

**Translated from the
Hebrew original**

ZUR SHAMIR HOLDINGS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2009

UNAUDITED

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INDEX

	<u>Page</u>
Auditors' Review Report	2
Consolidated Balance Sheets	3 - 4
Consolidated Statements of Income	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Changes in Equity	7 - 9
Consolidated Statements of Cash Flows	10 - 12
Notes to Interim Consolidated Financial Statements	13 - 51

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 June 30, 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six and 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 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, insofar as those regulations apply to insurance subsidiaries. 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 former jointly controlled entity, whose revenues constitute approximately 2.3% and 5.8% of total consolidated revenues for the six and three months ended June 30, 2009, respectively. The condensed interim financial information of that company was reviewed by another auditor, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of that company, is based on the review reports of the other auditor.

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 the other auditor, 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 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 the other auditor, 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 subsidiaries.

Without qualifying our abovementioned conclusion, we draw attention to the following:

- a. Note 8 to the financial statements regarding the exposure to the approval of claims as class actions.
- b. Notes 3d and 11 to the financial statements regarding a restatement of the financial statements as of June 30, 2009, 2008 and December 31, 2008 and for the six and three months ended June 30, 2009 in order to retroactively reflect correction of accounting records of subsidiaries in Poland which is mainly the outcome of not reporting to the VAT authorities in Poland on the subsidiaries entitlement to VAT refunds, net for investments in investment properties and real estate under construction and mistaken documentation of balances of trade payables, investment properties and real estate under construction in consequence of disorders caused by fraud.

This review report replaces a former review report for that period which was approved on August 31, 2009.

CONSOLIDATED BALANCE SHEETS

	December 31,	June 30,		Convenience	
		2008	*) 2008	2009	translation
			Unaudited		(Note 1g)
			Audited	Unaudited	
	N I S			2009	
	(In thousands)			Unaudited	
				U.S. \$	
Cash and cash equivalents	468,710	449,964	429,758	109,660	
Accounts receivable	**) 229,929	**) 161,796	**) 279,628	**) 71,352	
Current tax assets	**) 66,765	51,636	34,523	8,809	
Outstanding premium	304,821	284,166	277,102	70,707	
Receivables for issue of shares	-	27,933	-	-	
Assets held for sale	-	11,200	259,550	66,229	
Financial assets	1,500,578	1,496,612	1,474,157	376,156	
Financial derivatives	7,080	29,141	42,005	10,718	
Investment properties and real estate under construction	**) 2,907,311	2,811,063	2,695,817	687,884	
Fixed assets, net	220,255	212,012	119,892	30,592	
Reinsurance assets	197,585	178,080	193,382	49,345	
Deferred taxes	60,483	62,836	**) 65,818	**) 16,795	
Deferred acquisition costs	132,630	136,663	112,687	28,755	
Intangible assets	433,471	462,035	394,994	100,789	
Total assets	6,529,618	6,375,137	6,379,313	1,627,791	

*) Reclassified, see Note 2c.

**) Restated, see Note 3d.

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

CONSOLIDATED BALANCE SHEETS

	December 31,	June 30,		Convenience translation (Note 1g)
	2008	*) 2008	2009	June 30, 2009
	Audited	Unaudited		Unaudited
	NIS			U.S. \$
	(In thousands)			
LIABILITIES:				
Accounts payable	**) 285,695	**) 267,051	**) 318,911	**) 81,376
Financial liabilities	3,582,251	3,353,765	3,366,921	859,128
Financial derivatives	17,482	42	22,930	5,851
Current taxes	84	558	51	13
Liabilities for yield-dependent contracts	278,232	265,256	320,270	81,722
Liabilities for non-yield dependent insurance and investment contracts	1,639,801	1,567,376	1,521,918	388,343
Employee benefit liabilities, net	9,073	6,295	10,682	2,726
Deferred taxes	80,131	125,413	51,049	13,026
	<u>5,892,749</u>	<u>5,585,756</u>	<u>5,612,732</u>	<u>1,432,185</u>
EQUITY:				
Share capital	216,299	213,993	216,299	55,193
Receipts on account of options	916	916	-	-
Capital reserves	(70,981)	(34,311)	**) (22,605)	**) (5,768)
Retained earnings	137,183	218,970	**) 181,666	**) 46,355
	<u>283,417</u>	<u>399,568</u>	<u>375,360</u>	<u>95,780</u>
Less - treasury shares	<u>(61,174)</u>	<u>(61,174)</u>	<u>(61,174)</u>	<u>(15,610)</u>
	<u>222,243</u>	<u>338,394</u>	<u>314,186</u>	<u>80,170</u>
Minority interests	414,626	450,987	**) 452,395	**) 115,436
<u>Total equity</u>	<u>636,869</u>	<u>789,381</u>	<u>**) 766,581</u>	<u>**) 195,606</u>
<u>Total liabilities and equity</u>	<u>6,529,618</u>	<u>6,375,137</u>	<u>6,379,313</u>	<u>1,627,791</u>

*) Reclassified, see Note 2c.

**) Restated, see Note 3d.

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

December 16, 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

						Convenience translation (Note 1g)
	Year ended December 31, 2008	Three months ended June 30,		Six months ended June 30,		Six months ended June 30,
		*) 2008	2009	*) 2008	2009	2009
	Audited	Unaudited				Unaudited
NIS						U.S. \$
(In thousands, except per share amounts)						
Premiums earned on retention	809,593	198,686	217,777	389,820	440,618	112,431
Revenues from rental of properties	170,140	40,308	45,749	83,312	91,617	23,378
Increase (decrease) in value of investment properties and real estate under construction, net	29,383	25,451	**) (249,806)	26,978	**) (253,180)	**) (64,603)
Net gains (losses) on investments and other financial income (expenses)	(11,014)	34,244	44,968	39,802	74,968	19,129
Revenues from management fees	107,592	29,950	24,975	54,544	49,206	12,556
Revenues from consumer credit	23,764	5,175	2,061	9,228	9,336	2,382
Revenues from commissions	14,679	2,732	4,824	7,428	8,395	2,142
Other income	3,149	3,046	126	3,046	187	48
Total revenues	1,147,286	339,592	90,674	614,158	421,147	107,463
Payments and change in liabilities in respect of insurance contracts on retention	586,817	169,234	176,988	311,489	336,440	85,848
Marketing expenses and acquisition costs	199,320	54,289	51,680	103,786	98,907	25,238
General and administrative expenses	207,569	50,349	**) 49,732	104,455	**) 107,463	**) 27,421
Financial expenses	254,967	73,295	46,528	129,611	79,404	20,261
Other expenses	3,570	-	29	-	1,218	311
Total expenses	665,426	177,933	147,969	337,852	286,992	73,231
Loss before tax	(104,957)	(7,575)	**) (216,678)	(35,183)	**) (202,285)	(51,616)
Taxes on income (tax benefit)	(2,227)	9,760	**) (76,760)	10,632	**) (57,555)	(14,686)
Loss from continuing operations	(102,730)	(17,335)	(157,523)	(45,815)	(144,730)	(36,930)
Income (loss) from discontinued operation	(121,900)	(27,599)	238,467	(58,205)	203,338	51,885
Net income (loss) for the period	(224,630)	(44,934)	**) 80,944	(104,020)	**) 58,608	**) 14,955
Net income (loss) for the period attributable to:						
Equity holders of the Company	(158,075)	(33,348)	58,845	(76,288)	44,483	11,351
Minority interests	(66,555)	(11,586)	22,099	(27,732)	14,125	3,604
	(224,630)	(44,934)	80,944	(104,020)	58,608	14,955
Net earnings (loss) per share attributable to equity holders of the Company:						
Basic earnings (loss):						
Loss from continuing operations	(1.09)	(0.23)	**) (1.66)	(0.59)	**) (1.51)	**) (0.39)
Earnings (loss) from discontinued operation	(1.40)	(0.30)	2.56	(0.62)	2.20	0.56
Basic earnings (loss)	(2.49)	(0.53)	**) 0.90	(1.21)	**) 0.69	**) 0.17

*) Reclassified, see Note 2c.

**) Restated, see Note 3d.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31, 2008 Audited	Three months ended June 30,		Six months ended June 30,		Convenience translation (Note 1g)
		*) 2008	2009	*) 2008	2009	Six months ended June 30, 2009 Unaudited U.S. \$
	N I S					
	(In thousands)					
Net income (loss) for the period	(224,630)	(44,934)	**) 80,944	(104,020)	**) 58,608	**) 14,955
Other comprehensive income (loss):						
Gain (loss) from available-for-sale financial assets, net	(9,280)	1,795	3,002	(5,484)	11,513	2,938
Gain (loss) from cash flow hedges, net	(10,116)	-	3,470	-	(6,041)	(1,541)
Foreign currency translation adjustments of foreign operations, net	(157,458)	(49,304)	**) 20,274	(112,066)	**) 68,407	**) 17,454
Other comprehensive income (loss), net	(176,854)	(47,509)	26,746	(117,550)	73,879	18,851
Total comprehensive income (loss)	(401,484)	(92,443)	**) 107,690	(221,570)	**) 132,487	**) 33,806
Comprehensive income (loss) for the period attributable to:						
Equity holders of the Company	(266,208)	(62,895)	**) 77,228	(147,751)	**) 91,943	23,461
Minority interests	(135,276)	(29,548)	**) 30,462	(73,819)	**) 40,544	10,345
	(401,484)	(92,443)	107,690	(221,570)	132,487	33,806

*) Reclassified, see Note 2c.

**) Restated, see Note 3d.

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								Total equity	
	Receipts on						Total	Minority interests		
	Share capital	Share premium	account of options	Retained earnings	Capital reserves	Treasury shares				
	NIS									
(In thousands)										
Balance at April 1, 2008 (unaudited)	213,993	34,887	916	302,318	(39,703)	(61,174)	451,237	529,950	981,187	
Comprehensive loss	-	-	-	(33,348)	(29,547)	-	(62,895)	(29,548)	(92,443)	
Capital reserve from loan given to jointly controlled entity	-	-	-	-	52	-	52	25	77	
Purchase of shares from minority	-	-	-	-	-	-	-	(14,594)	(14,594)	
Cost of share-based payment	-	-	-	-	-	-	-	779	779	
Dividend paid	-	-	-	(50,000)	-	-	(50,000)	-	(50,000)	
Dividend paid to minority	-	-	-	-	-	-	-	(35,625)	(35,625)	
Balance at June 30, 2008 (unaudited)	<u>213,993</u>	<u>34,887</u>	<u>916</u>	<u>218,970</u>	<u>(69,198)</u>	<u>(61,174)</u>	<u>338,394</u>	<u>450,987</u>	<u>789,381</u>	
Balance at April 1, 2009 (unaudited)	216,299	34,887	916	122,821	(76,791)	(61,174)	236,958	421,810	658,768	
Comprehensive income	-	-	-	**58,845	**18,383	-	**77,228	**30,462	**107,690	
Expiration of options	-	916	(916)	-	-	-	-	-	-	
Cost of share-based payment	-	-	-	-	-	-	-	573	573	
Dividend paid to minority	-	-	-	-	-	-	-	(450)	(450)	
Balance at June 30, 2009 (unaudited)	<u>216,299</u>	<u>35,803</u>	<u>-</u>	<u>**181,666</u>	<u>**58,408</u>	<u>(61,174)</u>	<u>**314,186</u>	<u>**452,395</u>	<u>**766,581</u>	

**) Restated, see Note 3d.

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 options	Retained earnings	Capital reserves	Treasury shares	Total	Minority interests	Total equity
NIS									
(In thousands)									
Balance at January 1, 2008 (audited)	213,993	34,887	916	345,258	1,240	(61,174)	535,120	589,968	1,125,088
Comprehensive loss	-	-	-	(76,288)	(71,463)	-	(147,751)	(73,819)	(221,570)
Capital reserve for loan given to jointly controlled entity	-	-	-	-	1,025	-	1,025	500	1,525
Purchase of minority interests	-	-	-	-	-	-	-	(15,756)	(15,756)
Cost of share-based payment	-	-	-	-	-	-	-	1,555	1,555
Dividend paid	-	-	-	(50,000)	-	-	(50,000)	-	(50,000)
Dividend paid to minority	-	-	-	-	-	-	-	(51,461)	(51,461)
Balance at June 30, 2008 (unaudited)	<u>213,993</u>	<u>34,887</u>	<u>916</u>	<u>218,970</u>	<u>(69,198)</u>	<u>(61,174)</u>	<u>338,394</u>	<u>450,987</u>	<u>789,381</u>
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	-	-	-	-	-	-	-	2,989	2,989
Dividend paid	-	-	-	(50,000)	-	-	(50,000)	-	(50,000)
Dividend paid to minority	-	-	-	-	-	-	-	(51,461)	(51,461)
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	-	-	-	** 44,483	** 47,460	-	** 91,943	** 40,544	** 132,487
Expiration of options	-	916	(916)	-	-	-	-	-	-
Cost of share-based payment	-	-	-	-	-	-	-	750	750
Dividend paid to minority	-	-	-	-	-	-	-	(3,525)	(3,525)
Balance at June 30, 2009 (unaudited)	<u>216,299</u>	<u>35,803</u>	<u>-</u>	<u>** 181,666</u>	<u>** (58,408)</u>	<u>(61,174)</u>	<u>** 314,186</u>	<u>** 452,395</u>	<u>** 766,581</u>
Convenience translation into U.S. \$ (Note 1g)									
(In thousands)									
Balance at January 1, 2009 (audited)	55,193	8,902	234	35,004	(27,014)	(15,610)	56,709	105,799	162,508
Comprehensive income	-	-	-	** 11,351	** 12,110	-	** 23,461	** 10,345	** 33,806
Expiration of options	-	234	(234)	-	-	-	-	-	-
Cost of share-based payment	-	-	-	-	-	-	-	191	191
Dividend paid to minority	-	-	-	-	-	-	-	(899)	(899)
Balance at June 30, 2009 (unaudited)	<u>55,193</u>	<u>9,136</u>	<u>-</u>	<u>** 46,355</u>	<u>** (14,904)</u>	<u>(15,610)</u>	<u>** 80,170</u>	<u>** 115,436</u>	<u>** 195,606</u>

**) Restated, see Note 3d.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

						Convenience translation (Note 1g)
	Year ended December 31, 2008	Three months ended June 30,		Six months ended June 30,		Six months ended June 30,
		*) 2008	2009	*) 2008	2009	2009
	Audited	Unaudited				Unaudited
NIS						U.S. \$
(In thousands)						
Net cash provided by (used in) continuing operating activities (Schedule A)	**) (84,422)	**) (122,018)	**) 26,604	**) (108,267)	**) 70,285	**) 17,934
Net cash used in discontinued operating activities	(131,226)	(34,409)	(62,417)	(61,695)	(101,130)	(25,805)
Net cash used in operating activities	(215,648)	(156,427)	(35,813)	(169,962)	(30,845)	(7,871)
<u>Cash flows from investing activities:</u>						
Purchase of subsidiaries' shares from minority shareholders	(14,818)	(11,929)	-	(14,840)	-	-
Purchase of deposit	3,563	10,640	6,234	15,745	6,611	1,687
Purchase of assets and investment properties	**) (541,275)	**) (168,890)	**) (63,570)	**) (315,544)	**) (107,051)	**) (27,316)
Proceeds from issue of shares in subsidiary and jointly controlled entity	89,000	28,433	-	58,721	-	-
Proceeds from sale of fixed assets and investment properties	160,226	2,101	**) 4,779	125,967	**) 40,316	**) 10,287
Proceeds from sale of investment in former jointly controlled entity (Schedule B)	-	-	203,419	-	314,891	80,350
Long-term loans repaid (granted), net	(1,707)	527	(987)	3,573	(1,652)	(422)
Purchase of intangible assets	(22,851)	(5,192)	(2,980)	(9,140)	(6,035)	(1,540)
Net cash provided by (used in) continuing investing activities	**) (327,862)	**) (144,310)	**) 146,895	**) (135,518)	**) 247,080	**) 63,046
Net cash used in discontinued investing activities	(47,046)	(9,881)	(4,726)	(17,286)	(8,482)	(2,164)
Net cash provided by (used in) investing activities	(374,908)	(154,191)	142,169	(152,804)	238,598	60,882

*) Reclassified, see Note 2c.

**) Restated, see Note 3d.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended	Three months ended		Six months ended		Convenience
	December 31,	June 30,		June 30,		translation
	2008	*) 2008	2009	*) 2008	2009	(Note 1g)
	Audited	Unaudited				Six months
	NIS					ended
	(In thousands)					June 30,
						2009
						Unaudited
						U.S. \$
<u>Cash flows from financing activities:</u>						
Issue of subsidiary's debentures, net	49,118	-	-	49,118	-	-
Redemption of subsidiary's debentures	(42,383)	-	-	-	-	-
Exercise of stock options into shares	2,306	-	-	-	-	-
Increase (decrease) in short-term credit from banks, net	372,684	380,691	(225,436)	295,926	(259,195)	(66,138)
Receipt of long-term loans from banks and others, net	366,803	187,219	24,429	119,049	65,266	16,654
Redemption of Company debentures	(98,030)	(44,019)	(45,588)	(44,019)	(45,588)	(11,633)
Repayment of subsidiary's subordinated deeds	(56,871)	(56,871)	(58,623)	(56,871)	(58,623)	(14,959)
Dividend paid to equity holders of the Company	(50,000)	(50,000)	-	(50,000)	-	-
Dividend paid to minority in subsidiary	(51,461)	(36,727)	(3,525)	(51,461)	(3,525)	(899)
Net cash provided by (used in) continuing financing activities	492,166	380,293	(308,743)	261,742	(301,665)	(76,975)
Net cash provided by discontinued financing activities	38,687	-	13,282	-	52,866	13,490
Net cash provided by (used in) financing activities	530,853	380,293	(295,461)	261,742	(248,799)	(63,485)
Capital reserve from translation differences of discontinued operation	44,429	1,728	618	4,853	3,640	929
Effect of exchange rate fluctuations on balances of cash and cash equivalents	(10,233)	4,352	(187)	11,918	(1,546)	(394)
Increase (decrease) in cash and cash equivalents	(25,507)	75,755	(188,674)	(44,253)	(38,952)	(9,938)
Cash and cash equivalents at beginning of period	494,217	374,209	618,432	494,217	468,710	119,598
Cash and cash equivalents at end of period	468,710	449,964	429,758	449,964	429,758	109,660

*) Reclassified, see Note 2c.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2008		Three months ended June 30,		Six months ended June 30,		Convenience translation (Note 1g)
	Audited		*) 2008	2009	*) 2008	2009	Six months ended June 30, 2009
			Unaudited				Unaudited
			N I S				U.S. \$
(In thousands)							
(a) <u>Cash flows from continuing operating activities:</u>							
Net loss for the period from continuing operations	(102,730)	(17,335)	**) (157,523)	(45,815)	**) (144,730)	**) (36,930)	
Net sales (purchases) of financial investments:							
Financial investments in yield-dependent contracts	(60,406)	(25,709)	(17,264)	(39,990)	(34,450)	(8,791)	
Other financial investments	(227,051)	(120,103)	11,309	(135,150)	14,843	3,787	
Income and expenses not involving cash flows:							
Impairment of intangible assets	1,000	-	-	-	-	-	
Depreciation and amortization	40,970	10,209	10,184	20,740	20,205	5,156	
Gain (loss) from sale of fixed assets	(402)	163	1,226	(173)	1,226	313	
Capital loss from issue to third party	3,571	(2,687)	-	(2,687)	-	-	
Cost of share-based payment	2,986	780	573	1,555	750	191	
Financial expenses and erosion of long-term loans and liabilities, net	254,967	73,295	46,528	129,611	79,404	20,261	
Net investment income, financial and other income	(14,681)	598	(15,757)	(7,211)	(18,961)	(4,838)	
Increase in deferred acquisition costs	(1,024)	889	(1,667)	(221)	(3,614)	(922)	
Increase (decrease) in value of investment properties	(29,383)	(25,451)	**) 249,806	(26,978)	**) 253,180	**) 64,603	
Tax expenses (benefit)	(2,227)	9,760	**) (76,760)	10,632	**) (57,555)	**) (14,686)	
Excess of negative cost arising on acquisition of subsidiaries' shares	(2,687)	-	-	-	-	-	
	(34,367)	(78,256)	208,178	(49,872)	255,028	65,074	
Changes in asset and liability items:							
Losses (gains) from financial investments in yield-dependent contracts	8,837	(6,235)	(8,881)	(6,014)	(22,454)	(5,730)	
Losses (gains) from other financial investments	12,565	(21,069)	(29,160)	(25,746)	(46,540)	(11,876)	
Change in liabilities for non-yield dependent insurance contracts	141,128	53,317	31,673	72,138	60,030	15,318	
Change in liabilities for yield-dependent contracts	53,673	23,712	18,674	40,697	42,038	10,727	
Change in reinsurance assets	(27,971)	(4,515)	1,579	(8,368)	2,765	706	
Employee benefit liabilities, net	4,074	246	859	1,279	1,609	411	
Increase in outstanding premium	(33,004)	(8,068)	(2,525)	(10,641)	(7,758)	(1,980)	
Decrease (increase) in accounts receivable	**) (11,457)	7,383	(21,335)	14,840	(47,874)	(12,216)	
Increase (decrease) in accounts payable	**) 13,729	**) (37,256)	**) 37,012	**) (38,628)	**) 20,154	**) 5,143	
	161,574	7,515	27,896	39,557	1,970	503	
Cash paid and received during the period for:							
Interest paid	(157,057)	(48,785)	(56,287)	(74,618)	(96,923)	(24,732)	
Interest received	81,613	23,237	13,715	36,112	33,330	8,505	
Taxes on income paid	**) (35,923)	(17,540)	**) (18,784)	(23,401)	**) (19,295)	**) (4,923)	
Taxes received	-	5,687	9,333	5,687	**) 40,829	**) 10,418	
Dividend received	2,468	3,459	76	4,083	76	19	
	(108,899)	(33,942)	(51,947)	(52,137)	(41,983)	(10,713)	
Total cash provided by (used in) continuing operating activities	(84,422)	(122,018)	26,604	(108,267)	70,285	17,934	

*) Reclassified, see Note 2c.

**) Restated, see Note 3d.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended		Three months ended		Six months ended		Convenience
	December 31,		June 30,		June 30,		translation
	2008		*) 2008		*) 2008		(Note 1g)
	Audited		Unaudited		Unaudited		Six months
			N I S				ended
			(In thousands)				June 30,
							2009
							Unaudited
							U.S. \$
(b) <u>Proceeds from sale of investment in former jointly controlled entity:</u>							
Working capital (net of cash and cash equivalents)	-	-	25,675	-	25,675	6,551	
Fixed assets, net	-	-	57,339	-	57,339	14,631	
Outstanding premium	-	-	38,463	-	38,463	9,814	
Deferred acquisition costs	-	-	18,571	-	18,571	4,739	
Insurance reserves net of reinsurance	-	-	(216,749)	-	(216,749)	(55,307)	
Insurance companies	-	-	1,497	-	1,497	382	
Deferred taxes	-	-	27,629	-	27,629	7,050	
Minority interests	-	-	(1,993)	-	(1,993)	(509)	
Foreign currency translation reserve	-	-	10,962	-	10,962	2,797	
Capital gain	-	-	348,036	-	348,036	88,808	
Other	-	-	5,461	-	5,461	1,394	
Less - advance received	-	-	(111,472)	-	-	-	
	-	-	203,419	-	314,891	80,350	

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. Zur Shamir Holdings Ltd ("the Company") was incorporated in Israel and its offices are located on 35 Eyal Street, Petach Tikva, Israel. The Company is a publicly traded company whose shares are listed for trade on the Tel-Aviv Stock Exchange. The Company holds several companies (collectively, "the Group"):

1. Adgar Investments and Development ("Adgar") - held by the Company at the rate of 62%, operating, directly and indirectly through its subsidiaries, in the income-producing real estate sector in Israel and abroad. Adgar's securities are traded on the Tel-Aviv Stock Exchange.

After the balance sheet date, on September 17, 2009, the Company signed an agreement to sell 50.001% of Adgar's issued and outstanding share capital to Direct IDI Holdings Ltd. ("Direct Holdings"), the Company's sub-subsidiary, in consideration of approximately NIS 304 million.

Further details are given in Note 10c below.

2. Direct Insurance Financial Investments Ltd ("Direct Insurance") - held by the Company at the rate of 67%, engaged through its subsidiaries in insurance and in the financial sector in Israel. Up to June 2009, the Company, through a subsidiary, was engaged in insurance activities abroad, see d below. Direct Insurance securities are traded on the Tel-Aviv Stock Exchange.

- b. As of June 30, 2009, the Company has debentures totaling approximately NIS 117 million which are repayable in the coming year (principal and interest). After balance sheet date, in July 2009, the Company repaid approximately NIS 58 million in debentures (series D) using the credit line extended by Bank Hapoalim (see Note 6f below).

The Company estimates that it will be able to fulfill its liabilities in full and in a timely manner, among other things, by receiving the payment for the sale of the control core in Adgar (in this regard see a(1) above).

- c. 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 negative outlook.

After the balance sheet date, on September 14, 2009, Maalot announced the raising of the rating of the Company's debentures (series E) to (ilBB-) with a positive outlook.

- d. As for the sale of Intouch Insurance Group B.V. ("Intouch") to RSA Group Plc. ("RSA Group") in consideration of € 70 million, see Note 5 below.
- e. As of June 30, 2009, a subsidiary of Direct Insurance, Direct I.D.I. Holdings Ltd. ("Direct Holdings") has subordinated deeds in the amount of approximately NIS 172 million. The principal balance of the subordinated deeds will be repaid in three equal installments on May 31 of each of the years 2010 through 2012. The subordinated deeds are linked to the Israeli CPI and are traded on the Tel-Aviv Stock Exchange.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL (Cont.)

Direct Holdings is acting to achieve the financing resources needed to repay the subordinated deeds by raising external credit and by customizing the Group's cost structure based on the developments in the financial crisis, see also with this respect Note 10d regarding negotiations being held for the merger of the provident funds activity with Meitav-Gaon Investment House. Consequently, Direct Holdings estimates that it will be able to meet its obligations in the two years ending on the date of the publication of the financial statements.

In May 2009, Direct Holdings repaid the second installment of the abovementioned subordinated deeds in an amount of approximately NIS 68.1 million.

As for the lowering of the rating of Direct Holdings subordinated deeds, see Note 6i below.

- f. As of June 30, 2009, Adgar has a working capital deficiency in the amount of approximately NIS 270 million. As an income-producing real estate company, which finances its investments through credit, part of which short-term credit, Adgar often records working capital deficiency. Over the years, Adgar has financed the deficiency through refinancing (mostly conversion of credit to long-term loans under capital market conditions)., Adgar estimates that the banks will refinance most of the short-term credit and current maturities in respect of long-term loans whose repayment is due in the coming year.

As for the lowering of the rating of Adgar's debentures, see Note 6d below.

- g. The financial statements as of June 30, 2009 and for the six months then ended have been translated into U.S. dollars using the representative exchange rate as of that date (\$ 1 = NIS 3.919). 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:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

- a. Statement of compliance with International Financial Reporting Standards:

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and do not include all the required information for full annual financial statements. The condensed financial statements should be read in conjunction with the financial statements prepared as of and for the year ended December 31, 2008 ("annual financial statements"). Furthermore, these financial statements have been prepared in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970, and with the guidelines of the Regulator of Insurance.

- b. Use of estimates and judgments:

The preparation of condensed financial statements in conformity with IFRS requires management to make judgments with respect to estimates, valuations and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

The judgments used by the management in the application of the Group's accounting policies and the key assumptions used in evaluations involving uncertainty are consistent with those used to prepare the annual consolidated financial statements, except as described below:

Investment property:

Investment property is presented at fair value at balance sheet date. Changes in fair value of investment property are recognized in the statement of income. Fair value is determined by independent valuation specialists based on economic valuations that involve valuation techniques and assumptions as to estimates of expected future cash flows from the property and estimate of the suitable discount rate for these cash flows. Fair value is sometimes measured with reference to recent real estate transactions with similar characteristics and location to the valued asset.

In the reported period, there was a 0.5% increase in the estimated discount rates in Canada and Poland as well as changes in the estimated future cash flows in respect of some of the assets. As a result of said changes, the Company wrote down an amount of NIS 253,180 thousand recorded in decrease (increase) in value of investment properties and real estate under construction, net (NIS 200,502 thousand net of the tax effect).

c. Reclassification:

These financial statements include reclassifications of data included in the financial statements for the first half of 2008 and for the second quarter of 2008. These reclassifications were prepared, among other things, in view of the directives of the Supervision Circular of February 16, 2009 regarding the disclosures required in the financial statements of insurance companies according to IFRS. The main reclassifications pursuant to the Supervision Circular relate to the definition of yield-dependent liabilities based on insurance exposure.

The reclassifications had no effect on equity and income.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES

a. Except as specified in b below, the Group's accounting policies in these condensed interim consolidated financial statements are the same as those applied in the annual financial statements.

b. First-time adoption of new standards:

1. 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

2. 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.

3. 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 settlement 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.

4. 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

5. 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.

6. 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.

c. New standards and interpretations not yet adopted:

1. IFRS 3 (Revised 2008), "Business Combinations" and IAS 27 (Revised 2008), "Consolidated and Separate Financial Statements" ("the Standards"):

The principal applicable changes prescribed by those Standards are:

- a) The definition of a business was elaborated, which will cause more acquisitions to be treated as business combinations.
- b) Accounting for deconsolidation transactions at full fair value so that the remaining interest after deconsolidation is revalued on the date of deconsolidation at fair value to the income statement.
- c) Accounting for new consolidation transactions at full fair value so that the original investment before the consolidation is revalued on the date of initial consolidation at fair value to the income statement.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- d) Minority interests are measured at fair value or at their relative share in the acquiree's identifiable assets and liabilities based on each individual transaction.
- e) Accounting for the acquisitions of additional shares or sales of some of the existing shares without ceasing to consolidate the financial statements of the relevant companies that are party to the transactions such that all the differences from the transactions are carried directly to equity (including differences that were previously carried to profit and loss or goodwill).
- f) Directly carrying transactions costs to profit and loss.
- g) Measurement of contingent considerations in business combinations at fair value and carrying the changes in estimates relating to contingent considerations as financial liabilities to profit and loss.
- h) Not updating goodwill for the utilization of losses carried forward for tax purposes that existed on the date of business acquisition.
- i) Allocating comprehensive income among the shareholders even in the event of a capital deficiency of the subsidiary.

These Standards apply to annual financial reporting periods commencing on or after January 1, 2010. The Standards may be adopted early (solely on a joint basis). The principal changes in these Standards will apply prospectively, namely for transactions from the date of initial adoption.

2. Under the project for improvements to IFRSs of 2009, in April 2009, the IASB issued and ratified 15 amendments to IFRSs under a variety of accounting issues. The amendments apply to periods commencing on or after January 1, 2010 with possible early adoption, subject to the conditions stipulated for each amendment.

Below are the details of the amendments that might be relevant to the Group and might have an effect on the financial statements:

- a) Amendment to IAS 36, "Impairment of Assets", allocation of goodwill into cash-generating units ("the Amendment"): pursuant to the Amendment to impairment testing, the cash-generating unit to which goodwill is allocated cannot be larger than an operating segment as defined in IFRS 8 prior to the adoption of the aggregation criterion in IFRS 8.12. The Amendment applies to annual periods commencing on or after January 1, 2010. Early adoption is permitted by providing disclosure.
- b) Amendment to IAS 39, "Financial Instruments: Recognition and Measurement", exclusion of business combination contracts ("the Amendment"): the Amendment clarifies that only forward contracts signed between the buyer and the seller regarding the sale or purchase of a controlled entity under a future business combination are excluded from the scope of IAS 39 when the forward contract period does not exceed the normal period required for obtaining the approvals for the transaction. The Amendment will be applied prospectively to all contracts that are still valid for annual periods commencing on January 1, 2010. Early adoption is permitted by providing disclosure.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

3. 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.

d. Restatement:

The Company has restated its financial statements as of June 30, 2009 and 2008 and December 31, 2008 and for the six and three months ended June 30, 2009 in order to retroactively reflect the effect of correction of accounting records of Adgar's wholly controlled subsidiaries in Poland which is mainly the outcome of not reporting to the VAT authorities in Poland on the subsidiaries entitlement to VAT refunds, net for investments in investment properties and real estate under construction and mistaken documentation of balances of trade payables, investment properties and real estate under construction. The correction of the above records is required in consequence of disorders caused by fraud in Adgar's subsidiary. Further details are given in Note 11 below.

Below is the effect of the correction on the relevant items:

	As previously presented	The change	As presented after the change
	NIS in thousands		
As of December 31, 2008 (audited):			
Accounts receivable	<u>197,923</u>	<u>32,006</u>	<u>229,929</u>
Current tax assets	<u>68,280</u>	<u>(1,515)</u>	<u>66,765</u>
Investment properties and real estate under construction	<u>2,922,694</u>	<u>(15,383)</u>	<u>2,907,311</u>
Accounts payable	<u>270,587</u>	<u>15,108</u>	<u>285,695</u>
As of June 30, 2008 (unaudited):			
Accounts receivable	<u>141,637</u>	<u>20,159</u>	<u>161,796</u>
Accounts payable	<u>246,892</u>	<u>20,159</u>	<u>267,051</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	As previously presented	The change	As presented after the change
	NIS in thousands (except per share data)		
As of June 30, 2009 (unaudited):			
Accounts receivable	235,141	44,487	279,628
Deferred taxes	57,699	8,119	65,818
Accounts payable	259,230	59,681	318,911
Retained earnings	187,722	(6,056)	181,666
Total equity attributable to equity holders of the Company	318,541	(4,355)	314,186
Total equity attributable to minority interests	455,115	(2,720)	452,395
Three months ended June 30, 2009 (unaudited):			
Decrease in value of investment properties and real estate under construction, net	(232,345)	(17,461)	(249,806)
General and administrative expenses	49,588	144	49,732
Tax benefit	(68,991)	(7,769)	(76,760)
Loss from continuing operations	(147,687)	(9,836)	(157,523)
Foreign currency translation adjustments of foreign operations	17,513	2,761	20,274
Total comprehensive income attributable to equity holders	81,583	(4,355)	77,228
Total comprehensive income attributable to minority	33,182	(2,720)	30,462
Earnings per share (basic and diluted) (in NIS)	1.00	(0.10)	0.90
Six months ended June 30, 2009 (unaudited):			
Decrease in value of investment properties and real estate under construction, net	(235,719)	(17,461)	(253,180)
General and administrative expenses	107,319	144	107,463
Tax benefit	(49,786)	(7,769)	(57,555)
Loss from continuing operations	(134,894)	(9,836)	(144,730)
Foreign currency translation adjustments of foreign operations	65,646	2,761	68,407
Total comprehensive income attributable to equity holders	96,298	(4,355)	91,943
Total comprehensive income attributable to minority	43,264	(2,720)	40,544
Earnings per share (basic and diluted) (in NIS)	0.78	(0.09)	0.69

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	As previously presented	The change	As presented after the change
	NIS in thousands		
Year ended December 31, 2008 (audited):			
Cash flows from operating activities	(219,579)	3,931	(215,648)
Cash flows from investing activities	(370,977)	(3,931)	(374,908)
Three months ended June 30, 2008 (unaudited):			
Cash flows from operating activities	(157,679)	1,252	(156,427)
Cash flows from investing activities	(152,939)	(1,252)	(154,191)
Three months ended June 30, 2009 (unaudited):			
Cash flows from operating activities	(36,198)	385	(35,813)
Cash flows from investing activities	142,554	(385)	142,169
Six months ended June 30, 2008 (unaudited):			
Cash flows from operating activities	(171,214)	1,252	(169,962)
Cash flows from investing activities	(151,552)	(1,252)	(152,804)
Six months ended June 30, 2009 (unaudited):			
Cash flows from operating activities	(30,693)	(152)	(30,845)
Cash flows from investing activities	238,446	152	238,598

e. 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						
As of							
June 30, 2009	3.919	3.400	5.535	1.234	0.214	0.127	202.7
June 30, 2008	3.352	3.316	5.285	1.590	0.224	0.144	195.60
December 31, 2008	3.802	3.113	5.297	1.289	0.202	0.130	198.4
Change in period ended							
	%						
June 30, 2009 (6 months)	3.1	9.2	4.5	(4.3)	5.9	1.8	2.1
June 30, 2009 (3 months)	(6.4)	1.8	(0.7)	4.6	5.5	(2.2)	2.3
June 30, 2008 (6 months)	(12.8)	(15.5)	(6.6)	0.8	4.7	(8.3)	2.3
June 30, 2008 (3 months)	(5.7)	(4.8)	2.7	(3.0)	(1.5)	3.1	1.0
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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- 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.

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).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

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 5 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.

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 4:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2008 (audited)													
	Investment property	Long-term life assurance and savings *)	Insurance activity in Israel					Total	Finance	Grant of consumer credit	Un-allocated and inter-segment offsets	Total	Discontinued operation (foreign insurance) (Note 5)	Total
			General insurance											
			Motor act	Motor casco	Residential	Other	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	
Increase in value of investment properties	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	
Total revenues	215,043	242,853	217,527	383,080	58,233	5,673	664,513	24,802	23,873	(23,798)	1,147,286	213,094	1,360,380	
Payments and change in liabilities in respect of insurance contracts 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)	
Total expenses	(187,486)	(123,755)	(57,989)	(93,034)	(17,742)	(1,447)	(170,212)	(43,718)	(47,560)	(92,695)	(665,426)	(192,516)	(857,942)	
Income (loss) before tax	27,557	21,023	(10,200)	(3,500)	18,452	807	5,559	(18,916)	(23,687)	(116,493)	(104,957)	(134,698)	(239,655)	

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Three months ended June 30, 2008 (unaudited)													
	Insurance activity in Israel												Discontinued operation (foreign insurance) (Note 5)	Total
	Investment property	Long-term life assurance and savings *)	General insurance					Finance	Grant of consumer credit	Un-allocated and inter-segment offsets	Total	Total		
			Motor act	Motor casco	Residential	Other	Total							
NIS in thousands														
Premium earned on retention	-	35,950	55,061	92,962	13,448	1,265	162,736	-	-	-	198,686	46,702	245,388	
Revenues from rental of properties	43,116	-	-	-	-	-	-	-	-	(2,808)	40,308	-	40,308	
Increase in value of investment properties	25,451	-	-	-	-	-	-	-	-	-	25,451	-	25,451	
Net gains on investments and other financial income	538	10,164	11,851	3,802	643	156	16,452	586	-	6,504	34,244	2,193	36,437	
Revenues from management fees	-	25,912	-	-	-	-	-	4,038	-	-	29,950	-	29,950	
Revenues from consumer credit	-	-	-	-	-	-	-	-	5,175	-	5,175	-	5,175	
Revenues from commissions	-	(161)	-	-	1,341	8	1,349	1,544	-	-	2,732	-	2,732	
Other income	-	-	-	-	-	-	-	100	-	2,946	3,046	-	3,046	
Total revenues	69,105	71,865	66,912	96,764	15,432	1,429	180,537	6,268	5,175	6,642	339,592	48,895	388,487	
Payments and change in liabilities in respect of insurance contracts on retention	-	34,524	56,482	72,468	4,690	1,070	134,710	-	-	-	169,234	33,038	202,272	
Commissions and other acquisition costs	546	9,667	11,362	18,808	3,775	281	34,226	3,625	6,225	-	54,289	28,235	82,524	
General and administrative expenses	11,281	17,905	2,941	4,257	821	54	8,073	5,891	2,727	4,472	50,349	15,175	65,524	
Financial expenses	35,950	7,068	-	-	-	-	-	2,946	1,740	25,591	73,295	(44)	73,251	
Other expenses	-	-	-	-	-	-	-	-	-	-	-	88	88	
Total expenses	47,777	34,640	14,303	23,065	4,596	335	42,299	12,462	10,692	30,063	177,933	43,454	221,387	
Income (loss) before tax	<u>21,328</u>	<u>2,701</u>	<u>(3,873)</u>	<u>1,231</u>	<u>6,146</u>	<u>24</u>	<u>3,528</u>	<u>(6,194)</u>	<u>(5,517)</u>	<u>(23,421)</u>	<u>(7,575)</u>	<u>(27,597)</u>	<u>(35,172)</u>	

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Three months ended June 30, 2009 (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	Discontinued operation (foreign insurance) (Note 5)	Total
			General insurance										
			Motor act	Motor casco	Residential	Other	Total						
NIS in thousands													
Premium earned on retention	-	40,215	62,356	100,634	13,140	1,432	177,562	-	-	-	217,777	51,316	269,093
Revenues from rental of properties	48,793	-	-	-	-	-	-	-	-	(3,044)	45,749	-	45,749
Decrease in value of investment properties	(249,806)	-	-	-	-	-	-	-	-	-	(249,806)	-	(249,806)
Net gains on investments and other financial income	717	11,820	13,180	7,243	1,144	209	21,776	330	575	9,750	44,968	1,397	46,365
Revenues from management fees	-	21,240	-	-	-	-	-	3,735	-	-	24,975	-	24,975
Revenues from consumer credit	-	-	-	-	-	-	-	-	2,061	-	2,061	-	2,061
Revenues from commissions	-	1,916	-	-	1,237	5	1,242	1,666	-	-	4,824	-	4,824
Other income	-	-	-	-	-	-	-	55	-	71	126	348,036	348,162
Total revenues	(200,296)	75,191	75,536	107,877	15,521	1,646	200,580	5,786	2,636	6,777	90,674	400,749	491,423
Payments and change in liabilities in respect of insurance contracts on retention	-	36,963	60,611	72,485	5,858	1,071	140,025	-	-	-	176,988	54,215	231,203
Commissions and other acquisition costs	209	8,105	13,617	19,343	3,761	299	37,020	2,486	3,860	-	51,680	27,802	79,482
General and administrative expenses	8,856	18,207	2,244	3,357	667	46	6,314	4,506	3,134	8,715	49,732	46,533	96,265
Financial expenses	11,604	4,740	-	-	115	1	116	2,325	145	27,598	46,528	-	46,528
Other expenses	-	-	-	-	-	-	-	-	-	29	29	78	107
Total expenses	20,669	31,052	15,861	22,700	4,543	346	43,450	9,317	7,139	36,342	147,969	74,413	222,382
Income (loss) before tax	<u>(220,965)</u>	<u>7,176</u>	<u>(936)</u>	<u>12,692</u>	<u>5,120</u>	<u>229</u>	<u>17,105</u>	<u>(3,531)</u>	<u>(4,503)</u>	<u>(29,565)</u>	<u>(234,283)</u>	<u>272,121</u>	<u>37,838</u>

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Six months ended June 30, 2008 (unaudited)												
	Insurance activity in Israel												
	Investment property	Long-term life assurance and savings *)	General insurance					Finance	Grant of consumer credit	Un-allocated and inter-segment offsets	Total	Discontinued operation (foreign insurance) (Note 5)	Total
			Motor act	Motor casco	Residential	Other	Total						
NIS in thousands													
Premium earned on retention	-	71,066	106,720	182,857	26,663	2,514	318,754	-	-	-	389,820	91,450	481,270
Revenues from rental of properties	88,849	-	-	-	-	-	-	-	-	(5,537)	83,312	-	83,312
Increase in value of investment properties	26,978	-	-	-	-	-	-	-	-	-	26,978	-	26,978
Net gains (losses) on investments and other financial income	1,431	11,595	13,614	4,705	800	182	19,301	932	-	6,543	39,802	2,438	42,240
Revenues from management fees	-	46,089	-	-	-	-	-	8,455	-	-	54,544	-	54,544
Revenues from consumer credit	-	-	-	-	-	-	-	-	9,228	-	9,228	-	9,228
Revenues from commissions	-	551	-	-	2,868	29	2,897	3,980	-	-	7,428	-	7,428
Other income	-	-	-	-	-	-	-	100	-	2,946	3,046	35	3,081
Total revenues	117,258	129,301	120,334	187,562	30,331	2,725	340,952	13,467	9,228	3,952	614,158	93,923	708,081
Payments and change in liabilities in respect of insurance contracts on retention	-	61,092	93,315	143,357	11,486	2,239	250,397	-	-	-	311,489	69,586	381,075
Commissions and other acquisition costs	1,016	18,164	21,722	35,435	7,232	528	64,917	7,966	11,723	-	103,786	45,291	149,077
General and administrative expenses	20,329	32,895	8,165	12,712	2,419	200	23,496	12,526	6,440	8,769	104,455	32,990	137,445
Financial expenses	68,579	9,904	-	-	-	-	-	4,299	3,022	43,807	129,611	2,606	132,217
Other expenses	-	-	-	-	-	-	-	-	-	-	-	216	216
Total expenses	89,924	60,963	29,887	48,147	9,651	728	88,413	24,791	21,185	52,576	337,852	81,103	418,955
Income (loss) before tax	27,334	7,246	(2,868)	(3,942)	9,194	(242)	2,142	(11,324)	(11,957)	(48,624)	(35,183)	(56,766)	(91,949)

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Six months ended June 30, 2009 (unaudited)												
	Investment property	Long-term life assurance and savings *)	Insurance activity in Israel						Finance	Grant of consumer credit	Un-allocated and inter-segment offsets	Discontinued operation (foreign insurance) (Note 5)	Total
			General insurance					Total					
			Motor act	Motor casco	Residential	Other	Total						
NIS in thousands													
Premium earned on retention	-	80,676	121,752	208,094	27,198	2,898	359,942	-	-	-	440,618	97,250	537,868
Revenues from rental of properties	97,609	-	-	-	-	-	-	-	-	(5,992)	91,617	-	91,617
Decrease in value of investment properties	(253,180)	-	-	-	-	-	-	-	-	-	(253,180)	-	(253,180)
Net gains on investments and other financial income	1,414	26,442	21,942	9,331	1,413	330	33,016	691	575	12,830	74,968	3,599	78,567
Revenues from management fees	-	42,469	-	-	-	-	-	6,737	-	-	49,206	-	49,206
Revenues from consumer credit	-	-	-	-	-	-	-	-	9,336	-	9,336	-	9,336
Revenues from commissions	-	2,643	-	-	2,552	14	2,566	3,186	-	-	8,395	-	8,395
Other income	-	-	-	-	-	-	-	55	-	132	187	348,036	348,223
Total revenues	(154,157)	152,230	143,694	217,425	31,163	3,242	395,524	10,669	9,911	6,970	421,147	448,885	870,032
Payments and change in liabilities in respect of insurance contracts on retention	-	79,143	101,138	145,283	9,346	1,530	257,297	-	-	-	336,440	98,147	434,587
Commissions and other acquisition costs	360	17,104	24,509	37,075	6,946	551	69,081	4,523	7,839	-	98,907	53,150	152,057
General and administrative expenses	17,895	36,759	7,974	12,372	2,278	191	22,815	9,687	7,724	12,583	107,463	62,046	169,509
Financial expenses	28,804	6,496	-	-	115	1	116	3,093	2,458	38,437	79,404	11	79,415
Other expenses	-	-	-	-	-	-	-	-	-	1,218	1,218	78	1,296
Total expenses	47,059	60,359	32,483	49,447	9,339	743	92,012	17,303	18,021	52,238	286,992	115,285	402,277
Income (loss) before tax	(201,216)	12,728	10,073	22,695	12,478	969	46,215	(6,634)	(8,110)	(45,268)	(202,285)	235,453	33,168

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
NOTE 4:- OPERATING SEGMENTS (Cont.)

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

	Year ended	Three months ended		Six months ended	
	December 31,	June 30,		June 30,	
	2008	2008	2009	2008	2009
	Audited	Unaudited			
	NIS in thousands				
Revenues from management fees	87,863	24,942	20,069	44,229	40,216
Investment income, net	7,321	3,089	2,939	4,577	3,988
<u>Total revenues</u>	<u>95,184</u>	<u>28,031</u>	<u>23,008</u>	<u>48,806</u>	<u>44,204</u>
Change in liabilities and investment contracts	6,561	2,815	2,270	4,084	2,134
Marketing expenses and acquisition costs	16,688	5,292	4,485	9,247	9,471
General and administrative expenses	52,729	12,769	11,342	23,498	23,473
<u>Total expenses</u>	<u>75,978</u>	<u>20,876</u>	<u>18,097</u>	<u>36,829</u>	<u>35,078</u>
Operating income before financing	19,206	7,155	4,911	11,977	9,126
Financial expenses	16,641	7,068	4,740	9,904	6,496
Income before tax	<u>2,565</u>	<u>87</u>	<u>171</u>	<u>2,073</u>	<u>2,630</u>

NOTE 5:- DISCONTINUED OPERATION

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"), which coordinated the foreign insurance activity, in consideration for € 70 million (equivalent to approximately NIS 386 million) ("the transaction"). Consummation of the transaction was subject to fulfillment of contingent conditions and other conditions until September 30, 2009. The advance paid to Direct Insurance on March 31, 2009 in the amount of € 20 million was deposited with a bank.

On June 15, 2009, after the contingent conditions had been met, the transaction was completed. Direct Insurance received the outstanding consideration in a total of € 50 million. Following the completion of the transaction, Direct Insurance recorded a capital gain of approximately NIS 299 million (the Company's share is NIS 201 million) net of the transaction costs, grants to executives and the tax effect.

Since the foreign insurance activity had been presented as a separate operating segment, pursuant to IFRS 5, the Company presented the foreign insurance activity as a discontinued operation.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5:- DISCONTINUED OPERATION (Cont.)**

Below are the data of the operating results of the discontinued operation:

	Year ended	Three months ended		Six months ended	
	December 31,	June 30,		June 30,	
	2008	2008	2009	2008	2009
	Audited	Unaudited			
	NIS in thousands				
Premiums earned on retention	192,635	46,702	51,316	91,450	97,250
Net gains on investments and financial income	375	2,193	1,397	2,438	3,599
Capital gain from sale of joint company	-	-	348,036	-	348,036
Other income	20,084	-	-	35	-
Total revenues	213,094	48,895	400,749	93,923	448,885
Payments and change in liabilities in respect of insurance and investment contracts on retention	155,276	33,038	54,215	69,586	98,147
Marketing expenses and other acquisition costs	117,986	28,235	27,802	45,291	53,150
General and administrative expenses	74,514	15,175	46,533	32,990	62,046
Financial expenses	11	(44)	-	2,606	11
Other expenses	5	88	78	216	78
Total expenses	192,516	43,454	74,413	81,103	115,285
Income (loss) before taxes on income	(134,698)	(27,597)	272,121	(56,766)	235,453
Taxes on income	(12,798)	2	33,654	1,439	32,115
Net income (loss)	(121,900)	(27,599)	238,467	(58,205)	203,338

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

a. Discontinued operation:

As for the sale of a jointly controlled entity that coordinated the foreign insurance activity, see Note 5 above.

b. Dividend distribution by Adgar:

On May 11, 2009, Adgar distributed a dividend in accordance with its policy in an amount of NIS 8 million representing about 40% of the net income attributable to Adgar's equity holders for 2008 and representing 7.4% of Adgar's issued and outstanding share capital. The Company's stake in Adgar's shares is 61.57%. The Company's share in the distributed dividend is approximately NIS 4,926 thousand.

c. 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 subordinated capital.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- d. The lowering of the rating of Adgar's debentures:

On May 28, 2009, Standard & Poor's Maalot announced the lowering of the rating of Adgar's debentures from (ilA/Credit Watch Negative) to (ilBBB/Negative).

On August 24, 2009, Midroog announced the lowering of the rating of Adgar's debentures from A2 under a stable outlook to A3 under a stable outlook.

- e. On May 31, 2009, the Company's audit committee and board of directors approved Adgar's request to offset the management fees paid by Adgar to the Company against the repayment of the deposit paced by Adgar in favor of the Company and the increase in the interest rate on the deposit from Prime to Prime + 4%.
- f. 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 qualifying banks, the credit provided by the agreement with Bank Hapoalim will serve the Company as follows:

- Approximately NIS 58 million which after the balance sheet date were used to repay the Company's debentures (series D).
- Another NIS 58 million which were used to repayment the principal and interest of the Company's debentures (series E).
- 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 Clal's liability based on a policy issued by it to secure the repayment of the Company's debentures (series D). 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. In order to secure the Company's liabilities to the qualifying banks. The Company recorded 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

On March 31, 2009, the Israeli insurance subsidiary signed an agreement with Direct Financing of the Direct Group (2006) Ltd. ("the financing company"), a subsidiary of Direct Insurance, engaged in providing financing solutions for the purchase of vehicles and other financing solutions for private and corporate consumers by way of loans. The companies are wholly owned by Direct Insurance.

According to the agreement and an addendum to it signed between the parties in May 2009, the Israeli insurance subsidiary purchased the financing company's existing loan portfolio as of March 31, 2009 for NIS 330 million. As a result, the financing company repaid financial liabilities totaling approximately NIS 300 million.

The purchase was executed using the insurance subsidiary's own resources and by raising subordinated capital. The purchase was effected after obtaining a valuation of the portfolio by external experts and after obtaining all the required approvals for the Israeli insurance subsidiary, including the audit committee.

The transaction was also approved by the Regulator of Insurance subject to creating an unrecognized asset 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.

- h. Financial covenants by banks in subsidiaries:

In connection with certain of the subsidiaries transactions with banks, Direct Holdings provides guarantees and deposits in immaterial amounts.

On May 13, 2009, the financing company was approved a new bank credit facility. The credit was granted by way of short-term loans up to a total of NIS 50 million. After the balance sheet date, on July 26, 2009, the bank credit facility was extended to NIS 90 million.

After the balance sheet date, on October 8, 2009, the financing company was approved another bank credit facility. The credit was granted by way of short-term loans up to a total of NIS 30 million. The credit was granted under a parri-passu agreement between the bank credit lenders.

The credit utilized by the financing company out of the credit facility described above as of the date of the approval of the interim financial statements totaled approximately NIS 116 million.

Subsidiaries are also committed to maintain financial ratios, as stated in the Company's annual financial statements.

As of June 30, 2009 and the date of the approval of the financial statements, the subsidiaries are meeting the established financial covenants.

- i. On February 4, 2009, Maalot issued an updated rating of the subordinated deeds of Direct Holdings according to which the rating of the subordinated deeds was lowered to ilBB/Negative under a negative outlook. On February 19, 2009, Maalot issued the report of the principle considerations when lowering the rating. After the balance sheet date, on November 11, 2009, Maalot issued a report that approves the present rating.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
NOTE 7:- 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 Israeli insurance subsidiary and other institutional entities consolidated in the financial statements are subject to the capital requirements determined by the Regulator of Insurance, the Tel-Aviv Stock Exchange and the Israeli Securities Authority.

b. Capital requirements in subsidiaries:

1. Insurance subsidiaries 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.

	December 31, 2008	June 30, 2009
	Audited	Unaudited
	NIS in thousands	
Minimum shareholders' equity:		
Amount required by the Capital Regulations and the Regulator's directives (a)	233,327	259,290
Primary capital	194,599	238,852
Subordinated capital (b)	49,854	88,580
	<u>244,453</u>	<u>327,432</u>
Surplus (c)	<u>11,126</u>	<u>68,142</u>
Primary capital:		
Minimum amount required by the Regulations	80,128	81,107
Amount calculated as per the Regulations	<u>194,599</u>	<u>238,852</u>
Surplus	<u>114,471</u>	<u>157,745</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	56,296
For extraordinary life assurance risks	40,439	41,172
Non-deductible assets as defined in the Capital Regulations and the Regulator's directives (d)	<u>6,383</u>	<u>27,133</u>
	<u>102,831</u>	<u>124,601</u>
(b) Includes subordinated deeds (Note 6c)	<u>49,854</u>	<u>88,580</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

- (c) 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.
- (d) As for additional capital requirements in respect of the transaction for the purchase of the loans from a related company, see Note 6g above.
- 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 starting from the financial statements for the second quarter of 2008. 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 June 2009, an amendment draft to the Supervision of Financial Services (Capital Adequacy Requirement from an Insurer) Regulations (Revised), 2009 was issued ("the draft").

In the draft, capital requirements in the following categories are suggested in addition to the existing capital requirements:

- (1) Return yielding programs in life assurance that are not backed, in whole or in part, by designated debentures.
- (2) Operating risks.
- (3) Credit risks as a percentage of assets based on the level of risk that characterizes the different assets.
- (4) Catastrophe risks in general insurance.
- (5) Capital requirements for the insurer's holding of provident fund and pension fund management companies.

The new capital requirements are expected to significantly increase the required minimum shareholders' equity but their effect cannot be assessed until the final formulation of the regulations. According to the draft, an insurer whose shareholders' equity required on the date of the issuance of the Regulations is lower than the shareholders' equity required by the draft ("the difference") will be obligated to increase it to the required amount at the following rates: at least 30% of the difference by December 31, 2009; at least another 30% of the difference by December 31, 2010 and the balance of up to 40% of the difference by December 31, 2011.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

According to the draft, the minimum capital required from the insurance subsidiary is expected to increase by approximately NIS 110 million such that based on the existing surplus of capital at the balance sheet date, the amount that is required to be completed approximates NIS 42 million. These amounts are based on the draft under its present format and at this stage, it is difficult to determine the amounts that will be needed for the completion until the final formulation of the regulations.

Pursuant to the above and given the fact that the insurance subsidiary has surplus capital as of June 30, 2009, the insurance subsidiary does not expect to be required to complete the capital for December 31, 2009.

According to the draft, once the EU's Solvency 2 Directive for securing insurers' solvency becomes effective ("the Directive"), the Directive's provisions will supersede said regulations according to the changes and adjustments prescribed by the Regulator.

The proposed Directive is based on three pillars: quantitative requirements, qualitative requirements and disclosure requirements and forms a comprehensive and fundamental change in the regulations for securing the capital solvency and adequacy of insurance companies in the countries of the European Union. According to the schedules that were determined by the European Union, the proposed Directive is expected to be applied in the countries of the European Union in the second half of 2012. According to the draft, the Regulator may defer the date of application of the provisions of the Directive, in whole or in part, for a period that will not exceed 24 months. The insurance subsidiaries in Israel began to prepare for the application of the proposed Directive within the determined schedules.

- d) On January 25, 2009, the Regulator of Insurance issued a letter regarding an exemption in respect of the capital required from insurance companies for purposes of the rate of subordinated capital and passive exception as follows.

In respect of each increase in primary capital created due to the provision of funds to the insurance company by its controlling shareholders starting from December 1, 2008 through June 30, 2009 ("the increase"), the insurance company will be entitled to include in its recognized shareholders' equity subordinated capital at a rate of 75% of the total increase and not at the rate of 50% as determined in the Capital Regulations, up to a maximum of 60% of the total primary capital. The increase of the subordinate capital rate as discussed above will be reduced on a straight-line basis from June 30, 2009 through June 30, 2010.

An asset held against the Investment Regulations (unrecognized asset) will not be considered as an unrecognized asset as defined in the Capital regulations provided that the exception to the restrictions and to the conditions was created after October 1, 2008 and due to a change in the market value of the investment assets, or due to a decrease in the par value of a marketable security, or due to the lowering of the rating of a security or a reinsurer's rating, or due to a change in the insurer's liabilities or due to a change in the insurer's shareholders' equity, but in any event, not due to a new investment in the investment asset subject to the Regulator's advance approval. The insurance subsidiary did not utilize this exemption.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

- e) On March 30, 2009, the Regulator issued a circular according to which starting from the financial statements for 2008 through December 31, 2010, an insurance company will not distribute dividends unless at the Regulator's advance approval. According to the letter, as a rule, the distribution of a dividend at a rate exceeding 25% of the distributable income will not be allowed.
- f) 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. Subsidiaries that manage provident funds:

- a) Subsidiaries that manage provident funds comply with the capital requirements prescribed by the Income Tax Regulations.
- b) In June 2009, a draft of the Supervision of Financial Services Regulations (Provident Funds) (Minimum Shareholders' Equity required from a Managing Company), 2009 and a draft of a circular regarding the capital requirements from managing companies ("the directives").

In accordance with the directives, it is proposed to expand the capital requirements from managing companies. The new capital requirements will include capital requirements relevant to the volume of the managed assets, but not less than an initial shareholders' equity of NIS 10 million. Capital requirements relating to unrecognized assets, including deferred acquisition costs, were also prescribed.

In accordance with the directives, a managing company that has obtained a license prior to the date of the publication of the Circular and whose shareholders' equity on the date of publication is lower than the required minimum shareholders' equity as above will be required to increase its shareholders' equity at least by half of the required amount up to March 31, 2010 and the balance of the amount up to December 31, 2010.

Pursuant to the above directives, the capital required from one provident fund managing subsidiary will increase to approximately NIS 19 million based on the scope of assets managed by it at June 30, 2009. The existing capital in this subsidiary amounts to approximately NIS 25 million.

Another provident fund managing subsidiary will be required to increase the capital to approximately NIS 10 million. The existing capital in this subsidiary amounts to approximately NIS 2 million.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

- c) 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 for up to 25% of income allowed for distribution.

3. 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.

4. Subsidiary that manages portfolios:

- a) Capital required pursuant to the Stock Exchange Regulations:

A portfolio managing subsidiary (Direct Investment House (Portfolio Management) Ltd., "Direct Portfolio Management") is a member of the Tel-Aviv Securities Stock Exchange. According to the Stock Exchange Regulations, Direct Portfolio Management is required to have minimum shareholders' equity that is derived, among other things, from the scopes of activity in Direct Portfolio Management as a Stock Exchange member and as a portfolio management company. Given that Direct Insurance has an outstanding debt to Direct Portfolio Management in the amount of approximately NIS 6.5 million, which according to the Regulations must be offset from Direct Portfolio Management's shareholders' equity, Direct Portfolio Management has a minimum shareholders' deficiency of some NIS 1 million.

After the balance sheet date, Direct Insurance repaid Direct Portfolio Management approximately NIS 4.5 million and consequently, on the date of the approval of the financial statements, Direct Portfolio Management is in compliance with the capital requirements prescribed by the Stock Exchange Regulations.

- b) Amendment of shareholders' equity requirement from the Stock Exchange members:

A portfolio managing subsidiary (Direct Investment House (Portfolio Management) Ltd., "Direct Portfolio Management") is a member of the Tel-Aviv Securities Stock Exchange.

The Stock Exchange is acting to amend its regulations pertaining to the capital required from the Stock Exchange members. According to an estimate prepared by the Stock Exchange and based on the December 31, 2008 data, if the proposed amendment is accepted, Direct Portfolio Management will be required to increase its shareholders' equity to approximately NIS 48 million, of which Direct Portfolio Management will be able to place approximately NIS 18 million as subordinated capital, as defined in the Regulations. Pursuant to information obtained by Direct Portfolio Management from the Stock Exchange, the proposed required capital calculation model is expected to be modified and Direct Portfolio Management estimates that the final model, as will be approved, will require lower capital, but nevertheless higher capital than Direct Portfolio Management's capital as of June 30, 2009. As of the date of the financial statements, the proceedings for introducing the amendment to the Stock Exchange Regulations have yet to be finalized.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- CONTINGENT LIABILITIES

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 the subsidiaries will be accepted 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 subsidiaries' 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 subsidiaries. The amount of the provision included in the financial statements to cover the exposure is immaterial.

The chances of the request for approving the claim discussed in i below as a class action cannot be assessed at this stage and, therefore, no provision has been included in its respect in the financial statements.

- 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, 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.

The class action is submitted in the name of all of the Israeli insurance subsidiary'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 Israeli insurance subsidiary's response was submitted to the court, arguing that the claim should be dismissed since the Israeli insurance subsidiary 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 Israeli insurance subsidiary claims illegality of the sanction provision determined in the Regulator's circular.

After the balance sheet date, on August 25, 2009, the court rendered a decision according to which the plaintiff should present a deposition within 10 days stating that he acted pursuant to paragraphs 5 and 6 to the Class Actions Law and that, to his best knowledge, paragraph 7 to the Law should not be applied. It was also decided that the legal advisor to the Government will inform within 30 days if he wishes to join the proceeding. Until the date when this report was written, neither a deposition as above and/or announcement of the legal advisor to the Government of his intention to join the proceedings were presented. A hearing of the claim was not yet scheduled.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- CONTINGENT LIABILITIES (Cont.)

- 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 Israeli insurance subsidiary 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 Israeli insurance subsidiary'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.

On June 4, 2009, all the plaintiffs in this claim filed a motion for abandonment of action, under the consent of the defendants, including the Israeli insurance subsidiary, in the context of which the personal claim of each of the class action petitioners was also dismissed.

In this context, the Israeli insurance subsidiary also consented to pay an overall amount of NIS 12,000 ex gratia and as nuisance value to cover some of the fees and efforts incurred to and expended by the class action petitioners and their representatives in respect of said proceedings. The motion for abandonment of action was approved by the Court on June 30, 2009 to the letter.

- 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 Israeli insurance subsidiary 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- CONTINGENT LIABILITIES (Cont.)

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 Israeli insurance subsidiary'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 Israeli insurance subsidiary, and signed a settlement note after legal consulting. Also, the Israeli insurance subsidiary claims different interpretation of provisions of the Insurance Contracts Law that delete the source of the claim argument.

After the balance sheet date, on September 10, 2009, the plaintiff, with the consent of the insurance subsidiary, filed a request to assign the deliberation in the claim so that it will be heard with other similar claims that were filed against other subsidiaries ("the other claims"). On September 13, 2009, said request was approved.

A preliminary hearing in the claim and the other claims was held on October 15, 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 Israeli insurance subsidiary, arguing that the Israeli insurance subsidiary 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 Israeli insurance subsidiary insurance remuneration or payment for damage incurred to a vehicle, as a policyholder or as a third party, for which the Israeli insurance subsidiary 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 Israeli insurance subsidiary 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 Israeli insurance subsidiary and did not exhaust its claims against the Israeli insurance subsidiary in more appropriate ways.

The plaintiff submitted its response to the Israeli insurance subsidiary's response on April 26, 2009. In addition, a request was filed for consolidating the hearings of several claims filed with the same subject matter, including the claim at hand. In her decision of June 11, 2009, the Judge stated that if the plaintiff wishes to consolidate the hearing of this case with other cases, it must act in the manner prescribed by Section 7(a) to the Class Action Law.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- CONTINGENT LIABILITIES (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 Israeli insurance subsidiary, 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 Israeli insurance subsidiary 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 Israeli insurance subsidiary 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 Israeli insurance subsidiary, 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 33,300,000.

On June 18, 2009, the Israeli insurance subsidiary filed its response with the Court arguing that the claim should be dismissed given the absence of any cause, either by the class action petitioner or by anyone else. A preliminary hearing of the claim was scheduled for December 2, 2009.

- 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 Israeli insurance subsidiary, arguing that, in contradiction to relevant legislation, the Israeli insurance subsidiary 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 Israeli insurance subsidiary 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 Israeli insurance subsidiary filed its response with the Court alleging that the claim should be dismissed since the Israeli insurance subsidiary 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 Israeli insurance subsidiary.

On May 13, 2009, a motion was filed with the Court by the plaintiff's representative, Mr. Geva, Adv., for consolidating the hearings of several claims filed through him with the same subject matter, including the claim at hand, and the motion was granted. A hearing in the case was scheduled for November 25, 2009.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- CONTINGENT LIABILITIES (Cont.)

- 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 Israeli insurance subsidiary, arguing that, in contradiction to relevant legislation, the Israeli insurance subsidiary 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.

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 Israeli insurance subsidiary as a third party, amounts and/or insurance remuneration for damage/impairment to a vehicle, and for which the Israeli insurance subsidiary 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 Israeli insurance subsidiary filed its response with the Court alleging that the claim should be dismissed for lack of grounds since the Israeli insurance subsidiary 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 Israeli insurance subsidiary.

On May 13, 2009, a motion was filed with the Court by the plaintiff's representative, Mr. Geva, Adv., for consolidating the hearings of several claims filed through him with the same subject matter, including the claim at hand, arguing that the other motions all deal with the same questions of fact or law as in the claim at hand. The motion was granted.

On July 1, 2009, a preliminary hearing was held in the consolidated case in the context of which various preliminary proceedings were discussed. Another pre-trial hearing was scheduled for December 29, 2009.

- h. After the balance sheet date, on September 16, 2009, a monetary claim was filed with the Petach Tikva District Court concurrently with a request for approval as a class action against an insurance subsidiary and against nine other insurance companies arguing that, in contradiction to the regulation, the companies collect additional premium for compulsory vehicle insurance relating to age or the number of years of driving of the ensured though, in an insurance event, the differences in the above premiums or non-payment of the required tariff does not have an effect on the payment to the casualty.

The class action is submitted in the name of each individual and/or other legal entity from whom additional payment for a compulsory vehicle insurance certificate due to data relating to age and/or number of years of driving were collected for the authorized user and the other user of the insured vehicle during the period between 2004 and the date of filing the claim.

The individual claim amounts between NIS 900 and NIS 1,000 and the request for approval as a class action incurs a total claim of NIS 1,356,596,608.

On September 30, 2009, under the consent of the insurance subsidiary, the plaintiffs apply to withdraw from the class action after they noted that there is no fault in the way the defendants behaved. Following the application and pursuant to the directive of the court, on October 27, 2009, the plaintiffs filed withdrawal deposition in accordance with paragraph 16 to the Class Actions Law, 2006. At this stage, according to the court's decision, the defendants have to respond to the application to withdraw from the claim.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 8:- CONTINGENT LIABILITIES (Cont.)**

Based on a verdict of the District Court from November 9, 2009, the court approved the application to withdraw from the claim without an order for expenses while deleting the individual claim.

- i. After the balance sheet date, on August 4, 2009, a claim and motion to approve the claim as a class action were filed against a provident fund management subsidiary in which the plaintiffs, wishing to represent a group of people, claim the reimbursement of management fees over charged from the group members in advanced study funds and in provident funds managed by the subsidiary. The amount of the individual claim is approximately NIS 1,141. The plaintiffs estimate the overall amount of the class action at NIS 1 million.

NOTE 9:- TAXES ON INCOME

- a. Changes in the tax rates applicable to the Group's income in the reported period:

In June 2009, the Israeli Parliament (the Knesset) enacted a Value Added Tax Decree (the Tax Rate for Non-Profit Organizations and Financial Institutions), (temporary Provision), 2009 ("the Amendment"). According to the Amendment, in the period from July 1, 2009 through December 31, 2010, the profit tax rate applicable to financial institutions will be increased from 15.5% to 16.5%. Below are the statutory tax rates applicable to financial institutions, including the subsidiaries, following the Amendment:

The current and deferred taxes were calculated according to the new tax rates. The change in tax rates had no material impact on the net income.

<u>Year</u>	<u>Corporate tax rate</u>	<u>Profit tax rate</u> %	<u>Overall tax rate in financial institutions</u>
2009	26	*) 16.0	*) 36.21
2010	25	16.5	35.62
2011 and thereafter	25	15.5	35.06

*) Weighted rate.

- b. Subsequent change in tax rates applicable to the Group's income:

In July 2009, the Knesset approved the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes a gradual reduction in the corporate tax rate.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 9:- TAXES ON INCOME (Cont.)**

Below are the corporate tax rates applicable to the Company and Group companies:

<u>Year</u>	<u>Corporate tax rate</u>	<u>Profit tax rate</u> %	<u>Overall tax rate in financial institutions</u>
2010 (unchanged)	25	16.5	35.62
2011	24	15.5	34.20
2012	23	15.5	33.33
2013	22	15.5	32.47
2014	21	15.5	31.60
2015	20	15.5	30.74
2016 and thereafter	18	15.5	29.00

The Group is evaluating the effect of said change on the balances of deferred taxes.

NOTE 10:- EVENTS AFTER THE BALANCE SHEET DATE

a. Agreements to sell investment properties in Adgar:

- In July 2009, Adgar signed an agreement to sell the power center complex in Petach-Tikva, Israel (except 15,000 sq. m. of building rights to offices which Adgar retained and that are intended to be transferred to other real estate which it owns) for approximately NIS 67.4 million. The transaction was closed during August 2009. Adgar will not derive a material gain/loss from the sale because the property is presented at fair value.
- In August 2009, Adgar signed an agreement to sell 50% of Adgar Tower in Petach-Tikva, Israel to companies that are members of the Clal Insurance group ("Clal") for approximately NIS 161 million.

Adgar has undertaken towards Clal to generate guaranteed annual income, linked to the Israeli CPI, for Clal's share in the Tower, over a period of 90 months from closing, as follows: (1) for the first period of 30 months - NIS 13.15 million per year (an aggregate sum of NIS 32.88 million for this period); (2) for the second period of 30 months - NIS 12.75 million per year (an aggregate sum of NIS 31.87 million for this period) and (3) for the third period of 30 months - NIS 12.34 million per year (an aggregate sum of NIS 30.86 million for this period) ["the guaranteed income" and "the guaranteed aggregate income", as the case may be]. If, in practice, the aggregate income in the hands of Clal (less Clal's share in the expenses) in any of the periods is lower than the guaranteed aggregate income, Adgar will pay Clal the difference.

Adgar will provide to the buyers a bank guarantee amounting to NIS 11.5 million, linked to the Israeli CPI, for the guaranteed income. The guarantee will drop to NIS 8.5 million after 2.5 years and to NIS 5.5 million after 5 years. The guarantee will be restored to Adgar after 7.5 years.

Part of the payment, approximately NIS 100 million, will be used to repay Adgar's liabilities to banks and the balance will be used for Adgar's operating needs.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

As a result of the sale, the Company expects to record a gain of approximately NIS 17 million from measuring fair value of part of the sold real estate which was recognized in the Group as offices of the Company and subsidiaries.

b. Transactions between related parties:

On July 27, 2009, the audit committee and board of directors of Direct Insurance approved Direct Insurance's engagement with Direct Holdings in an agreement whereby Direct Insurance will sell to Direct Holdings all the issued and outstanding capital of Direct Investment House Ltd. ("Direct Investments"), which is wholly owned by Direct Insurance, and will also sell by assignment all rights and debts in connection with shareholders' loans extended by Direct Insurance to Direct Investments ("the transaction").

Direct Investments is engaged in activity to render financial services, comprising mainly portfolio management services and marketing of investments, mutual funds management services, brokerage services, underwriting and stock exchange member services.

The consideration stipulated in the agreement totals approximately NIS 83.4 million ("the consideration") as of closing. Any amount included in other funds provided by Direct Insurance to Direct Investments, if any, from closing to the date of consummating the transaction pursuant to the agreement will be added to the consideration.

An amount of approximately NIS 73.7 million of the consideration is for the assignment of the rights according to agreements for shareholders' loans extended by Direct Insurance to Direct Investments, as above. This amount will be linked to the Israeli CPI and bear annual interest of 4% from the closing date through the date of consummating the transaction. The balance of the consideration, a total of approximately NIS 9.7 million for the sold shares, as above, will be linked to the Israeli CPI until the date of consummating and will not bear interest. In addition, Direct Holdings has undertaken to act to release Direct Insurance from guarantees of approximately NIS 8.5 million provided by Direct Insurance to a bank so that after the assignment, Direct Insurance will secure the above guarantee. Releasing Direct Insurance from the guarantee is conditional upon the agreement of that bank and if such agreement is not obtained, Direct Insurance may waive of the request to assign, as above.

The consideration was based, among other things, on an external valuation of Direct Investments.

It was also approved that for the purpose of paying the consideration, Direct Insurance will extend Direct Holdings a loan in the amount of the consideration ("the loan"). The loan will bear annual interest of 4% and will be linked (principal and interest) to the Israeli CPI. The interest and linkage differences accrued on the interest will be repaid by Direct Holdings annually on December 31 and the principal and linkage differences accrued on the principal will be repaid by Direct Holdings on the last day of the 36th month from the date of extending the loan.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

The agreement also contains various obligations by Direct Insurance to indemnify Direct Holdings in case of damages caused to Direct Holdings by the incorrectness and/or breach of representations and by claims and/or payment demands in connection with Direct Investments' activity or in connection with Direct Insurance's rights in Direct Investments' shares whose cause relates to the period before the closing date. The indemnification for any such damages will not exceed the amount of the consideration for the sold shares, a total of approximately NIS 9.7 million, linked to the Israeli CPI, subject to adjustments.

The completion of the transaction is also subject to the approval of the Commissioner of the Capital Market, Insurance and Savings Division at the Ministry of Finance, the approval of the Israel Securities Authority, the approval of the Stock Exchange and any other approval required by applicable law. If and to the extent that the transaction is not consummated by December 31, 2009, it will expire unless the date is extended with the parties' consent.

After the balance sheet date, on October 6, 2009, the general meeting of Direct Insurance approved the transaction. As of the date of the approval of the financial statements, all the regulatory approvals were obtained except the approval of the Israel Securities Authority to the transfer of control in mutual funds. It is emphasized and clarified that the transaction will be consummated even if the merger agreement described in e below is not completed. However, it is indicated that this transaction is a condition to completing the merger transaction described in e below.

- c. On September 17, 2009, after receiving the approval of the audit committees of the companies, the boards of directors of the Company and Direct holdings approved their engagement in an agreement from that date according to which Direct Holdings will acquire from the Company 54,306,000 Ordinary shares of NIS 1 par value of Adgar, representing about 50.001% of Adgar's issued and outstanding share capital and about 48.44% of Adgar's issued and outstanding share capital on a fully diluted basis for the total consideration of NIS 304 million, linked to the Israeli CPI for August 2009 until the known index on the closing date (including in instances of decrease in the Israeli CPI) and subject to the fulfillment of the suspending conditions set for the completion of the transaction ("the agreement").

The consideration is payable to the Company on closing which will occur by the most three days after the date when all suspending conditions relating to transaction have been fulfilled. The agreement determines that the last date to fulfill all the suspending conditions will be no later than November 30, 2009. Despite the above, the parties to the agreement may, with the consent of the audit committee of the parties, extend this date to a period of not more than 90 days after the above date. The agreement also determines that each party will bear its respective taxes in respect of the transaction, as far as applicable. To remove any doubt, it is clarified that each party will bear its expenses for entering into the agreement.

On November 18, 2009, the audit committee and board of directors of Direct Holdings approved to postpone the completion of the transaction to January 31, 2010.

On November 18, 2009, the Company's audit committee approved and on November 30, 2009 the Company's board of directors approved to postpone the completion of the transaction to January 31, 2010.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

According to the agreement, if Adgar distributes cash dividends whose record date (the date of determining the holders who are entitled to receive a dividend) is in the period between the date of the approval of this agreement and the closing date, the amount of the dividends will be deducted from the sold shares including linkage to the Israeli CPI from actual payment date by Agar to the closing date.

The agreement also contains the Company's liability to indemnify Direct Holdings and a method of settling disputes between the parties in an arbitration as is the standard in this type of agreements.

As for the Company's remaining stake of Adgar, representing some 11.57% of Adgar's issued and outstanding share capital which does not constitute part of the sold shares, there are no agreements between the parties and no limitation was placed on the Company's power to act in these shares at its sole discretion.

Direct Holdings intends to finance all the consideration for the acquisition of the sold shares through capital raising by rights issue to shareholders based on a shelf offering published by Direct Holdings according to a shelf prospectus (see f below) and through financing from banks and/or others. It is clarified that the way of financing the transaction is the sole discretion of Direct Holdings.

Closing is subject to the fulfillment of suspending conditions until the record date including, among other things, the following suspending conditions:

1. The approval of the general meeting of Direct Holdings.
2. The completion of capital raising by issue of Direct Holdings rights (including all the approvals, agreements and permits required for that purpose).
3. Direct Holdings shall receive loans from banks and/or others and remove pledges that Zur Shamir recorded on the sold shares in favor of banks.

After the balance sheet date, on October 26, 2009, the general meeting of Direct Holdings approved the agreement and on December 8, 2009, capital raising by issue of Direct Holdings rights was completed and Direct Holdings raised NIS 200,292 thousand (gross).

According to the agreement and subject to its completion, the parent company has undertaken to cancel the agreement for management fees between it and Adgar and to settle all its debts to Adgar which as of June 30, 2009 total NIS 21,145 thousand.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

- d. On November 1, 2009, the board of directors of Direct Insurance approved to carry out a reorganization whose objective, among other things, is to organize all the capital market activity of Direct Insurance in Direct Investments. For that purpose, after the approval of the audit committee and subject to closing the transaction to acquire Direct Investments and suspending conditions set in the agreement (the approval of the Commissioner of the Capital Market, Insurance and Savings Division at the Ministry of Finance and the approval of financial institutions), the board of directors approved the engagement of Direct Holdings in an agreement to sell all the share capital of Direct Management Provident Funds Ltd. ("Direct Provident"), a subsidiary of Direct Holdings, in consideration of approximately NIS 33.6 million, linked to the Israeli CPI until closing plus an amount of up to NIS 88.1 million for shareholders' loans extended by Direct Insurance to Direct Provident which will be assigned to Direct Investments at closing, linked to the Israeli CPI and bearing annual interest of 4.05% until closing. Any amount included in other funds provided by Direct Insurance to Direct Provident until closing, if any, (for complying with regulatory requirements or operating activity) will be added to the consideration. The consideration was based on a valuation of an external appraiser. It was also approved to extend a loan to Direct Investments in the amount of the total consideration (for the shares and the shareholders' loans). The principal of the above loan will bear compounded annual interest of 4.05% and will be linked (principal and interest) to the Israeli CPI. The interest and linkage differences will be repaid annually on December 31 and the principal will be repaid in five equal payments from December 31, 2010 to December 31, 2014. The sale transaction of Direct Provident will be effected as a taxable transaction however, until closing, Direct Insurance is entitled to inform Direct Investments of its intention to effect the transaction in accordance with paragraph 104 to the Income Tax Ordinance. The transaction will be carried out on the as-is condition of Direct Provident without any liability of Direct Insurance to indemnify Direct Investments.

If and to the extent that the transaction is not consummated by June 30, 2010, it will expire unless the date is extended with the parties' consent.

It is emphasized and clarified that the transaction will be consummated even if the merger agreement described in e is not completed. As of the date of the approval of the financial statements, the approval of the Commissioner of the Capital Market, Insurance and Savings Division at the Ministry of Finance was obtained and a principle approval of a financial institution that extended Direct provident a loan was obtained.

- e. On November 1, 2009, the audit committee and board of directors of Direct Insurance approved the engagement in a transaction to exchange shares with Meitav Investments House Ltd. ("Meitav") ("the merger transaction"). Meitav is a company engaged in activity to render financial services, comprising mainly portfolio management services and marketing of investments, mutual funds management services, ETN, brokerage services, underwriting and stock exchange member services. The merger agreement was approved on November 2, 2009.

The merger transaction will be effected such that on the closing date of the merger transaction and subject to the fulfillment of suspending conditions as elaborated below, in consideration of the issuance of about 28.56% of the share capital of Meitav, Direct Holdings will transfer to Meitav all its stake in the share capital of Direct Investments and all its stake in the share capital of Direct Provident if the transaction to sell Direct Provident to Direct Investments House is not completed by then ("the transferred companies of Direct")

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

According to the provisions of the merger transaction, on the closing date, the parties will hold a settling of accounts by reference to the financial and accounting indexes set in the agreement and measured as of September 30, 2009, on the one hand, on the basis of Meitav's business results and, on the other hand, on the basis of the transferred companies of Direct. The settling of accounts between the parties on the closing date, as above, will determine, among other things, the scope of debt to be transferred to Meitav along with the transferred companies of Direct and, consequently, the scope of shareholders' loans to be transferred to Meitav along with the transferred companies of Direct. The agreement also stipulates financial and accounting actions that the parties have to take before closing, such as conversion of shareholders' loans into equity, among other things, in order to comply with the accounting indexes set in the agreement.

According to the merger transaction, the founders of Meitav, Direct Holdings and Gaon Investments, a company engaged in the capital market until its merger with Meitav on June 28, 2009, have undertaken to indemnify Meitav for any obligation whose merits are in event that occurred before September 30, 2009 and for any incorrect representations up to ceilings set in the agreement which were placed for Meitav founders - at NIS 100 million; Direct Holdings - NIS 85 million and Gaon Investments - NIS 65 million. The indemnification is payable in cash (by share premium) or by a dilutive offering (if the identification was not paid in cash). The indemnification for historical period is in effect until the obsolescence of the cause of action and for incorrect representations until the lapse of 4.5 years from closing.

The parties intend to carry out the transaction as a tax exempt transaction for exchange of shares pursuant to paragraph 103t to chapter E to the Income Tax Ordinance, however, the approval of the Tax Authority will not constitute a suspending condition to completing the merger transaction and it will be effected even if the approval, as above, is not obtained.

Concurrently with entering into the merger agreement, Direct Holdings, Gaon Investments and Meitav's founders who are the other shareholders in Meitav, will enter into a shareholders' agreement that will regulate the relationship between the companies as shareholders in Meitav ("the shareholders' agreement"). The shareholders' agreement is for a period of 15 years and it may be extended for two additional periods of five years each (unless all or part of its provisions expire due to decrease in the stake of one of the parties, as stipulated in the agreement) and will contain, among other things, provisions regarding rights of first refusal, tag along, bring along under certain circumstances and the right of the parties to offer its interests in Meitav in a recognized stock exchange.

The shareholders' agreement also anchors the parties rights to nominate directors on Meitav and its investees based on the key of one director for any 7% of Meitav's issued and outstanding share capital. The ratio of the directors' voting rights will reflect the parties' stake in Meitav.

The shareholders' agreement also determines a list of issues the decision in which (both by the boards of directors and general meetings of Meitav and Meitav's investees) will require an absolute majority (unanimously consent) or a relative majority (60% of the share capital of the parties in Meitav).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

The shareholders' agreement determines other provisions which are the standard in this type of agreements including provisions regarding capping period due to restrictions set in the Income Tax Ordinance for exempt transactions, dividend distribution policy, limitation on pledge of shares, non-competition (this commitment applies, among other things, on companies under the Company's control) and etc. As for the issue of non-competition, the shareholders' agreement determines that under certain circumstances if a party or companies it controlled or the controlling shareholders hold securities of a competing body in a level that exceeds a certain percentage, as these terms are defined in the merger agreement, the other parties will be entitled to demand that this party sells its interests in the company (unless the holding in the competing body drops below the agreed percentage) and this according to a predetermined mechanism, including in the issue of price fixing. It was also determined that a change in a controlling shareholder in any party, as defined in the agreement, will confer the other shareholders the right to purchase its stake too according to a predetermined mechanism.

The closing of the merger transaction is conditional upon different suspending conditions as set in the merger agreement, including: (a) to obtain different regulatory approvals as required by law (as well as the approval of the Anti-trust Commissioner, the Commissioner of the Capital Market, Insurance and Savings Division at the Ministry of Finance including to assign to Meitav a guarantee issued by Direct Holdings through its subsidiary for the activity of part of the provident funds managed by Direct Provident, the Securities Authority, the Tel-Aviv Stock Exchange Ltd. ("the regulatory approvals") and (b) completion of the acquisition of Direct Investments by a subsidiary and (c) receipt of the consent of banks and other financial institutions that extended credit to Meitav and its investees and to the transferred companies of Direct for carrying out the merger transaction, including to assign to Meitav guarantees issued by members of Direct group to the transferred companies of Direct and (d) to obtain the approval of different third parties. In all related to the suspending condition mentioned in subparagraph a - regulatory approvals, according to the merger agreement, the parties undertake to be in agreement for the purpose of receiving the regulatory approvals for the conditions set therein provided that they do not constitute onerous condition as the term is defined in the merger agreement. If the suspending conditions are not fulfilled by June 30, 2010, the agreement will expire and the parties will have no demands. If the transaction to acquire Direct Investments House is not completed by the agreed date, the parties will return to the discussion table for a predetermined period to examine the option to effect the transaction under conditions that are substantially similar to that described above but in another way.

Direct Holdings has further approved that if and to the extent that the Ministry of Finance does not agree to assign to Meitav the abovementioned guarantee for the activity of part of the provident funds managed by Direct Provident, as above, Direct Holdings or the insurance subsidiary will remain guarantors under that guarantee, according to the terms set in the merger agreement.

After the merger transaction is complete, Meitav will engage in the field of investments management and different activities in the capital market and, based on data from September 30, 2009, will manage approximately NIS 26.1 billion.

As a result of the merger transaction, Direct Investments estimates that it will record a capital gain in immaterial amount. The capital gain arising on the merger transaction may differ from the abovementioned as a result of changes in accounting standards at the date of consummating the merger transaction, changes in the Israeli CPI, gains or losses recorded by the transferred companies of Direct and by Meitav, changes in settling of accounts, as above, and changes in the value of companies as of the date of closing.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

The audit committee and board of directors of Direct Holdings also approved to grant the chairman of Direct Investments an option to acquire from Direct Holdings shares amounting up to 1.5% of Meitav's share capital. If he does not exercise the shares he has in Direct Investments, he will be issued Meitav's shares. The right is conferred under the conditions agreed between Direct Holdings and the chairman and subject to receiving the approvals of the organizations of Direct Holdings and the audit committee, board of directors and general meeting of the Company in which the chairman acts as a director.

- f. In connection with the engagement in an agreement to acquire Adgar, as described in c above, on November 19, 2009, Direct Holdings published a shelf offering for 115,974,089 Ordinary shares of Direct Holdings of NIS 1 par value each ("the offered shares") by rights issue to shareholders of Direct Holdings and list the offered shares such that any holder of 2 Ordinary shares of Direct Holdings of NIS 1 par value is entitled to acquire one privilege right comprising 3 Ordinary shares of the Company of NIS 1 par value each at the price of NIS 1.73 per share ("the rights issue") by virtue of the shelf prospectus of Direct Holdings from May 29, 2008. On September 17, 2009, the audit committee and board of directors of Direct Insurance approved the participation of Direct Insurance in the rights issue of Direct Holdings. On December 8, 2009, the capital raising by rights issue of Direct Holdings according to which Direct Holdings raised NIS 200,292 (gross) was completed.
- g. As for the claim and motion to approve the claim as a class action in an insurance subsidiary, see Note 8h above.
- h. As for the claim and motion to approve the claim as a class action in a provident fund management subsidiary, see Note 8i above.
- i. As for the lowering of the rating of Adgar's debentures, see Note 6d above.

NOTE 11:- FRAUD BY A FORMER EMPLOYEE OF ADGAR'S SUBSIDIARY

After the balance sheet date, it was noted that a former employee of Adgar's wholly controlled subsidiary in Poland has embezzled during several years in the reserves of the subsidiary in the total of approximately 1 million Zloty (approximately NIS 1.4 million). Adgar immediately initiated a comprehensive examination by outside consultants, together with a Polish accounting firm, legal consultants and others. At this stage, no findings supporting fraud at larger scope were noted. However, disorders were found in the reports of two subsidiaries in Poland mainly non-reporting to the VAT authorities on the subsidiary entitlement to input VAT refund for investments in real estate under construction against mistaken documentation of balances of trade payables and real estate under construction. Adgar's management estimates, based on the opinion of its advisors, that it is highly probable that the VAT amounts which the subsidiary will claim be refunded.

Besides the measures taken to date, Adgar's Board intends to set up an examination staff together with Adgar's internal auditor in order to formulize recommendations for procedures and future operation standard so that such scenarios will not reoccur in the future.

As for a restatement of the interim consolidated financial statements as an outcome of the above, see Note 3d above.
