negative ranking. For more details, see Note 8e below.

After balance sheet date, in April 2009, the Company received bridge loans from Bank Hapoalim totaling NIS 140 million (for more details, see Note 8c below). Of this credit facility, the Company repaid in April 2009 approximately NIS 58 million in debentures (series E).

The Company estimates that it will be able to fulfill its liabilities in full and in a timely manner, subject to the consummation of the agreement signed between Direct Insurance and RSA and the receipt of the consideration (see also Note 4 below) and provided that no adverse change occurs in the bank credit facilities.

In the Company's opinion, the probability that these abovementioned conditions will be met is high.

- c. As for the signing of an agreement for the sale of Intouch Insurance Group B.V. ("Intouch") to RSA Group Plc. ("RSA Group") in consideration of € 70 million, see Note 4 below. Following the closing of the agreement for the sale of Intouch, the Company presented the foreign insurance segment as a segment held for sale.
- d. As of March 31, 2009, a subsidiary of Direct Insurance Financial Investments Ltd. ("Direct Insurance"), Direct I.D.I. Holdings Ltd. ("Direct Holdings") has subordinated deeds in the amount of approximately NIS 232.8 million.

After balance sheet date, Direct Holdings took steps to be detailed below in order to repay the second installment (including interest) of the subordinated deeds in an amount of approximately NIS 68.1 million designed to be carried out on May 31, 2009:

1. In May 2009, Direct Holdings received a loan of approximately NIS 30 million from a subsidiary, Direct Financing of the Direct Group (2006) Ltd. ("Direct Financing"). The credit was made available following the completion of a transaction to sell Direct Financing's credit portfolio to an insurance subsidiary, I.D.I. Insurance Company Ltd. For more details, see Note 8d below.
2. On May 26, 2009, Direct Holdings received a loan from Direct Insurance totaling approximately NIS 40 million. The loan is linked to the Israeli CPI and does not bear interest. The loan has no repayment date and Direct Insurance is entitled to demand the repayment of the loan at any time by providing an advance notice of 10 days.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL (Cont.)**

On May 31, 2009, an amount of approximately NIS 68.1 million was repaid as the second installment of the abovementioned subordinated deeds.

Direct Holdings is also acting to raise funds to be used to repay the existing borrowings by obtaining credit from banks in order to sell some of its assets, reduce its expenses and adapt the cost structure to the developments in the financial crisis.

- e. A subsidiary, Adgar Investments and Development Ltd. ("Adgar") has a working capital deficiency in the amount of NIS 505 million as of March 31, 2009. As an income-producing real estate company, which finances its investments through credit, in part short-term credit, Adgar often records working capital deficiency. Over the years, Adgar finances the deficiency through refinancing (including conversion of credit to long-term loans under capital market conditions). Also, in the near future, Adgar intends to obtain long-term loans in respect of investment properties on which loans are not recorded, and to increase long-term loans against charges on real estate on which the credit rate is low. These transactions are intended to materially increase Adgar's working capital.
- f. The financial statements as of March 31, 2009 and for the three months then ended have been translated into U.S. dollars using the representative exchange rate as of that date (\$ 1 = NIS 4.188). The translation was made solely for the convenience of the reader. The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in dollars or convertible into dollars, unless otherwise indicated in these statements.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- a. Basis of preparation of the interim consolidated financial statements:

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

The significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements, except for the noted below:

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**IAS 1 (Revised) - Presentation of Financial Statements

IAS 1 (Revised) introduces an additional statement, "statement of comprehensive income". The statement may be presented as a separate statement which includes net income and all items carried in the reported period directly to equity that do not result from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as adjustments arising from translating the financial statements of foreign operations, fair value adjustments of available-for-sale financial assets, changes in revaluation reserve of fixed assets and etc. and the tax effect of these items carried directly to equity, with allocation between the Company and the minority interests. Alternatively, the items of other comprehensive income may be displayed along with the items of the statement of income in a single statement entitled "statement of comprehensive income" which replaces the statement of income, while properly allocated between the Company and the minority interests. Items carried to equity resulting from transactions with the shareholders in their capacity as shareholders (such as capital issues, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, with allocation between the Company and the minority interests.

IAS 1 (Revised) also requires entities to present a balance sheet as of the beginning of the comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the annual financial statements.

The revision was adopted on January 1, 2009 with a retrospective restatement of comparative figures.

IFRS 2 (Revised) - Share-based Payment

Pursuant to an amendment to IFRS 2, the definition of vesting terms will only include service conditions and performance conditions. Conditions that are other than service and performance conditions will be viewed as non-vesting conditions and must therefore be taken into account when estimating the fair value of the instrument granted.

The cancellation of a grant that includes non-vesting conditions by the Company or the counterparty will be accounted for by way of acceleration of vesting and not by forfeiture.

This amendment was adopted on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

IAS 38 (Revised) - Intangible Assets

Pursuant to an amendment to IAS 38, expenses incurred from advertising, marketing or promotional activities will be recognized as an expense when the company has the right to access to the advertising goods or when the company receives those services. For these purposes, the activities also include production of catalogs and promotional pamphlets. Also, IAS 38 is amended to allow the unit of production amortization method for all intangible assets even if it results in a lower amount of accumulated amortization than under the straight-line method.

The amendment was adopted on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**IAS 28 (Revised) - Investment in Associates

Pursuant to an amendment to IAS 28, the test of impairment of an investment in an associate will be carried out with reference to the entire investment. Accordingly, a recognized impairment loss is not allocated specifically but rather attributed to the investment as a whole. Therefore, the entire impairment loss previously recognized may be reversed to the extent that the relevant conditions are satisfied.

The amendment was adopted as a prospective change on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

IAS 23 (Revised) - Borrowing Costs

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

There is no effect of the revised Standard on the financial statements.

IAS 40 (Revised) - Investment Property

Pursuant to an amendment to IAS 40, investment property under construction or development for future use as an investment property will be classified as investment property if the fair value model is applied and it can be measured reliably. Investment property under construction will be measured at cost if fair value can not be measured reliably until such time as the fair value becomes reliably measurable or construction is completed, whichever comes earlier. Fair value differences are carried to the income statement.

The amendment was adopted as a prospective change on January 1, 2009. The adoption of the amendment had no material effect on the financial statements on the transition date.

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation

IFRIC 16 prescribes that a risk arising from foreign exchange differences of the presentation currency of a company does not create an exposure to which hedge accounting can be applied, consequently, a hedged risk may be designated only in respect of the company's functional currency. Moreover, the risk arising from foreign exchange differences of the functional currency of any subsidiary may be hedged by any entity within the Group even if that subsidiary is indirectly controlled by another entity within the Group. The Interpretation also prescribes that the hedging instrument may be held by any entity within the Group.

The Interpretation was adopted as a prospective change on January 1, 2009. The initial adoption of the Interpretation did not have any material effect on the interim consolidated financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

- b. These financial statements include reclassifications of data included in the financial statements for the first quarter of 2008, made, among other things, in view of the Regulator's directives.

These reclassifications had no effect on equity at March 31, 2008 or on income for the three months then ended.

- c. Standards issued but not yet effective:

IAS 1 - Presentation of Financial Statements

The amended IAS 1 ("the amendment") deals with current or non-current classification of the liability component of a convertible instrument. Pursuant to the amendment, terms of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments do not affect its classification as current or non-current. The amendment will be prospectively adopted starting from the financial statements for periods beginning on January 1, 2010. Earlier application is permitted.

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

IAS 36 - Impairment of Assets

The amended IAS 36 ("the amendment") defines the required accounting unit to which goodwill will be allocated for impairment testing of goodwill. Pursuant to the amendment, the largest unit permitted for impairment testing of goodwill acquired in a business combination is an operating segment as defined in IFRS 8, "Operating Segments" before the aggregation for reporting purposes. The amendment will be prospectively adopted starting from the financial statements for periods beginning on January 1, 2010. Earlier application is permitted.

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

IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations

The amended IFRS 5 ("the amendment") specifies the disclosures required in respect of non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. Pursuant to the amendment, only the disclosures required in IFRS 5 will be provided. Disclosures in other IFRSs apply to such assets only if they require specific disclosures in respect of non-current assets or disposal groups. The amendment will be prospectively adopted starting from the financial statements for periods beginning on January 1, 2010. Earlier application is permitted.

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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

d. Below are the rates of changes in the Israeli CPI and in various foreign currencies:

	Representative exchange rate of						Israeli CPI Points *)
	U.S. \$	Can. \$	Euro	Polish Zloty	Czech Koruna	Russian Ruble	
	N I S						
<b>As of</b>							
March 31, 2009	4.188	3.341	5.574	1.179	0.202	0.124	198.2
March 31, 2008	3.553	3.484	5.617	1.589	0.221	0.151	191.3
December 31, 2008	3.802	3.113	5.297	1.289	0.202	0.130	198.4
<b>Change in period ended</b>				<b>%</b>			
March 31, 2009 (3 months)	10.15	7.32	5.22	(8.51)	0.15	(4.01)	(0.1)
March 31, 2008 (3 months)	(7.62)	(11.2)	(0.75)	0.76	3.32	(4.32)	0.1
December 31, 2008 (12 months)	(1.1)	(20.6)	(6.4)	(18.2)	(5.6)	(17.2)	3.8

\*) According to an average basis of 1993 = 100.

**NOTE 3:- OPERATING SEGMENTS**

a. The Company operates in the following segments of activity:

1. The investment property segment:

Includes mainly lease of office buildings in Israel, Canada, Poland and Belgium.

2. The life assurance and long-term savings segment:

a) The life assurance branch:

The life assurance and long-term savings segment includes the activities of life assurance and health insurance and it focuses mainly on long-term savings (in the framework of various types of insurance policies), as well as insurance coverage of various risks such as: death, disability, occupational disability etc. and in health includes long-term care, medical fees, surgery, transplants etc.

b) The provident fund branch:

Includes the provident and study fund management activity.

3. The general insurance in Israel segment:

The general insurance segment includes the liability and property branches. Pursuant to the Regulator's directives, the general insurance segment is segmented into motor act, motor casco, comprehensive residential branch and other branches.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 3:- OPERATING SEGMENTS (Cont.)

a) Motor act insurance:

The motor act insurance business focuses on the acquisition of compulsory coverage by the owner or driver of the vehicle which provides coverage for bodily injuries (to the driver of the vehicle, the passengers in the vehicle or to pedestrians), as a result of the use of the motor vehicle.

b) Motor casco insurance:

The motor casco business focuses on coverage of property damage to the insured vehicle and property damages that the insured vehicle will cause to a third party.

c) Comprehensive residential branch:

Coverage of property damages to apartments, including earthquakes.

d) Other branches:

Liability branches (third party, employers' liability) and property (businesses and foreign travel).

4. Finances:

The finance segment consists of investment portfolio management, mutual fund management, underwriting and issue of securities, investment banking and brokerage.

5. Grant of consumer credit:

Includes the grant of consumer credit mainly for the purchase of private vehicles.

6. Foreign insurance:

Following the closing of an agreement for the sale of Intouch (see Note 4 below), the Company presented the foreign insurance segment as held for sale. The segment includes the following insurance activities:

a) Poland:

1) General insurance:

The insurance activities in Poland mainly consist of comprehensive motor insurance, whose acquisition by the vehicle owner is compulsory by law, and motor casco, which covers any property damages to the insured vehicle and property damages caused by the insured vehicle to a third party. The Company also operates in the comprehensive residential insurance branch.

2) Life assurance:

The insurance activities in Poland include insurance coverage for death, disability and occupational disability.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3:- OPERATING SEGMENTS (Cont.)**

b) Russia:

The Russian insurance activities consist of comprehensive motor insurance, whose acquisition by the vehicle owner is compulsory by law, and motor casco, which covers any property damages to the insured vehicle and property damages caused by the insured vehicle to a third party.

c) The Czech Republic:

The Czech insurance activities consist of comprehensive motor insurance, whose acquisition by the vehicle owner is compulsory by law, and motor casco, which covers any property damages to the insured vehicle and property damages caused by the insured vehicle to a third party.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3:- OPERATING SEGMENTS (Cont.)

	Three months ended March 31, 2009 (unaudited)												
	Insurance activity in Israel											Activity held for sale (foreign insurance)	Total
	General insurance						Finance	Grant of consumer credit	Un- allocated and inter- segment offsets	Total			
	Investment property	Long-term life assurance and savings (*)	Motor act	Motor casco	Residential	Other					Total		
NIS in thousands													
Premium earned on retention	-	40,461	59,396	107,460	14,058	1,466	182,380	-	-	-	222,841	45,934	268,775
Revenues from rental of properties	48,816	-	-	-	-	-	-	-	-	(2,948)	45,868	-	45,868
Appreciation of investment property	(3,374)	-	-	-	-	-	-	-	-	-	(3,374)	-	(3,374)
Net gains on investments and other financial income	697	14,622	8,762	2,088	269	121	11,240	361	-	3,080	30,000	1,908	31,908
Revenues from management fees	-	21,229	-	-	-	-	-	3,002	-	-	24,231	-	24,231
Revenues from consumer credit	-	-	-	-	-	-	-	-	7,275	-	7,275	-	7,275
Revenues from commissions	-	727	-	-	1,315	9	1,324	1,520	-	-	3,571	-	3,571
Other income	-	-	-	-	-	-	-	-	-	61	61	294	355
<b>Total revenues</b>	<b>46,139</b>	<b>77,039</b>	<b>68,158</b>	<b>109,548</b>	<b>15,642</b>	<b>1,596</b>	<b>194,944</b>	<b>4,883</b>	<b>7,275</b>	<b>193</b>	<b>330,473</b>	<b>48,136</b>	<b>378,609</b>
Payments and change in insurance liabilities on retention	-	(42,180)	(40,527)	(72,798)	(3,488)	(459)	(117,272)	-	-	-	(159,452)	(43,932)	(203,384)
Commissions and other acquisition costs	(151)	(8,999)	(10,892)	(17,732)	(3,185)	(252)	(32,061)	(2,037)	(3,979)	-	(47,227)	(25,348)	(72,575)
General and administrative expenses	(9,039)	(18,552)	(5,730)	(9,015)	(1,611)	(145)	(16,501)	(5,181)	(4,590)	(3,868)	(57,731)	(15,513)	(73,244)
Financial expenses	(17,200)	(1,756)	-	-	-	-	-	(768)	(2,313)	(10,839)	(32,876)	(11)	(32,887)
Other expenses	-	-	-	-	-	-	-	-	-	(1,189)	(1,189)	-	(1,189)
<b>Total expenses</b>	<b>(26,390)</b>	<b>(29,307)</b>	<b>(16,622)</b>	<b>(26,747)</b>	<b>(4,796)</b>	<b>(397)</b>	<b>(48,562)</b>	<b>(7,986)</b>	<b>(10,882)</b>	<b>(15,896)</b>	<b>(139,023)</b>	<b>(40,872)</b>	<b>(179,895)</b>
Income (loss) before tax	19,749	5,552	11,009	10,003	7,358	740	29,110	(3,103)	(3,607)	(15,703)	31,998	(36,668)	(4,670)

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3:- OPERATING SEGMENTS (Cont.)

	Three months ended March 31, 2008 (unaudited)												
	Investment property	Long-term life assurance and savings )	Insurance activity in Israel					Finance	Grant of consumer credit	Un- allocated and inter- segment offsets	Total	Activity held for sale (foreign insurance)	Total
			General insurance										
			Motor act	Motor casco	Residential	Other	Total						
NIS in thousands													
Premium earned on retention	-	35,116	51,659	89,895	13,215	1,249	156,018	-	-	-	191,134	44,748	235,882
Revenues from rental of properties	45,733	-	-	-	-	-	-	-	-	(2,729)	43,004	-	43,004
Appreciation of investment property	1,527	-	-	-	-	-	-	-	-	-	1,527	244	1,771
Net gains on investments and other financial income	893	1,431	1,763	903	157	26	2,849	346	-	39	5,558	-	5,558
Revenues from management fees	-	20,177	-	-	-	-	-	4,417	-	-	24,594	-	24,594
Revenues from consumer credit	-	-	-	-	-	-	-	-	4,053	-	4,053	-	4,053
Revenues from commissions	-	712	-	-	1,527	21	1,548	2,436	-	-	4,696	-	4,696
Other income	-	-	-	-	-	-	-	-	-	-	-	36	36
<b>Total revenues</b>	<b>48,153</b>	<b>57,436</b>	<b>53,422</b>	<b>90,798</b>	<b>14,899</b>	<b>1,296</b>	<b>160,415</b>	<b>7,199</b>	<b>4,053</b>	<b>(2,690)</b>	<b>274,566</b>	<b>45,028</b>	<b>319,594</b>
Payments and change in insurance liabilities on retention	-	(26,568)	(36,833)	(70,889)	(6,796)	(1,169)	(115,687)	-	-	-	(142,255)	(36,548)	(178,803)
Commissions and other acquisition costs	(470)	(8,497)	(10,360)	(16,627)	(3,457)	(247)	(30,691)	(4,341)	(5,498)	-	(49,497)	(17,056)	(66,553)
General and administrative expenses	(9,048)	(14,990)	(5,224)	(8,455)	(1,598)	(146)	(15,423)	(6,635)	(3,713)	(4,297)	(54,106)	(17,815)	(71,921)
Financial expenses	(32,629)	(2,836)	-	-	-	-	-	(1,353)	(1,282)	(18,216)	(56,316)	(2,650)	(58,966)
Other expenses	-	-	-	-	-	-	-	-	-	-	-	(128)	(128)
<b>Total expenses</b>	<b>(42,147)</b>	<b>(26,323)</b>	<b>(15,584)</b>	<b>(25,082)</b>	<b>(5,055)</b>	<b>(393)</b>	<b>(46,114)</b>	<b>(12,329)</b>	<b>(10,493)</b>	<b>(22,513)</b>	<b>(159,919)</b>	<b>(37,649)</b>	<b>(197,568)</b>
<b>Income (loss) before tax</b>	<b>6,006</b>	<b>4,545</b>	<b>1,005</b>	<b>(5,173)</b>	<b>3,048</b>	<b>(266)</b>	<b>(1,386)</b>	<b>(5,130)</b>	<b>(6,440)</b>	<b>(25,203)</b>	<b>(27,608)</b>	<b>(29,169)</b>	<b>(56,777)</b>

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3:- OPERATING SEGMENTS (Cont.)

b. The results of the operating segments are as follows:

	Year ended December 31, 2008 (audited)												
	Insurance activity in Israel											Activity held for sale (foreign insurance)	Total
	General insurance										Un- allocated and inter- segment offsets		
	Investment property	Long-term life assurance and savings (*)	Motor act	Motor casco	Residential	Other	Total	Finance	Grant of consumer credit	Total			
Total										Total			
NIS in thousands													
Premium earned on retention	-	147,958	222,841	380,064	53,065	5,665	661,635	-	-	-	809,593	192,635	1,002,228
Revenues from rental of properties	181,506	-	-	-	-	-	-	-	-	(11,366)	170,140	-	170,140
Appreciation of investment property	29,383	-	-	-	-	-	-	-	-	-	29,383	-	29,383
Net gains (losses) on investments and other financial income (expenses)	4,154	133	(5,314)	3,016	511	(33)	(1,820)	1,893	109	(15,483)	(11,014)	375	(10,639)
Revenues from management fees	-	91,813	-	-	-	-	-	15,779	-	-	107,592	-	107,592
Revenues from consumer credit	-	-	-	-	-	-	-	-	23,764	-	23,764	-	23,764
Revenues from commissions	-	2,949	-	-	4,657	41	4,698	7,032	-	-	14,679	-	14,679
Other income	-	-	-	-	-	-	-	98	-	3,051	3,149	20,084	23,233
<b>Total revenues</b>	<b>215,043</b>	<b>242,853</b>	<b>217,527</b>	<b>383,080</b>	<b>58,233</b>	<b>5,673</b>	<b>664,513</b>	<b>24,802</b>	<b>23,873</b>	<b>(23,798)</b>	<b>1,147,286</b>	<b>213,094</b>	<b>1,360,380</b>
Payments and change in insurance liabilities on retention	-	(98,075)	(169,738)	(293,546)	(22,039)	(3,419)	(488,742)	-	-	-	(586,817)	(155,276)	(742,093)
Commissions and other acquisition costs	(894)	(33,221)	(43,384)	(70,205)	(13,508)	(1,104)	(128,201)	(13,640)	(23,364)	-	(199,320)	(117,986)	(317,306)
General and administrative expenses	(36,119)	(73,893)	(14,605)	(22,829)	(4,234)	(343)	(42,011)	(23,039)	(15,671)	(16,836)	(207,569)	(74,514)	(282,083)
Financial expenses	(150,464)	(16,641)	-	-	-	-	-	(7,039)	(8,525)	(72,298)	(254,967)	(5)	(254,972)
Other expenses	(9)	-	-	-	-	-	-	-	-	(3,561)	(3,570)	(11)	(3,581)
<b>Total expenses</b>	<b>(187,486)</b>	<b>(123,755)</b>	<b>(57,989)</b>	<b>(93,034)</b>	<b>(17,742)</b>	<b>(1,447)</b>	<b>(170,212)</b>	<b>(43,718)</b>	<b>(47,560)</b>	<b>(92,695)</b>	<b>(665,426)</b>	<b>(192,516)</b>	<b>(857,942)</b>
<b>Income (loss) before tax</b>	<b>27,557</b>	<b>21,023</b>	<b>(10,200)</b>	<b>(3,500)</b>	<b>18,452</b>	<b>807</b>	<b>5,559</b>	<b>(18,916)</b>	<b>(23,687)</b>	<b>(116,493)</b>	<b>(104,957)</b>	<b>(134,698)</b>	<b>(239,655)</b>

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3:- OPERATING SEGMENTS (Cont.)

- c. Additional information on the provident segment included in the life assurance and long-term savings segment:

	Year ended December 31, 2008	Three months ended March 31,	
	Audited	2008	2009
	NIS in thousands		
Revenues from management fees	87,863	19,287	20,147
Investment income, net	7,321	1,488	1,049
Total revenues	95,184	20,775	21,196
Change in liabilities and investment contracts	6,561	1,269	(136)
Marketing expenses and other acquisition costs	16,688	3,955	4,986
General and administrative expenses	52,729	10,729	12,131
Operating income before financing	19,206	4,822	4,215
Financial expenses	16,641	2,836	1,756
Income before tax	2,565	1,986	2,459

## NOTE 4:- ACTIVITY HELD FOR SALE

On March 25, 2009, an agreement was signed between Direct Insurance and RSA Insurance Group Plc ("the buyer") according to which the buyer will acquire from Direct Insurance the total holdings of Direct Insurance in shares of Intouch Insurance Group B.V. ("the joint company") in consideration for € 70 million (equivalent to approximately NIS 390 million) ("the transaction"). Consummation of the transaction is subject to fulfillment of contingent conditions and other conditions until September 30, 2009. The advance paid to Direct Insurance as of March 31, 2009 in the amount of € 20 million was deposited with a bank and may be utilized only with the agreement of the bank. On May 26, 2009, the bank agreed to the release of an amount of € 40 million from the deposit pledged in favor of the bank and its transfer by Direct Insurance as a loan to Direct I.D.I. Holdings Ltd., a subsidiary. The loan is linked to the Israeli CPI and bears no interest.

As a result of the transaction, if implemented, Direct Insurance is expected to derive a capital gain after tax in the amount of NIS 256 million (Company's share is NIS 172 million). These data regarding the expected capital gain may not be realized in the event that the transaction is not consummated and may differ from the stated estimated capital gain as a result of accounting and/or tax considerations derived from the date and timing of the transaction, changes in foreign currency exchange rates, gains or losses recorded until the relevant date in the joint company and changes in accounting policy.

Following the closing, the Company presented the assets, liabilities and operating results of the joint company as held for sale. In respect of part of the consideration expected to be received by September 30, 2009, after balance sheet date, Direct Insurance entered into forward swaps for the future sale of € 40 million against a NIS consideration to be paid to it on August 31, 2009.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4:- ACTIVITY HELD FOR SALE (Cont.)**

The groups of principal assets and liabilities classified as held for sale are as follows:

	<b>March 31, 2009</b>
	<b>Unaudited</b>
	<b>NIS in thousands</b>
Assets:	
Intangible assets, net	31,467
Fixed assets, net	28,097
Financial investments	106,517
Other assets	85,598
Cash and cash equivalents	77,802
	<hr/>
Assets held for sale	329,481
	<hr/>
Liabilities:	
Liabilities for insurance expenses	182,363
Other liabilities	67,523
	<hr/>
Liabilities attributed to assets held for sale	249,886
	<hr/>
Net assets held for sale	79,595
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In addition to the abovementioned balances, minority interests of NIS 7,176 thousand are included in equity arising from minority interests in companies held for sale.

The operating results attributed to the activity held for sale:

	<b>Year ended December 31, 2008</b>	<b>Three months ended March 31,</b>	
	<b>Audited</b>	<b>2008</b>	<b>2009</b>
	<b>Unaudited</b>		
	<b>NIS in thousands</b>		
Revenues	213,094	45,028	48,136
Expenses	347,792	74,197	84,804
	<hr/>	<hr/>	<hr/>
Loss before taxes on income	(134,698)	(29,169)	(36,668)
Taxes on income	(12,798)	1,437	(1,539)
	<hr/>	<hr/>	<hr/>
Net loss for the period	(121,900)	(30,606)	(35,129)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4:- ACTIVITY HELD FOR SALE (Cont.)**

The data of balances for net recognized revenues (expenses) attributable to equity holders of the Company carried to equity and relating to the discontinued activity are as follows:

	<b>Year ended December 31, 2008</b>	<b>Three months ended March 31,</b>	
	<b>Audited</b>	<b>2008</b>	<b>2009</b>
	<b>Unaudited</b>		
	<b>NIS in thousands</b>		
Foreign currency translation reserve	12,476	1,421	(749)
Capital reserve for available-for-sale financial assets	(546)	(528)	(2,320)

**NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD**

On March 25, 2009, Adgar Investments and Development Ltd. ("Adgar"), a subsidiary, decided to distribute a dividend in accordance with its policy in an amount of NIS 8 million representing about 40% of the net income attributable to equity holders of Adgar for 2008 and representing 7.4% of the issued and outstanding share capital of Adgar. The dividend was distributed on May 11, 2009. The Company's share in Adgar's shares is 61.57%. The Company's share in the distributed dividend was approximately NIS 4,926 thousand.

**NOTE 6:- CAPITAL AND CAPITAL REQUIREMENTS**

## a. Capital management:

Management's policy requires maintenance of a strong capital base in order to ensure the Company's ability to continue its activity and to derive return for its shareholders, and in order to support future business activity. The Company and other institutional entities consolidated in the financial statements are subject to the capital requirements determined by the Regulator of Insurance and other authorities.

## b. Capital requirements in subsidiaries:

## 1. Insurance subsidiary in Israel:

- a) Following are data regarding the required and existing capital for an insurance subsidiary in accordance with the Regulations for Supervision of Insurance Transactions (Minimum Shareholders' Equity Required from Insurer) (Amended), 2004 ("the Capital Regulations") and directives of the Regulator.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE 6:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)**

	<b>December 31, 2008</b>	<b>March 31, 2009</b>
	<b>Audited</b>	<b>Unaudited</b>
	<b>NIS in thousands</b>	
Minimum shareholders' equity: Amount required by the Capital Regulations and the Regulator's directives (a)	233,327	236,547
Amount calculated as per the Capital Regulations and the Regulator's directives:		
Primary capital	194,599	221,404
Subordinate capital	49,854	49,860
	<u>244,453</u>	<u>271,264</u>
Surplus (b) (c) (d)	<u>11,126</u>	<u>34,717</u>
Primary capital:		
Minimum amount required by the Regulations	80,128	79,551
Amount calculated as per the Regulations	194,599	221,404
Surplus	<u>114,471</u>	<u>141,853</u>
(a) Amount required also includes capital requirements in respect of: Deferred acquisition costs in life assurance and in medical and hospitalization insurance and insurance portfolio purchase costs	56,009	56,145
For extraordinary life assurance risks	40,439	40,746
Non-deductible assets as defined in the Capital Regulations	6,383	8,351
	<u>102,831</u>	<u>105,242</u>
(b) In addition to the general requirements in the Companies Law, dividend distribution from retained earnings in insurance companies is also subject to liquidity requirements and fulfillment of investment regulation requirements.		
(c) As for additional capital requirements in respect of the transaction for the purchase of the loans from a related company after the balance sheet date, see Note 8d below.		
(d) As for the issuance of a subordinated deed to a bank after the balance sheet date to be used as subordinate capital, see Note 8a below.		

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 6:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)**

- b) In June 2008, a circular was published with respect to the mode of application of the principles of measurement and presentation under IFRS, for the calculation of the required capital and the admissible capital of insurance companies. The purpose of the circular is to set directives regarding the mode of application of the capital regulations with respect to investments in investees (including insurance companies and managing companies controlled by insurance companies). According to the circular the capital requirements pursuant to the capital regulations will continue to be based on separate financial statements. In order to calculate the admissible capital according to the capital regulations, the investment of an insurance company in another insurance company or in a controlled managed company, as well as in other investees, will be calculated on an equity basis along the chain of control.
- c) In October 2007 and April 2008, draft amendments to the Supervision of Financial Services Regulations (Minimum Solvency Margin Required from an Insurer) (Amendment), 2007 ("the draft") were published.

In the draft amendments it is proposed to add capital requirements to the existing capital requirements in respect of the following categories:

- 1) Yield guaranteeing life assurance programs which are not backed by or part of them are not backed by designated bonds.
- 2) Longevity risks in annuity policies in which the annuity coefficients embed a life span guarantee.
- 3) Operating risks.
- 4) Credit risks at a percentage of the risk rate which characterizes the various assets.
- 5) Risks of a catastrophe in general insurance.

The new capital requirements are expected to significantly increase the minimum capital required. However, it is not possible to estimate their effect until the new regulations are finalized. According to the draft regulations the increase in the required capital up to the end of the year 2010, will be in three equal annual portions.

- d) On July 10, 2007, the European Union adopted the proposed version of the Solvency II Directive ("the proposed Directive"). The proposed Directive forms a fundamental and comprehensive change in the Regulations relating to guaranteeing the redemption ability and the capital appropriateness of the insurance companies who are members of the European Union. According to the schedule that was set by the European Union, the implementation of the proposed Directive in the European Union states is expected to be in the second half of the year 2012.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 6:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)**

According to a circular that was published by the Regulator of Insurance, he intends to apply the provisions of the proposed Directive with respect to insurance companies in Israel when this Directive is applied in the countries who are members the European Union. The proposed Directive is based on three levels: quantitative requirements, qualitative requirements and disclosure requirements. The insurance subsidiary in Israel began to prepare for the application of the proposed Directive according to the determined schedule.

- e) On January 25, 2009 the Regulator of Insurance issued a letter regarding relief in respect of the required capital in insurance companies for purposes of the rate of subordinate capital. According to the letter, the insurance subsidiary in Israel will be entitled to include in the framework of the recognized shareholders' equity subordinate capital at the rate of 75% of the total increase of primary capital, and not at the rate of 50% as determined in the Capital Regulations, up to a maximum of 60% of the total primary capital. In April 2009, the insurance subsidiary in Israel received the Regulator's approval for recording in the context of recognized shareholders' equity subordinate capital at a rate of 75% for the capital issuance effected on December 30, 2008 in a total of approximately NIS 30 million, up to a maximum of 60% of the Israeli insurance subsidiary's total primary capital.

The increase in the rate of subordinate capital, as stated, will be amortized by the straight line method from June 30, 2009 until June 30, 2010.

The Israeli insurance subsidiary did not benefit from said relief since its subordinate capital is lower than 50% of its primary capital.

- f) On March 30, 2009, the Regulator ordered the insurance companies in Israel in a letter not to distribute dividends from the financial statements for 2008 through December 31, 2010 unless at the Regulator's advance approval. Such approval will be granted up to 25% of income allowed for distribution.
- g) In order to obtain a control permit for the Israeli insurance subsidiary, Direct Insurance committed to complete at all times the shareholders' equity required from the Israeli insurance subsidiary in accordance with the amount prescribed in the Supervision of Insurance Business (Capital Adequacy Requirement from an Insurer) Regulations, 1998, or in any other regulation or law to supersede them. However, the commitment will not exceed the lower of 50% of the required capital or NIS 105 million (linked to the Israeli CPI of June 2007).

2. Insurance subsidiary abroad:

The insurance subsidiaries in the Czech Republic and in Russia and the life assurance company in Poland comply with the capital requirements as of March 31, 2009. The Polish general insurance company has a capital deficiency at March 31, 2009 totaling approximately NIS 28.5 million.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 6:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)**

3. Subsidiaries that manage provident funds:

- a) Subsidiaries that manage provident funds comply with the capital requirements prescribed by the Income Tax Regulations.
- b) On March 30, 2009, the Regulator ordered the companies that manage provident funds in a letter not to distribute dividends from the financial statements for 2008 through December 31, 2010 unless at the Regulator's advance approval. Such approval will be granted up to 25% of income allowed for distribution.

4. Subsidiary that manages mutual funds:

A subsidiary that manages mutual funds complies with the capital requirements prescribed by the Mutual Investment Law, 1994 and the regulations published thereunder.

5. Subsidiary that manages portfolios:

A subsidiary that manages portfolios complies with the capital requirements from a member of the Tel-Aviv Stock Exchange under its articles of association.

**NOTE 7:- CONTINGENT LIABILITIES AND COMMITMENTS**

Requests to approve claims as class actions:

A provision was not recorded in the financial statements in respect of requests for approval of class actions detailed below in which, in management's estimate, based on legal opinions received, chances are more likely than not that the defense arguments of I.D.I. Insurance Company Ltd. ("the insurance company") will be received and the request for approval as a class action will be dismissed. Provisions were recorded in the financial statements to cover exposure estimated by management in respect of requests for approval of class actions in which a greater likelihood exists that the insurance company's defense arguments will be dismissed, in whole or in part.

In management's estimate, based, inter alia, on legal opinions received, the financial statements include appropriate provisions, insofar as required, to cover estimated exposure for the insurance company and/or subsidiaries. The amount of the provision included in the financial statements to cover the exposure is immaterial.

- a. On July 29, 2007 a monetary claim was filed with the Tel Aviv District Court concurrently with a request for approval as a class action against the insurance company, arguing that prior to consummation of the insurance agreement and in contradiction to directives of the Regulator, information was not transmitted to the plaintiff regarding the method of calculation of the value of a vehicle for purposes of payment of insurance remuneration and therefore, in the plaintiff's opinion, the amount of the insurance remuneration should be calculated as an insurance event, without taking into account factors decreasing the vehicle's value.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)**

The class action is submitted in the name of all of the insurance company's policyholders as from January 1, 2001 until the date of submission of the claim, which acquired insurance in the vehicle property section and that during the period of the insurance filed an insurance claim according to which the vehicle was declared "loss in practice" or "total loss", and for which the company incurred insurance liability toward such policyholders.

The individual claim amounts to NIS 7 thousand and the request for approval as a class action incurs a total claim of NIS 110 million.

On December 16, 2007 the insurance company's response was submitted to the court, arguing that the claim should be dismissed since the company acted in accordance with the provisions of the Regulator's memorandum, and since the conditions for approval in respect of submission of a class action according to the Class Actions Law were not fulfilled, including conditions regarding the substance of the plaintiff's individual claim. Also, the insurance company claims illegality of the sanction provision determined in the Regulator's circular.

No date has been fixed for a hearing on the claim.

- b. On February 20, 2008 a monetary claim was filed with the Tel Aviv District Court concurrently with a request for approval as a class action, against the insurance company and against 8 additional insurance companies, arguing that the defendants sold to their policyholders additional insurance coverage (rider) for theft and/or replacement of integrated audio systems in the framework of comprehensive vehicle insurance and charged an additional premium, although according to the plaintiffs theft of integrated audio systems is rare and its chances are almost nil and the defendants are required to inform their policyholders regarding the rate of risk in such situation. The plaintiffs argue that payment of a premium for insurance in respect of theft of integrated audio systems is unreasonable and misleading.

The class action is submitted in the name of each policyholder that acquired comprehensive insurance and paid, in this framework, in the seven years prior to submission of the claim, a premium for insurance coverage for radio/tape/disc, audio system, for a vehicle that includes an original integrated audio system whose theft is not possible or the chances for whose theft are almost nil.

The individual claim amounts to NIS 50 for each plaintiff for one year. According to the plaintiffs, they do not possess data enabling a documented estimate of the total damage incurred for the representative group, as defined above; however, in their opinion millions of NIS are involved.

On August 17, 2008 the insurance company's response was submitted to the court, arguing that the claim should be dismissed in substance and since the conditions for approval in respect of submission of a class action according to the Class Actions Law were not fulfilled, including conditions regarding the factual background on which the claim is based.

The plaintiffs requested an extension for submission of their response to the insurance company's response. The court enabled the plaintiffs to submit such response until March 1, 2008. A hearing on the claim was fixed for June 7, 2009.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)**

- c. On April 14, 2008 a monetary claim was filed with the Tel Aviv District Court concurrently with a request for approval as a class action, arguing that the insurance company ignores provisions according to which in the event of submission of an insurance claim, and the remuneration is paid to the petitioner more than 30 days after the date of submission of the claim, the insurer is required to add to the insurance remuneration also insurance at the rate of 4% per annum from the end of 30 days from the date of submission of the claim until the date of actual payment, and does not pay such interest, as required.

The class action is submitted in the name of each policyholder entitled, in the seven years prior to submission of the claim, to receive from the defendant insurance remuneration for private vehicle damage, whether insured with the respondent in comprehensive insurance or whether such policyholder received third party insurance remuneration, in the event that the insurance remuneration was paid more than 30 days after the date of submission of the claim to the respondent, and in respect of which interest at the rate of 4% per annum was not added to the insurance remuneration as required by law.

The individual claim amounts to NIS 11,965 and the request for approval as a class action incurs a total claim of NIS 10,880,000.

On November 6, 2008 the insurance company's response was submitted to the court, arguing that the class action should be dismissed as a result of obsolescence, and since the conditions for approval of a class action according to the Class Actions Law were not fulfilled, including regarding the substance of the individual claim of the plaintiff who is not insured by the insurance company, and signed a settlement note after legal consulting. Also, the company claims different interpretation of provisions of the Insurance Contracts Law that delete the source of the claim argument.

A hearing on the claim was fixed for September 29, 2009.

- d. On August 27, 2008 a monetary claim was filed with the Tel Aviv District Court concurrently with a request for approval as a class action against the insurance company, arguing that the insurance company does not pay and/or compensate claimants according to insurance policies, whether as policyholders or as third parties, in respect of the value added tax component payable on repair of commercial vehicles, on professional appraisals and on impairment of the vehicle, although the plaintiff is unable to set off the value added tax on this cost.

The class action is submitted in the name of each individual and/or other legal entity, entitled in the seven years prior to submission of the claim, to receive from the insurance company insurance remuneration or payment for damage incurred to a vehicle, as a policyholder or as a third party, for which the insurance company avoided payment of the total value added tax component in respect of the damage or appraisals and regarding impairment – as from 2005.

The individual claim amounts to NIS 300 and the request for approval as a class action incurs a total claim of NIS 23.1 million.

On February 23, 2009, the insurance company filed its response with the Court alleging that the claim should be dismissed since the legal and factual claims included in the claim are false and given that the terms for approving a class action according to the Class Actions Law were not fulfilled, including regarding the substance of the individual claim of the plaintiff who is not insured by the insurance company and did not exhaust its claims against the insurance company in more appropriate ways.

The plaintiff submitted its response to the insurance company's response on April 26, 2009. A date for a preliminary hearing in the case has not yet been set.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)**

- e. On September 2, 2008 a monetary claim was filed with the Tel Aviv District Court concurrently with a request for approval as a class action against the insurance company, arguing that, in contradiction to relevant legislation, the insurance company does not pay or compensate its policyholders for damage caused to protective systems installed in the vehicle at its request and requires the policyholders' signature, not in accordance with the law, on disclaimer notes.

The class action is submitted in the name of each individual entitled, as from April 1, 2004, to receive from the insurance company insurance remuneration for damage to a private vehicle or to a commercial vehicle up to 4 tons, including for "total loss", "loss in practice" or theft, as a policyholder with the insurance company according to Part A of the standard policy, and did not receive total and/or partial insurance remuneration for loss or damage caused to the protective means installed in the vehicle as required by the insurance company, not in accordance with the law.

The individual claim amounts to NIS 6,250 and the request for approval as a class action incurs a total claim of NIS 33.3 million.

The insurance company has not yet filed its response to this request.

- f. On September 23, 2008 a monetary claim was filed with the Tel Aviv District Court concurrently with a request for approval as a class action against the insurance company, arguing that, in contradiction to relevant legislation, the insurance company does not pay to third parties the total appraisal fees incurred for a professional opinion regarding damage to the third party's vehicle.

The class action is submitted in the name of each individual and/or other legal entity, entitled in the seven years prior to submission of the claim, to receive from the insurance company as a third party, amounts and/or insurance remuneration for damage to a vehicle, including for appraisal fees, and for which the company did not repay the total amount paid for such appraisal fees.

The individual claim amounts to NIS 100 and the request for approval as a class action incurs a total claim of NIS 11,050,000.

On April 30, 2009, the insurance company filed its response with the Court alleging that the claim should be dismissed since the insurance company has acted in accordance with the law and the Supervision directives and there are no legal or factual foundations for the claims being raised against it and given that the terms for approving a class action according to the Class Actions Law were not fulfilled, including regarding the substance of the individual claim of the plaintiff who is not insured by the insurance company.

- g. On November 9, 2008 a monetary claim was filed with the Tel Aviv District Court concurrently with a request for approval as a class action against the insurance company, arguing that, in contradiction to relevant legislation, the insurance company does not pay to third parties the total impairment caused to a vehicle according to the appraiser's evaluation, as a result of damage caused to the vehicle.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)**

The class action is submitted in the name of each individual and/or other legal entity, entitled in the seven years prior to submission of the claim, to receive from the insurance company as a third party, amounts and/or insurance remuneration for damage/impairment to a vehicle, and for which the insurance company did not repay the total amount incurred.

The individual claim amounts to NIS 2,400 and the request for approval as a class action incurs a total claim of NIS 22,630,000.

On April 1, 2009, the insurance company filed its response with the Court alleging that the claim should be dismissed for lack of grounds since the insurance company has acted in accordance with the law and given that the terms for approving a class action according to the Class Actions Law were not fulfilled, including regarding the substance of the individual claim of the plaintiff who is not insured by the insurance company.

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

- a. Issuance of subordinated deeds to a bank:

On May 18, 2009, an Israeli insurance subsidiary issued subordinated deeds to a bank in a total of NIS 40 million. The subordinated deeds are linked to the Israeli CPI and bear interest of 6.2%. They will be repaid in 25 quarterly installments starting from May 18, 2011 through May 18, 2017. The interest will be paid quarterly starting from August 18, 2009 through May 18, 2017. The subordinated deeds will serve as the Israeli insurance subsidiary's subordinate capital.

- b. Merger negotiations in the capital market segment:

On April 16, 2009, Direct Insurance and Direct Holdings announced that they had commenced negotiations with Meitav Investment House Ltd. and B. Gaon Holdings Ltd. ("Gaon") through the latter's subsidiaries in order to merge the parties' activities in the capital market segment. However, there is no guarantee that these negotiations will mature into binding agreements.

If and as far as these negotiations mature into a transaction, its completion will depend on signing detailed agreements, the receipt of the approval of the parties' authorized entities, the receipt of various regulatory approvals and any other approval required by law, as applicable.

- c. An agreement for obtaining credit from Bank Hapoalim Ltd.:

On April 27, 2009, the Company signed a credit agreement with Bank Hapoalim Ltd. ("Bank Hapoalim") in a total of NIS 140 million. Simultaneously to the signing of the agreement with Bank Hapoalim, the Company signed additional agreements with Bank Hapoalim Ltd., Bank Leumi LeIsrael Ltd., Bank Mizrahi Tefahot Ltd. and Bank Mercantile Discount Ltd. ("the qualifying banks"). The qualifying banks previously extended the Company loans whose balance on the date of signing the agreement with Bank Hapoalim approximates NIS 144 million. According to the agreement with Bank Hapoalim and the agreement with the banks, the credit provided by the agreement with Bank Hapoalim will serve the Company as follows:

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

- Approximately NIS 58 million by providing an autonomous guarantee in favor of Clal Insurance Company Ltd. ("Clal") for replacing the collateral used to secure Clal's liability based on a policy issued by it to secure the repayment of the Company's debentures (series D) ("the Clal policy").
- Another NIS 58 million for the payment of the principal and interest of the debentures (series E) of the Company.
- An amount of up to NIS 25 million to finance the Company's operating activities and mainly to repay credit.

To secure the Company's liabilities towards Bank Hapoalim, it recorded a first priority fixed charge on 61,282,282 Ordinary shares of Adgar, representing some 56.5% of Adgar's issued and outstanding share capital ("the pledged shares"). The pledged shares were pledged up to the date of signing the agreement with Bank Hapoalim under a first priority fixed charge in favor of Clal as security for the Clal policy. The Company had also recorded a floating and fixed charge in a dividend declared in connection with its holdings in Direct Insurance in favor of Bank Hapoalim.

The agreement with Bank Hapoalim and the agreements with the qualifying banks include restrictions, liabilities and breach events, as customary in this type of agreements, in respect of which the banks will be entitled to place the credit for immediate repayment as well as grounds for immediate repayment in the event of the non closing of the transaction for the sale of Intouch shares. In order to secure the Company's liabilities to the qualifying banks. The Company will record a second priority fixed charge on the pledged shares in favor of the qualifying banks. It was also determined that upon the cancelation of the charge recorded in favor of Bank Hapoalim, the charges in favor of the qualifying banks will become equal first priority charges.

d. Agreement for the sale of a loan portfolio among the Group companies:

On March 31, 2009, two wholly owned subsidiaries of a subsidiary of the Company signed an agreement for the sale of a loan portfolio. According to the agreement and an addendum to it signed between the parties in early May 2009, the Israeli insurance subsidiary, I.D.I. Insurance Company Ltd., purchased Direct Financing's existing loan portfolio as of March 31, 2009 for NIS 328 million.

The transaction was approved by the Regulator of the Insurance subject to creating an unrecognized assets of NIS 20 million. The Israeli insurance subsidiary will be able to depreciate this unrecognized asset over the life of the portfolio provided that there is no deterioration in the quality of credit of the loan portfolio and in coordination with the Regulator.

The transaction was consummated in May 2009. In the context of this transaction, Direct Financing repaid the entire credit at its disposal to the bank, amounting at March 31, 2009 to approximately NIS 293 million.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

- e. Lowering of the rating of Adgar's debentures:

In January 2009, following the lowering of the Company's debentures, Standard & Poor's Maalot ("Maalot") announced that Adgar's debentures are being placed on the Credit Watch with a negative rating outlook. After the balance sheet date, on May 28, 2009, Maalot announced the lowering of Adgar's debentures from (ilA/Credit Watch Negative) to (ilBBB/Negative).

- f. On May 31, 2009, the Company's audit committee and board of directors approved Adgar's application for offsetting management fees paid by Adgar to the Company on account of the repayment of the deposit placed by Adgar in the Company and therefore the increase in the interest rate on the deposit from Prime to Prime + 4%.

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