

**Translated from the
Hebrew original**

ZUR SHAMIR HOLDINGS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2009

UNAUDITED

ZUR SHAMIR HOLDINGS LTD.

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

We have reviewed the accompanying financial information of Zur Shamir Holdings Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of September 30, 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine 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 1.2% of total consolidated revenues for the nine months ended September 30, 2009. 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 7 to the financial statements regarding the exposure to the approval of claims as class actions.
- b. Notes 3d and 11 to the interim financial statements regarding the restatement of the financial statements as of September 30, 2008 and December 31, 2008 in order to retroactively reflect the adjustment of accounting records in the financial reporting of Polish subsidiaries arising mainly from failing to report to the Polish VAT Authorities the subsidiaries' entitlement to net VAT refund for investments in real estate under construction and the incorrect recording of trade payable balances and real estate under construction balances due to irregularities caused by fraud.

Tel-Aviv, Israel
November 30, 2009KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	December 31,	September 30,		Convenience
		2008	*) 2008	2009
	Audited	Unaudited		(Note 1g)
		N I S		September 30,
	(In thousands)			2009
				Unaudited
				U.S. \$
Cash and cash equivalents	468,710	391,336	292,724	77,894
Accounts receivable	**) 229,929	**) 206,887	294,423	78,346
Current tax assets	**) 66,765	58,262	37,082	9,867
Outstanding premium	304,821	310,229	289,494	77,034
Assets held for sale	-	-	52,779	14,044
Financial assets	1,500,578	1,548,623	1,724,426	458,868
Financial derivatives	7,080	25,378	7,107	1,891
Investment properties and real estate under construction	**) 2,907,311	2,889,626	2,768,196	736,615
Fixed assets, net	220,255	220,235	121,131	32,233
Reinsurance assets	197,585	179,870	191,216	50,882
Deferred taxes	60,483	60,036	71,506	19,028
Deferred acquisition costs	132,630	138,607	116,341	30,958
Intangible assets	433,471	432,126	391,882	104,279
Total assets	6,529,618	6,461,215	6,358,307	1,691,939

*) 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,	September 30,		Convenience translation (Note 1g)
	2008	*) 2008	2009	September 30, 2009
	Audited	Unaudited		Unaudited
		NIS		U.S. \$
	(In thousands)			
LIABILITIES:				
Accounts payable	**) 285,695	**) 253,934	244,791	65,139
Financial liabilities	3,582,251	3,488,077	3,357,435	893,410
Financial derivatives	17,482	92	27,041	7,196
Current taxes	84	3,126	2,907	774
Liabilities for yield-dependent contracts	278,232	270,901	341,750	90,939
Liabilities for non-yield dependent insurance and investment contracts	1,639,801	1,640,999	1,567,598	417,135
Employee benefit liabilities, net	9,073	5,921	8,423	2,241
Deferred taxes	80,131	104,142	52,287	13,914
	<u>5,892,749</u>	<u>5,767,192</u>	<u>5,602,232</u>	<u>1,490,748</u>
EQUITY:				
Share capital	216,299	213,993	216,299	57,557
Receipts on account of options	916	916	-	-
Capital reserves	(70,981)	(62,110)	(18,633)	(4,958)
Retained earnings	137,183	180,478	165,124	43,939
	<u>283,417</u>	<u>333,277</u>	<u>362,790</u>	<u>96,538</u>
Less - treasury shares	<u>(61,174)</u>	<u>(61,174)</u>	<u>(61,174)</u>	<u>(16,278)</u>
	<u>222,243</u>	<u>272,103</u>	<u>301,616</u>	<u>80,260</u>
Minority interests	<u>414,626</u>	<u>421,920</u>	<u>454,459</u>	<u>120,931</u>
<u>Total equity</u>	<u>636,869</u>	<u>694,023</u>	<u>756,075</u>	<u>201,191</u>
<u>Total liabilities and equity</u>	<u>6,529,618</u>	<u>6,461,215</u>	<u>6,358,307</u>	<u>1,691,939</u>

*) Reclassified, see Note 2c.

**) Restated, see Note 3d.

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

November 30, 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 September 30,		Nine months ended September 30,		Nine months ended September 30, 2009
		*) 2008	2009	*) 2008	2009	
	Audited	Unaudited				Unaudited
NIS						U.S. \$
(In thousands, except per share amounts)						
Premiums earned on retention	809,593	204,840	227,370	594,660	667,988	177,751
Revenues from rental of properties	170,140	44,374	45,056	127,686	136,673	36,369
Increase (decrease) in value of investment properties and real estate under construction, net	29,383	13,873	(840)	40,851	(254,020)	(67,594)
Net gains (losses) on investments and other financial income (expenses)	(11,014)	(3,061)	45,722	36,741	120,690	32,115
Revenues from management fees	107,592	28,947	25,934	83,491	75,140	19,995
Revenues from consumer credit	23,764	6,995	2,681	16,223	12,017	3,198
Revenues from commissions	14,679	4,656	4,209	12,084	12,604	3,354
Other income	3,149	408	16,731	3,454	16,918	4,502
Total revenues	1,147,286	301,032	366,863	915,190	788,010	209,690
Payments and change in liabilities in respect of insurance contracts on retention	586,817	155,140	193,699	466,629	530,139	141,070
Marketing expenses and acquisition costs	199,320	49,467	47,851	153,253	146,758	39,052
General and administrative expenses	207,569	55,001	52,480	159,456	159,943	42,561
Financial expenses	254,967	64,582	86,902	194,193	166,306	44,254
Other expenses	3,570	51	32	51	1,250	333
Total expenses	665,426	169,101	187,265	506,953	474,257	126,200
Loss before tax	(104,957)	(23,209)	(14,101)	(58,392)	(216,386)	(57,580)
Taxes on income (tax benefit)	(2,227)	1,597	3,574	12,229	(53,981)	(14,364)
Loss from continuing operations	(102,730)	(24,806)	(17,675)	(70,621)	(162,405)	(43,216)
Income (loss) from discontinued operation	(121,900)	(26,860)	-	(85,065)	203,338	54,108
Net income (loss) for the period	(224,630)	(51,666)	(17,675)	(155,686)	40,933	10,892
Net income (loss) for the period attributable to:						
Equity holders of the Company	(158,075)	(38,492)	(16,543)	(114,780)	27,941	7,435
Minority interests	(66,555)	(13,174)	(1,132)	(40,906)	12,992	3,457
	(224,630)	(51,666)	(17,675)	(155,686)	40,933	10,892
Net earnings (loss) per share attributable to equity holders of the Company:						
Basic earnings (loss):						
Loss from continuing operations	(1.09)	(0.33)	(0.25)	(0.92)	(1.77)	(1.77)
Earnings (loss) from discontinued operation	(1.40)	(0.28)	-	(0.91)	2.20	2.20
Basic earnings (loss)	(2.49)	(0.61)	(0.25)	(1.83)	0.43	0.43

*) Reclassified, see Note 2c.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended	Three months ended		Nine months ended		Convenience
	December 31,	September 30,		September 30,		translation
	2008	*) 2008	2009	*) 2008	2009	(Note 1g)
	Audited	Unaudited				Nine months
		NIS				ended
		(In thousands)				September 30,
						2009
						Unaudited
						U.S. \$
Net income (loss) for the period	(224,630)	(51,666)	(17,675)	(155,686)	40,933	10,892
Other comprehensive income (loss):						
Gain (loss) from available-for-sale financial assets, net	(9,280)	(10,388)	2,726	(15,872)	14,239	3,789
Loss from cash flow hedges, net	(10,116)	-	(3,395)	-	(9,436)	(2,511)
Foreign currency translation adjustments of foreign operations, net	(157,458)	(34,028)	7,914	(146,095)	76,321	20,309
Other comprehensive income (loss), net	(176,854)	(44,416)	7,245	(161,967)	81,124	21,587
Total comprehensive income (loss)	(401,484)	(96,082)	(10,430)	(317,653)	122,057	32,479
Comprehensive income (loss) for the period attributable to:						
Equity holders of the Company	(266,208)	(66,291)	(12,570)	(214,042)	79,373	21,121
Minority interests	(135,276)	(29,791)	2,140	(103,611)	42,684	11,358
	(401,484)	(96,082)	(10,430)	(317,653)	122,057	32,479

*) Reclassified, see Note 2c.

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 July 1, 2008 (unaudited)	213,993	34,887	916	218,970	(69,198)	(61,174)	338,394	450,987	789,381
Comprehensive loss	-	-	-	(38,492)	(27,799)	-	(66,291)	(29,791)	(96,082)
Cost of share-based payment	-	-	-	-	-	-	-	724	724
Balance at September 30, 2008 (unaudited)	<u>213,993</u>	<u>34,887</u>	<u>916</u>	<u>180,478</u>	<u>(96,997)</u>	<u>(61,174)</u>	<u>272,103</u>	<u>421,920</u>	<u>694,023</u>

	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 July 1, 2009 (unaudited)	216,299	35,803	-	*) 181,667	*) (58,409)	(61,174)	*) 314,186	452,395	766,581
Comprehensive income	-	-	-	(16,543)	3,973	-	(12,570)	2,140	(10,430)
Cost of share-based payment	-	-	-	-	-	-	-	430	430
Dividend paid to minority	-	-	-	-	-	-	-	(506)	(506)
Balance at September 30, 2009 (unaudited)	<u>216,299</u>	<u>35,803</u>	<u>-</u>	<u>165,124</u>	<u>(54,436)</u>	<u>(61,174)</u>	<u>301,616</u>	<u>454,459</u>	<u>756,075</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								Total equity
	Receipts on							Minority interests	
	Share capital	Share premium	account of options	Retained earnings	Capital reserves	Treasury shares	Total		
	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	-	-	-	(114,780)	(99,262)	-	(214,042)	(103,611)	(317,653)
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	-	-	-	-	-	-	-	2,279	2,279
Dividend paid	-	-	-	(50,000)	-	-	(50,000)	-	(50,000)
Dividend paid to minority	-	-	-	-	-	-	-	(51,460)	(51,460)
Balance at September 30, 2008 (unaudited)	<u>213,993</u>	<u>34,887</u>	<u>916</u>	<u>180,478</u>	<u>(96,997)</u>	<u>(61,174)</u>	<u>272,103</u>	<u>421,920</u>	<u>694,023</u>
	Attributable to equity holders of the Company								Total equity
	Receipts on							Minority interests	
	Share capital	Share premium	account of options	Retained earnings	Capital reserves	Treasury shares	Total		
	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	-	-	-	(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)	<u>216,299</u>	<u>34,887</u>	<u>916</u>	<u>137,183</u>	<u>(105,868)</u>	<u>(61,174)</u>	<u>222,243</u>	<u>414,626</u>	<u>636,869</u>
Comprehensive income	-	-	-	27,941	51,432	-	79,373	42,684	122,057
Expiration of options	-	916	(916)	-	-	-	-	-	-
Cost of share-based payment	-	-	-	-	-	-	-	1,180	1,180
Dividend paid to minority	-	-	-	-	-	-	-	(4,031)	(4,031)
Balance at September 30, 2009 (unaudited)	<u>216,299</u>	<u>35,803</u>	<u>-</u>	<u>165,124</u>	<u>(54,436)</u>	<u>(61,174)</u>	<u>301,616</u>	<u>454,459</u>	<u>756,075</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							Minority interests	Total equity
	Receipts on								
	Share capital	Share premium	account of options	Retained earnings	Capital reserves	Treasury shares	Total		
	Convenience translation into U.S. \$ (Note 1g)								
(In thousands)									
Balance at January 1, 2009 (audited)	57,557	9,283	244	36,504	(28,171)	(16,278)	59,139	110,332	169,471
Comprehensive income	-	-	-	7,435	13,686	-	21,121	11,358	32,479
Expiration of options	-	244	(244)	-	-	-	-	-	-
Cost of share-based payment	-	-	-	-	-	-	-	314	314
Dividend paid to minority	-	-	-	-	-	-	-	(1,073)	(1,073)
Balance at September 30, 2009 (unaudited)	<u>57,557</u>	<u>9,527</u>	<u>-</u>	<u>43,939</u>	<u>(14,485)</u>	<u>(16,278)</u>	<u>80,260</u>	<u>120,931</u>	<u>201,191</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended	Three months ended		Nine months ended		Convenience
	December 31,	September 30,		September 30,		translation
	2008	*) 2008	2009	*) 2008	2009	(Note 1g)
	Audited	Unaudited				Nine months
	N I S					ended
	(In thousands)					September 30,
						2009
						Unaudited
						U.S. \$
Net cash used in continuing operating activities (Schedule A)	(84,422)	(45,982)	(111,524)	(154,249)	(41,239)	(10,974)
Net cash used in discontinued operating activities	(131,226)	(30,724)	-	(92,419)	(101,130)	(26,910)
Net cash used in operating activities	(215,648)	(76,706)	(111,524)	(246,668)	(142,369)	(37,884)
<u>Cash flows from investing activities:</u>						
Purchase of subsidiaries' shares from minority shareholders	(14,818)	-	-	(14,840)	-	-
Purchase of deposits, net	3,563	2,538	(58,520)	18,283	(51,909)	(13,813)
Purchase of assets and investment properties	**) (541,275)	**) (102,769)	(117,878)	**) (418,313)	(220,150)	(58,582)
Proceeds from issue of shares in subsidiary and jointly controlled entity	89,000	29,024	-	87,745	-	-
Proceeds from sale of fixed assets and investment properties	160,226	11,770	219,684	137,737	255,221	67,914
Proceeds from sale of investment in former jointly controlled entity (Schedule B)	-	-	-	-	314,891	83,792
Long-term loans repaid (granted), net	(1,707)	(5,494)	252	(1,921)	(1,400)	(373)
Purchase of intangible assets	(22,851)	(5,842)	(3,336)	(14,982)	(9,371)	(2,494)
Net cash provided by (used in) continuing investing activities	(327,862)	(70,773)	40,202	(206,291)	287,282	76,444
Net cash used in discontinued investing activities	(47,046)	(14,134)	-	(31,420)	(8,482)	(2,256)
Net cash provided by (used in) investing activities	(374,908)	(84,907)	40,202	(237,711)	278,800	74,188

*) 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		Nine months ended		Convenience
	December 31, 2008	*) 2008	2009	*) 2008	2009	translation (Note 1g)
	Audited	Unaudited				Nine months ended September 30, 2009
		NIS				Unaudited
		(In thousands)				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)	(42,584)	(43,918)	(42,584)	(43,918)	(11,687)
Exercise of stock options into shares	2,306	-	-	-	-	-
Increase (decrease) in short-term credit from banks, net	372,684	166,269	150,066	462,195	(109,129)	(29,039)
Receipt (repayment) of long-term loans from banks and others, net	366,803	35,719	(114,987)	154,768	(49,721)	(13,231)
Redemption of Company debentures	(98,030)	(54,011)	(55,954)	(98,030)	(101,542)	(27,020)
Repayment of subsidiary's subordinated deeds	(56,871)	-	-	(56,871)	(58,623)	(15,600)
Dividend paid to equity holders of the Company	(50,000)	-	-	(50,000)	-	-
Dividend paid to minority in subsidiary	(51,461)	-	(506)	(51,461)	(4,031)	(1,073)
Net cash provided by (used in) continuing financing activities	492,166	105,393	(65,299)	367,135	(366,964)	(97,650)
Net cash provided by discontinued financing activities	38,687	-	-	-	52,866	14,069
Net cash provided by (used in) financing activities	530,853	105,393	(65,299)	367,135	(314,098)	(83,581)
Capital reserve from translation differences of discontinued operation	44,429	(6,673)	-	5,245	3,640	969
Effect of exchange rate fluctuations on balances of cash and cash equivalents	(10,233)	4,265	(413)	9,118	(1,959)	(521)
Decrease in cash and cash equivalents	(25,507)	(58,628)	(137,034)	(102,881)	(175,986)	(46,829)
Cash and cash equivalents at beginning of period	494,217	449,964	429,758	494,217	468,710	124,723
Cash and cash equivalents at end of period	468,710	391,336	292,724	391,336	292,724	77,894

*) 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	Nine months ended		Convenience	
	December 31,	September 30,	September 30,		translation	
	2008	*) 2008	2009	*) 2008	2009	
	Audited	Unaudited			Unaudited	
	N I S					U.S. \$
	(In thousands)					
(a) <u>Net cash used in continuing operating activities:</u>						
Net loss for the period from continuing operations	(102,730)	(24,806)	(17,675)	(70,621)	(162,405)	(43,216)
<u>Net purchases of financial investments:</u>						
Financial investments in yield-dependent contracts	(60,406)	(21,137)	(14,230)	(61,127)	(48,680)	(12,954)
Other financial investments	(227,051)	(65,078)	(203,068)	(200,228)	(188,225)	(50,086)
<u>Income and expenses not involving cash flows:</u>						
Impairment of intangible assets	1,000	-	-	-	-	-
Depreciation and amortization	40,970	9,161	9,830	29,901	30,035	7,992
Gain from sale of fixed assets	(402)	(206)	(18,522)	(379)	(17,296)	(4,602)
Capital loss from issue to third party	3,571	-	-	(2,687)	-	-
Cost of share-based payment	2,986	725	430	2,280	1,180	314
Financial expenses and erosion of long-term loans and liabilities, net	254,967	64,582	86,902	194,193	166,306	44,254
Net investment income, financial income (expenses) and other income (expenses)	(14,681)	16,250	31,963	9,039	13,002	3,460
Increase in deferred acquisition costs	(1,024)	(1,835)	(3,654)	(2,056)	(7,268)	(1,934)
Increase (decrease) in value of investment properties	(29,383)	(13,873)	840	(40,851)	254,020	67,594
Tax expenses (benefit)	(2,227)	(22,861)	3,574	(12,229)	(53,981)	(14,364)
Excess of negative cost arising on acquisition of subsidiaries' shares	(2,687)	-	-	-	-	-
	(34,367)	(34,272)	(105,935)	(84,144)	149,093	39,674
<u>Changes in asset and liability items:</u>						
Losses (gains) from financial investments in yield-dependent contracts	8,837	11,030	(11,565)	5,016	(34,019)	(9,052)
Losses (gains) from other financial investments	12,565	(8,992)	(31,802)	(34,738)	(78,342)	(20,847)
Change in liabilities for non-yield dependent insurance contracts	141,128	65,449	45,680	137,587	105,710	28,129
Change in liabilities for yield-dependent contracts	53,673	5,645	21,480	46,342	63,518	16,902
Change in reinsurance assets	(27,971)	(2,410)	3,071	(10,778)	5,836	1,553
Employee benefit liabilities, net	4,074	(374)	(2,259)	905	(650)	(173)
Increase in outstanding premium	(33,004)	(20,245)	(8,821)	(30,886)	(16,579)	(4,412)
Decrease (increase) in accounts receivable	**) (11,457)	**) (19,364)	58,626	**) 476	10,752	2,861
Increase (decrease) in accounts payable	**) 13,729	**) 14,146	(29,405)	**) (29,482)	(9,251)	(2,462)
	161,574	44,885	45,005	84,442	46,975	12,499
<u>Cash paid and received during the period for:</u>						
Interest paid	(157,057)	(38,872)	(40,916)	(113,484)	(137,839)	(36,679)
Interest received	81,613	13,641	21,430	49,747	54,760	14,572
Taxes on income paid	**) (35,923)	(18,548)	(12,651)	(41,949)	(31,671)	(8,428)
Taxes received	-	10,701	(1,400)	16,388	39,154	10,419
Dividend received	2,468	1,289	618	5,372	694	185
	(108,899)	(31,789)	(32,919)	(83,926)	(74,902)	(19,931)
Total net cash used in continuing operating activities	**) (84,422)	**) (45,982)	(111,524)	**) (154,249)	(41,239)	(10,974)

*) 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

					Convenience translation (Note 1g)	
	Year ended December 31, 2008		Three months ended September 30, 2008		Nine months ended September 30, 2009	
	Audited		Unaudited		Unaudited	
	N I S				U.S. \$	
(In thousands)						
(b) <u>Proceeds from sale of investment in former jointly controlled entity:</u>						
Working capital (net of cash and cash equivalents)	-	-	-	-	25,675	6,832
Fixed assets, net	-	-	-	-	57,339	15,258
Outstanding premium	-	-	-	-	38,463	10,235
Deferred acquisition costs	-	-	-	-	18,571	4,942
Insurance reserves net of reinsurance	-	-	-	-	(216,749)	(57,677)
Insurance companies	-	-	-	-	1,497	398
Deferred taxes	-	-	-	-	27,629	7,352
Minority interests	-	-	-	-	(1,993)	(530)
Foreign currency translation reserve	-	-	-	-	10,962	2,917
Capital gain	-	-	-	-	348,036	92,612
Other	-	-	-	-	5,461	1,453
	-	-	-	-	314,891	83,792

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- THE REPORTING ENTITY

- 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 listed for trade on the Tel-Aviv Stock Exchange.

On September 17, 2009, the Company signed an agreement for the sale of 50.001% of Adgar's issued and outstanding share capital to Direct I.D.I. Holdings Ltd. ("Direct Holdings"), a sub-subsidiary of the Company, in consideration of approximately NIS 304 million.

For more details, see Note 9i below.

2. Direct Insurance Financial Investments Ltd ("Direct Insurance") - held by the Company at the rate of 67%, engaged through its subsidiaries in insurance, provident fund, financial services and consumer credit activities. Direct Insurance's securities are listed for trade on the Tel-Aviv Stock Exchange. As for changes in Direct Insurance's areas of activity, see Note 9j below.

- b. As of September 30, 2009, the Company has debentures totaling approximately NIS 46 million which are repayable in the coming year as well as approximately NIS 250 million in short-term bank credit (against pledges).

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 consideration from the sale of the control in Adgar (see a(1) above).

- c. In January 2009, Standard & Poor's Maalot ("Maalot") announced the lowering of the rating of the Company's debentures (series E) from (i1A) to (i1BB-) with a negative outlook.

On September 14, 2009, Maalot announced the raising of the rating of the Company's debentures (series E) to (i1BB-) 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 September 30, 2009, a subsidiary of Direct Insurance, Direct Holdings, has subordinated deeds in the amount of approximately NIS 179 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:- THE REPORTING ENTITY (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 10c 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 9l below.

- f. As of September 30, 2009, Adgar has a working capital deficiency in the amount of approximately NIS 277 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 9b below.

- g. The financial statements as of September 30, 2009 and for the nine months then ended have been translated into U.S. dollars using the representative exchange rate as of that date (\$ 1 = NIS 3.758). 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 nine months ended September 30, 2009, 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 254,020 thousand recorded in decrease (increase) in investment properties and real estate under construction, net (NIS 205,337 thousand net of the tax effect).

c. **Reclassification:**

These financial statements include reclassifications of data included in the financial statements for the nine months of 2008 and for the third 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 to be material.

4. IFRS 9, "Financial Instruments":

In November 2009, the IASB issued IFRS 9, "Financial Instruments" ("the Standard"). This Standard represents the first phase in the project for replacing IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 focuses mainly on the classification and measurement of financial assets and applies to all financial assets under the scope of IAS 39.

According to IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets will be at fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in profit or loss or in other comprehensive income, in accordance with the election of the accounting policy on an instrument-by-instrument basis. This election is final and irrevocable. Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

IFRS 9 will be effective starting January 1, 2013. Early adoption is permitted. For entities that choose to early adopt IFRS 9 in 2009 and 2010, the date of initial adoption may be any date in the reporting period, but not before November 12, 2009 (the date of the issuance of IFRS 9). Comparative information should be restated. However, the provisions of IFRS 9 allow certain transition relief for entities electing to early adopt IFRS 9.

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

The Company is evaluating the possible effect of the adoption of IFRS 9 on the interim consolidated financial statements but is presently unable to assess such effect, if any.

d. Restatement:

The Company restated its financial statements as of September 30, 2008 and December 31, 2008 in order to retroactively reflect the adjustment of accounting records in the financial reporting of Polish wholly-owned subsidiaries arising mainly from failing to report to the Polish VAT Authorities the subsidiaries' entitlement to net VAT refund for investments in real estate under construction and the incorrect recording of trade payable balances and real estate under construction balances due to irregularities caused by fraud in the subsidiary, see more details in Note 11 below.

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

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As presented after the adjustment</u>
	<u>NIS in thousands</u>		
As of September 30, 2008 (unaudited):			
Accounts receivable	183,613	23,274	206,887
Accounts payable	230,660	23,274	253,934
Total equity	694,023	-	694,023
As of December 31, 2008 (audited):			
Accounts receivable	197,923	32,006	229,929
Current taxes receivable	68,260	(1,495)	66,765
Investment property and real estate under construction	2,922,694	(15,383)	2,907,311
Accounts payable	270,587	15,108	285,695
Total equity	636,869	-	636,869
As of July 1, 2009 (unaudited):			
Equity attributable to equity holders of the Company	318,541	(4,355)	314,186
Minority interests	455,115	(2,720)	452,395
Total equity	773,656	(7,075)	766,581
Nine months ended September 30, 2008 (unaudited):			
Cash flows from operating activities	(248,678)	2,010	(246,668)
Cash flows from investing activities	(235,701)	(2,010)	(237,711)
Three months ended September 30, 2008 (unaudited):			
Cash flows from operating activities	(77,464)	758	(76,706)
Cash flows from investing activities	(84,149)	(758)	(84,907)
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)

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

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

<u>As of</u>	<u>Israeli CPI Points *)</u>	<u>Representative exchange rate of</u>		
		<u>U.S. \$</u>	<u>Can. \$ N I S</u>	<u>Euro</u>
September 30, 2009	205.2	3.758	3.501	5.510
September 30, 2008	199.5	3.421	3.303	4.999
December 31, 2008	198.4	3.802	3.113	5.297
<u>Change in period ended</u>		<u>%</u>		
September 30, 2009 (9 months)	3.4	(1.2)	12.5	4.0
September 30, 2009 (3 months)	1.2	(4.1)	3.0	(0.4)
September 30, 2008 (9 months)	4.4	(11.1)	(15.8)	(11.6)
September 30, 2008 (3 months)	2.0	2.1	(0.1)	(5.3)
December 31, 2008 (12 months)	3.8	(1.1)	(20.6)	(6.4)

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

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

a) Motor act insurance:

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

b) Motor casco insurance:

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

c) Comprehensive residential branch:

Coverage of property damages to apartments, including earthquakes.

d) Other branches:

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

4. Finances:

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

5. Grant of consumer credit:

Includes the grant of consumer credit mainly for the purchase of private vehicles (see Note 9f below).

6. Foreign insurance:

Following the sale of Intouch (see Note 5 below), the Company presented the foreign insurance segment as a discontinued activity. The segment included insurance activity as detailed below:

a) Poland:

1) General insurance:

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

2) Life assurance:

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

b) Russia:

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

c) The Czech Republic:

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2008 (audited)												
	Insurance activity in Israel												Discontinued operation (foreign insurance) (Note 5)
	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						
Total													
NIS in thousands													
Premiums earned on retention	-	147,958	222,841	380,064	53,065	5,665	661,635	-	-	-	809,593	192,635	1,002,228
Revenues from rental of properties	181,506	-	-	-	-	-	-	-	-	(11,366)	170,140	-	170,140
Appreciation of investment property	29,383	-	-	-	-	-	-	-	-	-	29,383	-	29,383
Net gains (losses) on investments and other financial income (expenses)	4,154	133	(5,314)	3,016	511	(33)	(1,820)	1,893	109	(15,483)	(11,014)	375	(10,639)
Revenues from management fees	-	91,813	-	-	-	-	-	15,779	-	-	107,592	-	107,592
Revenues from consumer credit	-	-	-	-	-	-	-	-	23,764	-	23,764	-	23,764
Revenues from commissions	-	2,949	-	-	4,657	41	4,698	7,032	-	-	14,679	-	14,679
Other income	-	-	-	-	-	-	-	98	-	3,051	3,149	20,084	23,233
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 insurance liabilities on retention	-	98,075	169,738	293,546	22,039	3,419	488,742	-	-	-	586,817	155,276	742,093
Commissions and other acquisition costs	894	33,221	43,384	70,205	13,508	1,104	128,201	13,640	23,364	-	199,320	117,986	317,306
General and administrative expenses	36,119	73,893	14,605	22,829	4,234	343	42,011	23,039	15,671	16,836	207,569	74,514	282,083
Financial expenses	150,464	16,641	-	-	-	-	-	7,039	8,525	72,298	254,967	11	254,978
Other expenses	9	-	-	-	-	-	-	-	-	3,561	3,570	5	3,575
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 September 30, 2008 (unaudited)												
	Insurance activity in Israel							Finance	Grant of consumer credit	Un-allocated and inter-segment offsets	Discontinued operation (foreign insurance) (Note 5)	Total	Total
	Investment property	Long-term life assurance and savings *)	General insurance				Total						
			Motor act	Motor casco	Residential	Other							
NIS in thousands													
Premiums earned on retention	-	37,744	56,716	96,462	12,387	1,531	167,096	-	-	-	204,840	51,936	256,776
Revenues from rental of properties	44,374	-	-	-	-	-	-	-	-	-	44,374	-	44,374
Appreciation of investment property	13,873	-	-	-	-	-	-	-	-	-	13,873	-	13,873
Net gains on investments and other financial income	1,641	(6,961)	3,683	3,610	644	72	8,009	(72)	-	(5,678)	(3,061)	1,797	(1,264)
Revenues from management fees	-	24,868	-	-	-	-	-	4,079	-	-	28,947	-	28,947
Revenues from consumer credit	-	-	-	-	-	-	-	-	6,995	-	6,995	-	6,995
Revenues from commissions	-	1,284	-	-	1,934	10	1,944	1,428	-	-	4,656	-	4,656
Other income	-	-	-	-	-	-	-	244	-	164	408	517	925
Total revenues	59,888	56,935	60,399	100,072	14,965	1,613	177,049	5,679	6,995	(5,514)	301,032	54,250	355,282
Payments and change in insurance liabilities on retention	-	18,509	54,715	75,800	5,686	430	136,631	-	-	-	155,140	40,919	196,059
Commissions and other acquisition costs	(360)	7,888	11,335	17,355	3,260	245	32,195	3,094	6,650	-	49,467	36,161	85,628
General and administrative expenses	10,052	19,535	2,878	4,713	861	52	8,504	5,292	3,470	8,148	55,001	18,751	73,752
Financial expenses	39,507	4,480	-	-	-	-	-	1,865	2,540	16,190	64,582	-	64,582
Other expenses	9	-	-	-	-	-	-	-	-	42	51	(329)	(278)
Total expenses	49,208	31,903	14,213	22,068	4,121	297	40,699	10,251	12,660	24,380	169,101	54,583	223,684
Income (loss) before tax	10,680	6,523	(8,529)	2,204	5,158	886	(281)	(4,572)	(5,665)	(29,894)	(23,209)	(41,252)	(64,461)

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Three months ended September 30, 2009 (unaudited)										
	Insurance activity in Israel										Un-allocated and inter-segment offsets
	Investment property	Long-term life assurance and savings *)	General insurance					Finance	Grant of consumer credit	Total	
			Motor act	Motor casco	Residential	Other	Total				
NIS in thousands											
Premiums earned on retention	-	38,794	64,605	107,527	14,589	1,855	188,576	-	-	-	227,370
Revenues from rental of properties	48,094	-	-	-	-	-	-	-	-	(3,038)	45,056
Appreciation of investment property	(840)	-	-	-	-	-	-	-	-	-	(840)
Net gains on investments and other financial income	366	17,356	16,053	9,764	1,633	269	27,719	418	786	(923)	45,722
Revenues from management fees	-	21,698	-	-	-	-	-	4,236	-	-	25,934
Revenues from consumer credit	-	-	-	-	-	-	-	-	2,681	-	2,681
Revenues from commissions	-	1,124	-	-	1,322	5	1,327	1,758	-	-	4,209
Other income	16,744	-	-	-	-	-	-	-	-	(13)	16,731
Total revenues	64,364	78,972	80,658	117,291	17,544	2,129	217,622	6,412	3,467	(3,974)	366,863
Payments and change in insurance liabilities on retention	-	40,699	71,531	73,153	6,959	1,357	153,000	-	-	-	193,699
Commissions and other acquisition costs	157	6,318	12,479	18,248	3,378	332	34,437	2,830	4,109	-	47,851
General and administrative expenses	9,713	18,679	4,062	6,208	1,215	102	11,587	5,261	3,278	3,962	52,480
Financial expenses	54,242	6,984	-	-	73	1	74	9,619	540	15,443	86,902
Other expenses	-	-	-	-	-	-	-	-	-	32	32
Total expenses	64,112	31,981	16,541	24,456	4,666	435	46,098	17,710	7,927	19,437	187,265
Income (loss) before tax	252	6,292	(7,414)	19,682	5,919	337	18,524	(11,298)	(4,460)	(23,411)	(14,101)

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Nine months ended September 30, 2008 (unaudited)												
	Insurance activity in Israel							Finance	Grant of consumer credit	Un-allocated and inter-segment offsets	Total	Discontinued operation (foreign insurance) (Note 5)	Total
	Investment property	Long-term life assurance and savings *)	General insurance				Total						
			Motor act	Motor casco	Residential	Other							
	NIS in thousands												
Premiums earned on retention	-	108,810	163,436	279,319	39,050	4,045	485,850	-	-	-	594,660	143,386	738,046
Revenues from rental of properties	133,223	-	-	-	-	-	-	-	-	(5,537)	127,686	-	127,686
Appreciation of investment property	40,851	-	-	-	-	-	-	-	-	-	40,851	-	40,851
Net gains on investments and other financial income	3,072	4,634	17,297	8,315	1,444	254	27,310	860	-	865	36,741	4,235	40,976
Revenues from management fees	-	70,957	-	-	-	-	-	12,534	-	-	83,491	-	83,491
Revenues from consumer credit	-	-	-	-	-	-	-	-	16,223	-	16,223	-	16,223
Revenues from commissions	-	1,835	-	-	4,802	39	4,841	5,408	-	-	12,084	-	12,084
Other income	-	-	-	-	-	-	-	344	-	3,110	3,454	552	4,006
Total revenues	177,146	186,236	180,733	287,634	45,296	4,338	518,001	19,146	16,223	(1,562)	915,190	148,173	1,063,363
Payments and change in insurance liabilities on retention	-	79,601	148,030	219,157	17,172	2,669	387,028	-	-	-	466,629	110,505	577,134
Commissions and other acquisition costs	656	26,052	33,057	52,790	10,492	773	97,112	11,060	18,373	-	153,253	81,452	234,705
General and administrative expenses	30,381	52,430	11,043	17,425	3,280	252	32,000	17,818	9,910	16,917	159,456	56,553	216,009
Financial expenses	108,086	14,384	-	-	-	-	-	6,164	5,562	59,997	194,193	2,277	196,470
Other expenses	9	-	-	-	-	-	-	-	-	42	51	216	267
Total expenses	139,132	92,866	44,100	70,215	13,772	1,025	129,112	35,042	33,845	76,956	506,953	140,498	647,451
Income (loss) before tax	38,014	13,769	(11,397)	(1,738)	14,352	644	1,861	(15,896)	(17,622)	(78,518)	(58,392)	(102,830)	(161,222)

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

Nine months ended September 30, 2009 (unaudited)													
	Insurance activity in Israel							Finance	Grant of consumer credit	Un-allocated and inter-segment offsets	Total	Discontinued operation (foreign insurance) (Note 5)	Total
	Investment property	Long-term life assurance and savings *)	General insurance				Total						
			Motor act	Motor casco	Residential	Other							
NIS in thousands													
Premiums earned on retention	-	119,470	186,357	315,621	41,787	4,753	548,518	-	-	-	667,988	97,250	765,238
Revenues from rental of properties	145,703	-	-	-	-	-	-	-	-	(9,030)	136,673	-	136,673
Appreciation of investment property	(254,020)	-	-	-	-	-	-	-	-	-	(254,020)	-	(254,020)
Net gains on investments and other financial income	1,780	43,798	37,995	19,095	3,046	599	60,735	1,109	1,361	11,907	120,690	3,599	124,289
Revenues from management fees	-	64,167	-	-	-	-	-	10,973	-	-	75,140	-	75,140
Revenues from consumer credit	-	-	-	-	-	-	-	-	12,017	-	12,017	-	12,017
Revenues from commissions	-	3,767	-	-	3,874	19	3,893	4,944	-	-	12,604	-	12,604
Other income	16,744	-	-	-	-	-	-	55	-	119	16,918	348,036	364,954
Total revenues	(89,793)	231,202	224,352	334,716	48,707	5,371	613,146	17,081	13,378	2,996	788,010	448,885	1,236,895
Payments and change in insurance liabilities on retention	-	119,842	172,669	218,436	16,305	2,887	410,297	-	-	-	530,139	98,147	628,286
Commissions and other acquisition costs	517	23,422	36,988	55,323	10,324	883	103,518	7,353	11,948	-	146,758	53,150	199,908
General and administrative expenses	27,608	55,438	12,036	18,580	3,493	293	34,402	14,948	11,002	16,545	159,943	62,046	221,989
Financial expenses	83,046	13,480	-	-	188	2	190	12,712	2,998	53,880	166,306	11	166,317
Other expenses	-	-	-	-	-	-	-	-	-	1,250	1,250	78	1,328
Total expenses	111,171	92,340	49,024	73,903	14,005	1,178	138,110	35,013	25,948	71,675	474,257	115,285	589,542
Income (loss) before tax	(200,964)	19,020	2,659	42,377	18,397	1,306	64,739	(17,932)	(12,570)	(68,679)	(216,386)	235,453	19,067

*) 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 December 31, 2008	Three months ended September 30,		Nine months ended September 30,	
	Audited	2008	2009	2008	2009
Unaudited					
NIS in thousands					
Revenues from management fees	87,863	23,801	20,436	68,030	60,652
Investment income, net	7,321	2,621	4,197	7,198	8,185
Total revenues	95,184	26,422	24,633	75,228	68,837
Change in liabilities and investment contracts	6,561	2,416	3,103	6,500	5,237
Marketing expenses and other acquisition costs	16,688	4,185	2,983	13,432	12,454
General and administrative expenses	52,729	13,638	11,934	37,136	35,407
Total expenses	75,978	20,239	18,020	57,068	53,098
Operating income before financing	19,206	6,183	6,613	18,160	15,739
Financial expenses	16,641	4,480	6,984	14,384	13,480
Income (loss) before tax	2,565	1,703	(371)	3,776	2,259

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		Nine months ended	
	December 31,	September 30,		September 30,	
	2008	2008	2009	2008	2009
	Audited	Unaudited			
	NIS in thousands				
Premiums earned on retention	192,635	51,936	-	143,386	97,250
Net gains on investments and financial income	375	1,797	-	4,235	3,599
Capital gain from sale of joint company	-	-	-	-	348,036
Other income	20,084	517	-	552	-
Total revenues	213,094	54,250	-	148,173	448,885
Payments and change in liabilities in respect of insurance and investment contracts on retention	155,276	40,919	-	110,505	98,147
Marketing expenses and other acquisition costs	117,986	36,161	-	81,452	53,150
General and administrative expenses	74,514	18,751	-	56,553	62,046
Financial expenses	5	-	-	216	78
Other expenses	11	(329)	-	2,277	11
Total expenses	192,516	54,583	-	140,498	115,285
Income (loss) before taxes on income	(134,698)	(41,252)	-	(102,830)	235,453
Taxes on income (tax benefit)	(12,798)	(14,392)	-	(17,765)	32,115
Net income (loss)	(121,900)	(26,860)	-	(85,065)	203,338

NOTE 6:- CAPITAL AND CAPITAL REQUIREMENTS

a. Capital management:

Management's policy requires maintenance of a strong capital base in order to ensure the Company's ability to continue its activity and to derive return for its shareholders, and in order to support future business activity. The 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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	September 30, 2009
	Audited	Unaudited
	NIS in thousands	
Minimum shareholders' equity: Amount required by the Capital Regulations and the Regulator's directives (a)	233,327	266,188
Primary capital	194,599	254,526
Subordinated capital (b)	49,854	89,504
	<u>244,453</u>	<u>344,030</u>
Surplus (c)	<u>11,126</u>	<u>77,842</u>
Primary capital: Minimum amount required by the Regulations	80,128	82,869
Amount calculated as per the Regulations	<u>194,599</u>	<u>254,526</u>
Surplus	<u>114,471</u>	<u>171,657</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	57,084
For extraordinary life assurance risks	40,439	41,806
Non-deductible assets as defined in the Capital Regulations and the Regulator's directives (d)	6,383	27,921
	<u>102,831</u>	<u>126,811</u>
(b) Includes subordinated deeds (Note 9g)	<u>49,854</u>	<u>89,504</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- 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 (see also e) below).
- (d) As for additional capital requirements in respect of the transaction for the purchase of the loans from a related company, see Note 9f below.
- 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.

In addition, the following mitigations were granted:

- (1) A mitigation regarding the calculation of the capital in respect of data systems development expenses, subject to the Regulator's approval;
- (2) A deduction of the reserve for tax that was created due to inadmissible assets that are held against the investment regulations or in contrary the Regulator's directives;

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

In the framework of the amendment, the definition of basic capital was eliminated, the definitions of primary capital and subordinated loan capital were changed and the definition of third tier capital was added. The definitions of subordinated loan capital and third tier capital became subject to the conditions and rates that the Regulator will define. Consequently, and in accordance with the supervision's intentions to adopt, in the future, the Solvency II directive of the European Union with respect to guaranteeing the insurers' repayment capability, in November 2009 a draft circular of institutional entities - Composition of Admitted Shareholders' Equity of an Insurer, was published. The draft sets principles for the structure of an insurer's admitted shareholders' equity, and a framework of principles for the recognition of various capital components and their classification into the various capital tiers. The Company is studying the draft instructions and it cannot estimate its implications at this stage, among others, due to the lack of clarity regarding the draft's implications on the Company's existing primary capital and subordinated loan capital. The insurance companies and the Regulator are expected to hold discussions regarding this issue.

Regarding this matter the Regulator published a temporary order, according to which in the period from the date of the beginning of the amendment up the date the Regulator will notify, there will be no change in the definitions, in the structure and in the manner of calculation of the existing capital.

According to the amendment an insurer will be required to increase, up to the date of publication of the financial statements, its shareholders' equity in respect of the difference between the required capital according to the regulations, before the amendment and after it ("the difference"). The difference will be calculated for each date of the financial statements as specified below until the date of their issuance:

At December 31, 2009, at least 30% of the difference;
At December 31, 2010, at least 60% of the difference;
At December 31, 2011, the full difference.

The abovementioned rates will be increased by 15% on the dates of the issuance of the following semi-annual financial statements to said dated of the financial statements.

Based on the aforementioned amendment, the addition to minimum capital that would have been required from the insurance subsidiary as of September 30, 2009 had the amendment been in effect on said date is approximately NIS 151,861 thousand, so that based on the existing surplus of capital at balance sheet date, the insurance subsidiary will not be required to supplement its capital until the date of the issuance of the financial statements as of December 31, 2009.

- 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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 September 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 September 30, 2009 through September 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.

- e) On March 30, 2009, the Regulator issued a circular according to which starting from the financial statements for 2008 through December 30, 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, the Commissioner of the Capital Market, Insurance and Savings Division at the Ministry of Finance ("the Commissioner"), by virtue of his authority pursuant to Regulation 3 to the Supervision of Financial Services Regulations (Provident Funds) (Minimum Shareholders' Equity required from a Managing Company), 2009, issued draft circulars regarding the update of the capital requirement from provident fund managing companies as follows:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(1) Required minimum shareholders' equity:

The minimum shareholders' equity required from a managing company at balance sheet date will not be lower than the higher of the following amounts: a required initial capital of NIS 10 million and (1) 0.3% of the managed assets whose scope does not exceed NIS 10 billion; (2) 0.2% of the managed assets whose scope exceeds NIS 10 billion but does not exceed NIS 20 billion; (3) 0.1% of the managed assets whose scope exceeds NIS 20 billion.

(2) Alternatives to required minimum shareholders' equity:

The minimum shareholders' equity required from a managing company will be held in accordance with one of the following alternatives:

- (a) The minimum shareholders' equity required pursuant to the above will be placed in a trust account with a bank or member of the Stock Exchange or CPA who serves as trustee for the trust account, under the conditions specified in the draft circulars.
- (b) The minimum shareholders' equity required pursuant to the above will be held in the context of the Company's accounts under the following conditions: (1) the managing company will extend additional capital comprised of the amount of the unrecognized assets and the capital requirement for controlled managing companies; (2) the managing company will hold unpledged assets in the amount of the capital requirement as stated above.

In addition, a managing company that received its license prior to the date of the circular's issuance and whose shareholders' equity on the date of issuance is lower than said required minimum shareholders' equity will increase its shareholders' equity at least by half of the required amount by March 31, 2010 and the balance by December 31, 2010.

Pursuant to the above directives, the capital required from the provident fund managing subsidiaries will increase to approximately NIS 20 million in Direct Provident Fund Management Ltd. ("Direct Provident") based on the scope of assets managed by it at September 30, 2009 and to approximately NIS 10 million in Direct Investment House (Provident Funds) Ltd. ("Direct Provident Funds"). The existing capital in Direct Provident amounts to approximately NIS 24 million and in Direct Provident Funds - approximately NIS 1.7 million.

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

4. Subsidiary that manages portfolios:

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.

In September 2009, at the Stock Exchange's request, Direct Portfolio Management delivered an estimated capital requirement based on the new model according to the data of July 2009 whereby should the proposed amendment be accepted, Direct Portfolio Management will be required to increase its capital to approximately NIS 53 million, of which it will be able to establish an amount of approximately NIS 20 million as subordinated capital, as per 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 September 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.

NOTE 7:- 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 in paragraphs a through g 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 paragraph h 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- CONTINGENT LIABILITIES (Cont.)

- 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 Action 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.

On August 25, 2009, the Court decided that the plaintiff would file a deposition within 10 days according to which it had acted pursuant to Sections 5 and 6 to the Class Action Law and to the best of its knowledge, there is no justification for enacting Section 7 to the Law. It was also decided that the Attorney General would announce whether it intends to join the proceeding within 30 days. Through the date of the preparation of these financial statements, no such deposition has been filed and/or no announcement has been made by the Attorney General regarding the proceeding. A hearing date has not yet been scheduled.

- b. 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 7:- 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.

On September 10, 2009, the plaintiff, with the insurance subsidiary's consent, filed a request to consolidate the hearing in the case with hearings of other similar claims that had been filed against other insurance companies ("the other claims"). On September 13, 2009, the request was granted. A preliminary hearing of the claim and the other claims was held on October 15, 2009.

- c. 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.

- d. 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- CONTINGENT LIABILITIES (Cont.)

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.

- e. 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 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.

- f. 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- CONTINGENT LIABILITIES (Cont.)

The class action is submitted in the name of each individual and/or other legal entity, entitled in the seven years prior to submission of the claim, to receive from the 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.

- g. On September 16, 2009, a monetary claim and a request for approving the claim as a class action were filed with the Petach-Tikva District Court against an insurance subsidiary and nine other insurance companies alleging that the companies illegally collect an additional premium in the context of compulsory vehicle insurance policies for the age and/or driving seniority of an additional licensed vehicle user despite the fact that upon an insurance event, the compensation to the injured party is not affected by these premium variances or by the non payment of the required rate.

The class action is filed on behalf of any person and/or other legal entity that paid an additional premium for the insurance coverage of a compulsory vehicle insurance policy with respect to the age and/or driving seniority of an additional licensed vehicle user during the period commencing in 2004 through the date of filing the claim.

The personal amount claimed is between NIS 900 and NIS 1,000. The overall amount claimed for the entire represented group is NIS 1,356,596,608.

On September 30, 2009, with the insurance subsidiary's consent, the plaintiffs filed a request for withdrawal from the class action after they had learned that there was nothing illegal in the plaintiffs' conduct. Following the filing of the request and in accordance with the Court's instruction, on October 27, 2009, statements of withdrawal were filed by the plaintiffs pursuant to Section 16 to the Class Action Law, 2006. At this stage and based on the Court's decision, the plaintiffs are required to respond to the request for withdrawal.

According to the ruling of the Central District Court of November 9, 2009, the Court granted the plaintiffs' request to withdraw the claim without issuing an order for expenses and by dismissing the personal claim.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 7:- CONTINGENT LIABILITIES (Cont.)**

- h. 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 8:- TAXES ON INCOME

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%.

In July 2009, the Israeli Parliament (the Knesset) enacted 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 rates.

Below are the statutory tax rates applicable to the Company (corporate tax rate) and the Group companies:

<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	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

*) Weighted rate.

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

a. Agreements to sell investment properties in Adgar:

1. 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. As a result of the sale, Adgar did not derive a material gain/loss because the property is presented at fair value.
2. 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 163 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.

As a result of the sale, the Company recorded a gain of approximately NIS 17 million arising from the recording of fair value in respect of some of the sold investment properties, which were registered in the Group as the offices of the Company and of the subsidiaries.

b. 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.

c. 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%.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

d. 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.

e. Discontinued operation:

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

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

On March 31, 2009, the 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 insurance subsidiary purchased the financing company's existing loan portfolio as of March 31, 2009 for NIS 330 million, reflecting a return of 6.1% (before the effect of the allowance for doubtful accounts) on the loan portfolio. The average life of the loans is about 1.7 years.

The purchase was executed using 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 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 insurance subsidiary will be able to depreciate this unrecognized asset over the life of the portfolio provided that there is no deterioration in the quality of credit of the loan portfolio and in coordination with the Regulator.

The credit facility extended to the financing company through the date of sale in a total of approximately NIS 293 million was repaid in full on May 12, 2009 using the proceeds from the sale of the loan portfolio.

g. 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 9:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

h. Financial covenants from banks in subsidiaries:

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

On May 13, 2009, the financing company received a new bank credit facility. The credit was granted by way of short-term loans up to a total of NIS 50 million. 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 granted an additional bank credit facility in the form of short-term loans up to an amount of NIS 30 million. The credit was provided in the context of a *pari passu* agreement with the bank credit providers.

The total credit utilized by the financing company out of the total abovementioned credit facility as of the date of signing the interim financial statements amounted to approximately NIS 85 million.

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

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

i. On September 17, 2009, after obtaining the approval of the audit committees of the Company and of Direct Holdings, the respective Boards approved entering into an agreement of that date whereby Direct Holdings will acquire from the Company 54,306,000 Ordinary shares of NIS 1 par value each 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, in consideration of NIS 304 million, linked to the Israeli CPI of August 2009 up to the known CPI on the date of completion (including in the event of CPI decrease), and subject to the prerequisites for completing the transaction ("the agreement").

The consideration will be paid to the Company upon completion, which will be no later than three days from the date of meeting all the prerequisites in the transaction. The agreement also determines that the last date for meeting all the prerequisites will be no later than November 30, 2009. Nevertheless, the parties to the agreement, with the approval of each party's audit committee, are entitled to extend this date for a period not exceeding 90 days from said date. The agreement also stipulates that each party will bear the taxes applicable to it for the transaction, if any. For the removal of doubt, it should be clarified that each party will bear the related expenses in connection with the agreement.

On November 18, 2009, Direct Holdings' audit committee and Board approved the deferral of the transaction's completion to January 31, 2010.

On November 25, 2009, the Company's audit committee and on November 30, 2009, the Company's Board approved the deferral of the completion date until January 31, 2010.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

According to the agreement, if Adgar distributes a cash dividend whose record date (the date for determining the entitlement to a dividend) applies in the period between the date of closing and the date of completion, the amount of the dividend for the sold shares, linked to the Israeli CPI from the date of actual payment by Adgar through the date of completion, will be subtracted from the consideration.

Furthermore, the agreement includes the Company's obligation to indemnify Direct Holdings and a mechanism for resolving disputes between the parties under standard arbitration proceedings for this type of agreements.

In connection with the remaining shares held by the Company in Adgar, representing about 11.57% of Adgar's issued and outstanding share capital and not forming part of the sold shares, no agreements have been reached between the parties and no limitations have been determined as to the Company's ability to perform transactions in these shares based on its sole discretion.

Direct Holdings intends to finance the full consideration for the purchase of the shares through raising capital by issuing rights to the shareholders based on a shelf prospectus to be issued by Direct Holdings (see Note 10d below) and through bank and/or other borrowings. It should be clarified that the manner of financing the transaction is at Direct Holdings' sole discretion.

The transaction's completion is contingent on the fulfillment of several prerequisites by the record date, including, among other things, the following:

1. The approval of Direct Holdings' general meeting.
2. The finalization of a capital raising round by Direct Holdings in the context of the issuance of rights (including all approvals, agreements and permits needed for that purpose).
3. Obtaining loans by Direct Holdings from banks and/or others and the removal of the charges that had been placed on the sold shares in favor of banks by the Company.

After the balance sheet date, on October 26, 2009, the general meeting of Direct Holdings approved the agreement.

Under the agreement and subject to its completion, the Company undertook to cancel the management fee agreement signed between it and Adgar and to repay all its debts to Adgar, amounting to NIS 20,042 thousand as of September 30, 2009.

- j. On July 27, 2009, the audit committee and Board of Direct Insurance approved Direct Insurance's engagement with Direct Holdings in an agreement according to which Direct Insurance will sell Direct Holdings the entire issued and outstanding share capital of Direct Investment House Ltd. ("Direct Investments"), a wholly-owned subsidiary of Direct Insurance, and will also sell by way of assignment all of its rights and liabilities in connection with shareholders' loans provided by Direct Insurance to Direct Holdings ("the transaction").

Direct Investments provides financial services, mainly portfolio management and investment marketing services, trust fund management services, brokerage services, underwriting and Stock Exchange member services.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

The consideration stipulated in the agreement approximates NIS 83.4 million ("the consideration") as of the date of closing. The consideration will be increased by any amount to be included in additional capital raising rounds provided by Direct Insurance to Direct Investments, if any, after the date of closing and until the date of completion of the transaction as per the agreement.

An amount of approximately NIS 73.7 million of the consideration is payable for the assignment of the rights according to the shareholders' loans provided 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 date of closing through the date of completion. The remaining consideration in a total of approximately NIS 9.7 million for the sold shares will be linked to the Israeli CPI until the date of completion and will not bear interest. In addition, Direct Holdings has undertaken to act to release Direct Insurance from a guarantee provided by Direct Insurance to a bank totaling approximately NIS 8.5 million in such a manner that following the assignment, Direct Insurance will provide the abovementioned guarantee. The release of Direct Insurance from the guarantee is subject to the consent of that bank and in the event that such consent is not granted, Direct Insurance will be entitled to waive the assignment requirement as above.

The consideration was determined, among other things, based on a valuation of Direct Investments prepared by an outside appraiser.

It was also approved that in order to pay the consideration, Direct Insurance will grant Direct Holdings on the date of completion a loan in the amount of the consideration ("the loan"), bearing annual interest of 4% and linked (principal and interest) to the Israeli CPI. The repayment of the interest and accrued linkage differences in respect of the interest will be made by Direct Holdings annually, on December 31, and the principal and accrued linkage differences in respect of the principal will be repaid by Direct Holdings on the last day of the 36th month from the date of placing the loan.

In addition, the agreement includes various obligations by Direct Insurance to indemnify Direct Holdings in the event of damages sustained by Direct Holdings due to incorrectness and/or violation of representations and due to claims and/or demands for payment in connection with Direct Investments' activity or in connection with Direct Insurance's rights to Direct Investments' shares whose grounds relate to the period preceding the date of completion of the transaction. The indemnification for said damages will not exceed the amount of the consideration for the sold shares in a total of NIS 9.7 million, linked to the Israeli CPI and subject to adjustments.

The completion of the transaction is 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 at the parties' consent.

After the balance sheet date, on October 6, 2009, the transaction was approved by the general meeting of Direct Insurance. As of the date of the approval of the financial statements, all the regulatory approvals have been obtained except the approval of the Israel Securities Authority for the transfer of control in the trust funds.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

It should be emphasized and clarified that the transaction will be executed even if the merger engagement, as discussed in Note 10c below, is not consummated. However, this transaction is a prerequisite for the completion of the merger transaction discussed in Note 10c below.

- k. 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 for the repayment of the Company's debentures (series D) ("the Clal policy").
- Another NIS 58 million for the payment of the principal and interest of the debentures (series E) of the Company.
- An amount of up to NIS 25 million to finance the Company's operating activities and mainly to repay credit.

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

The agreement with Bank Hapoalim and the agreements with the qualifying banks include restrictions, liabilities and breach events, as customary in this type of agreements, in respect of which the banks will be entitled to place the credit for immediate repayment. 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.

1. On February 4, 2009, Maalot published an updated rating of Dierct Holdings' subordinated deeds in which it lowered the rating of the subordinated deeds to iIBB/Negative with a negative outlook. On February 19, 2009, Maalot published a report of the primary considerations for lowering the rating. On November 11, 2009, Maalot published a report confirming the current rating.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- EVENTS AFTER THE BALANCE SHEET DATE

- a. On November 1, 2009, the Board of Direct Insurance approved performing a reorganization process whose aim, among other things, is to consolidate Direct Insurance's entire capital market activity under Direct Investments. For that purpose, after obtaining the approval of the audit committee, and subject to completing the transaction for the acquisition of Direct Investments and the prerequisites established 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 approved the engagement of Direct Holdings in an agreement to sell the entire share capital of Direct Provident Fund Management Ltd. ("Direct Provident"), a subsidiary of Direct Holdings, in consideration of approximately NIS 33.6 million, linked to the Israeli CPI up to the date of completion with the addition of up to NIS 88.1 million for shareholders' loans extended by Direct Insurance to Direct Provident, which will be assigned to Direct Investments on the date of consummating the transaction, linked to the Israeli CPI and bearing annual interest of 4.05% through the date of completion.

The consideration will be compounded by any amount to be included in additional capital provided by Direct Insurance to Direct Provident, to the extent provided through the date of completion of said transaction (in order to comply with regulatory requirements or operating activities). The value of the transaction was determined according to a valuation by an outside independent appraiser. The Board also approved granting a loan to Direct Investments in the amount of the overall consideration (for the shares and the shareholders' loans). The loan principal shall bear cumulative annual interest at a rate 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; the principal will be repaid in five equal installments starting from December 31, 2010 and ending on December 31, 2014. The transaction for the sale of Direct Provident will be carried out as a taxable transaction but Direct Insurance will be entitled to inform Direct Investments by the date of consummation that it is interested in performing the transaction pursuant to Section 104 to the Income Tax Ordinance. The transaction will be carried out with Direct Provident remaining as is with no obligation on Direct Insurance's part to indemnify Direct Investments.

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

It should be emphasized and clarified that the transaction will be executed even if the merger engagement, as discussed in paragraph c below, is not consummated. 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 an approval in principle was obtained from a financial institution that had provided Direct Provident a loan.

- b. After the balance sheet date, on October 26, 2009, the general meeting of Direct Holdings approved an increase in its authorized share capital by 155,000 thousand Ordinary shares of NIS 1 par value each so that as of the date of the publication of these financial statements, Direct Holdings' authorized share capital amounts to 271,000 thousand Ordinary shares of NIS 1 par value each.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- c. On November 1, 2009, the audit committee and Board of Direct Holdings approved entering into a share swap transaction with Meitav Investment House Ltd. ("Meitav") ("the merger transaction"). Meitav provides financial services, including mainly portfolio management and investment marketing, management of trust funds and basket certificates, brokerage, underwriting and Stock Exchange membership services. The merger agreement was signed on November 2, 2009.

The merger transaction will be effected such that on the date of completing the merger transaction and subject to the fulfillment of certain prerequisites as detailed below, in return for the allocation of about 28.56% of Meitav's share capital, Direct Holdings will assign to Meitav its entire holdings in the share capital of Direct Investments and its entire holdings in the share capital of Direct Provident if the transaction for the sale of Direct Provident to Direct Investment House is not completed by then ("the transferred Direct companies").

According to the provisions of the merger transaction, on the date of completion, the parties will settle their accounts using the accounting and financial measures stipulated in the agreement to be calculated based on the business results of Meitav on the one hand and of the transferred Direct companies on the other as of September 30, 2009. The settling of accounts between the parties on the date of completion as above will determine, among other things, the scope of the debt to be assigned to Meitav with the transferred Direct companies and consequently, the scope of the shareholders' loans to be assigned with the transferred Direct companies to Meitav. In addition, the agreement prescribes monetary and accounting steps to be undertaken by each party prior to the completion date such as conversion of shareholders' loans into capital also in order to meet the accounting measures stipulated in the agreement.

Under the merger transaction, each of Meitav's founders - Direct Holdings and Gaon Investments, which operated in the capital market until its merger with Meitav on June 28, 2009 - undertook to indemnify Meitav in respect of a liability originating from an event that occurred prior to September 30, 2009 and in respect of false presentations up to the maximum amounts prescribed in the agreement as follows: Meitav's founders - NIS 100 million; Direct Holdings - NIS 85 million and Gaon Investments - NIS 60 million. The indemnification will be paid in cash (by way of payment of share premium) or by dilutive allocation (if the indemnification is not paid in cash). The retrospective period of the indemnification will be until the limitation date of the cause of the claim and for the false presentations - up to 4.5 years from the date of completion.

The parties intend to carry out the merger transaction as a tax-free share swap pursuant to Section 103t to Chapter E to the Income Tax Ordinance. However, the approval of the Israeli Tax Authorities will not form a prerequisite for completing the merger and it will be effected regardless.

Simultaneously with the signing of the merger agreement, Direct Holdings and Gaon Investments will enter into a shareholders' agreement with the other shareholders in Meitav (the founders) for arranging their relationship as shareholders ("the shareholders' agreement"). The shareholders' agreement will be in effect for a period of 15 years and can be extended for two additional five-years periods each (unless the provisions of the shareholders' agreement, in whole or in part, expire due to a decrease in either party's holdings as stipulate in the agreement) and will also include provisions regarding a mutual right of first refusal, a mutual tag-along right, a contingent bring-along right and each party's right to execute an offering in a known stock exchange of that party's shares in Meitav.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

In addition, the shareholders' agreement establishes the parties' rights in connection with the appointment of directors in Meitav and its investees based on one director per 7% of issued and outstanding share capital of Meitav. The directors' voting rights will be pro rata to the parties' respective holdings in Meitav.

The shareholders' agreement also includes a list of issues which will be decided (both on the Board and in the meeting of shareholders of both Meitav and its investees) by absolute majority (unanimously) or relative majority (60% of the parties' shares in Meitav).

The shareholders' agreement prescribes additional provisions as customary in this type of agreements including regarding a restriction period arising from the limitations prescribed by the Income Tax Ordinance for tax-exempt transactions, a dividend distribution policy, restrictions on pledging shares, non competition (this obligation also applies to companies controlled by the Company) etc. As for the non-competition clause, according to the shareholders' agreement, under certain circumstances, if one party or companies under its control or its controlling shareholders hold securities of a competing entity at a rate exceeding a certain percentage as these terms are defined in the merger agreement, then the other parties will be entitled to require that party to sell its stake in the Company (unless the stake in the competing entity drops below the agreed rate), this based on a pre-determined mechanism, including price. It was also decided that any change in controlling shareholders in that party as defined in the agreement will also entitle the other shareholders to acquire that party's shares based on the pre-determined mechanism.

The consummation of the merger transaction is contingent on the fulfillment of various prerequisites as defined in the merger agreement, including: (a) obtaining the various regulatory approvals required by law (including the approval of the Anti-trust Commissioner, the Commissioner of the Capital Market, Insurance and Savings Division at the Ministry of Finance including the assignment to Meitav of a guarantee provided by Direct Holdings through its subsidiary in favor of the activity of some of the provident funds managed by Direct Provident, the approval of the Israel Securities Authority and the Tel-Aviv Stock Exchange) ("regulatory approvals"), and (b) the completion of the transaction for the acquisition of Direct Investments by the subsidiary, and (c) obtaining the consent of banks and other financial institutions that had provided credit to Meitav and its investees and to the transferred Direct companies for the purpose of executing the merger, including the assignment to Meitav of guarantees provided by Direct Group companies to the transferred Direct companies, and (d) obtaining the consent of various third parties.

With respect to the prerequisite mentioned in subsection a) regarding regulatory approvals, the parties to the merger agreed to consent to the terms stipulated in the regulatory approvals in order to obtain those approvals, provided that they do not constitute an onerous condition as defined in the merger agreement. If the above prerequisites are not met by June 30, 2010, the agreement will expire and no claims can be raised by either of the parties. If the transaction for the acquisition of Direct Investment House is not consummated by the agreed upon date, the parties will renegotiate, for a limited period of time, the performance of the transaction under similar terms.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Direct Holdings further confirmed that if and to the extent that the treasury does not approve the assignment of the guarantee as above in respect of the activity of some of the provident funds managed by Direct Provident as above to Meitav, then Direct Holdings or the insurance subsidiary will remain the guarantor under the conditions stipulated in the merger agreement.

After completion of the merger, Meitav will manage investments and engage in other capital market activities at a scope of approximately NIS 26.1 billion, based on the data for September 30, 2009.

Following the merger transaction, Direct Holdings expects to record a capital gain in an immaterial amount. The capital gain derived from the merger transaction may differ from the above estimate due to changes in accounting standards near the date of merger transaction completion, changes in the Israeli CPI, gains or losses recorded in the transferred Direct companies and in Meitav, changes in the settling of accounts and changes in the value of the companies as of the date of completion.

The audit committee and Board of Direct Holdings also approved the grant of an option to the Chairman of the Board of Direct Investments to purchase from Direct Holdings up to 1.5% of Meitav's share capital if he does not exercise his options in Direct Investments. The grant will be under the terms agreed upon between Direct Holdings and the Chairman of the Board and subject to obtaining the legally required approvals of Direct Holdings' organs and the of the audit committee, Board and general meeting of the Company in which the Chairman acts as director.

- d. In connection with the agreement to acquire Adgar discussed in Note 9i above, on November 19, 2009, Direct Holdings issued a shelf prospectus for offering 115,974,089 Ordinary shares of NIS 1 par value each of Direct Holdings ("the offered shares") by way of issuance of rights to the shareholders of Direct Holdings and for listing the offered shares for trade in such a manner that each holder of 2 Ordinary shares of NIS 1 par value of Direct Holdings will be entitled to purchase one right unit comprised of 3 Ordinary shares of the Company of NIS 1 par value each for NIS 1.73 per share ("the issuance of rights"). This was effected by virtue of the shelf prospectus issued by Direct Holdings on May 29, 2008. On September 17, 2009, the audit committee and Board of Direct Insurance approved Direct Insurance's participation in the issuance of rights of Direct Holdings. The utilization of the full rights offered to Direct Insurance in the issuance of rights of Direct Holdings amounted to approximately NIS 170,993 thousand.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11:- EMBEZZLEMENT COMMITTED BY A FORMER EMPLOYEE OF A SUBSIDIARY OF ADGAR

After the balance sheet date, it was revealed that a former employee of a subsidiary of Adgar in Poland, which is fully controlled by Adgar, had embezzled the funds of the subsidiary for a number of years in an aggregate amount of PLZ 1 million (approximately NIS 1.4 million). Adgar initiated an emergency comprehensive audit by outside independent advisors, including an accounting firm in Poland, legal advisors and others. At this stage, there are no findings suggesting a higher scale of embezzlement. Nevertheless, irregularities have been detected in the reports of two of Adgar's subsidiaries in Poland relating mainly to failure to report to the VAT Authorities of a subsidiary's entitlement to input VAT refund in respect of investments in real estate under construction against false recording of balances of trade payables and real estate under construction. Based on legal opinion, Adgar's management estimates that it is highly probable that the VAT amounts that the subsidiary will claim will be granted.

In addition to steps already taken, Adgar's Board intends to set up an inquiry team in collaboration with Adgar's internal auditor in order to devise recommended procedures and a future plan of action for preventing such incidents from reoccurring.

As for the restatement of the financial statements as of September 30, 2008 and December 31, 2008 due to the abovementioned, see Note 3d above.
