

**Translated from the
Hebrew original**

ZUR SHAMIR HOLDINGS LTD.

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2003

ZUR SHAMIR HOLDINGS LTD.
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2003
ADJUSTED TO THE NIS OF DECEMBER 2003

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AUDITORS' REPORT

To the Shareholders of

ZUR SHAMIR HOLDINGS LTD.

We have audited the accompanying balance sheets of Zur Shamir Holdings Ltd. (hereunder - the Company) as at December 31, 2003 and 2002, the consolidated balance sheets as of the same dates, and the statements of profit and loss, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended as at December 31, 2003. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express our opinion on these financial statements based on our audits.

We did not audit the financial statements of subsidiaries whose consolidated assets constitute approximately 9% and 11% of the total consolidated assets as at December 31, 2003 and 2002, respectively, and their revenues constitute approximately 3.4% and 4% and 3.8% of the total consolidated revenues for the years ended at as December 31, 2003, 2002 and 2001, respectively. The financial statements of those companies were audited by other auditors whose reports were rendered to us and our opinion, insofar as it relates to the amounts included in respect of those companies is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as at December 31, 2003 and 2002, and the results of its operations, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended as at December 31, 2003, in conformity with generally accepted accounting principles in Israel. In addition, in our opinion the above financial statements are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993, taking into account that the details regarding subsidiaries which are insurance companies are prepared in conformity with the accounting, reporting and presentation principles prescribed by the Law for the Supervision of Insurance Business, 1981, and the regulations enacted in pursuance thereto.

As detailed in Note 2, the financial statements referred to above are presented in values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with the pronouncements of the Institute of Certified Public Accountants in Israel and subject to the principles as determined in the Regulations of the Supervision of Insurance Business (Financial Statements Details), 1998.

Tel Aviv, Israel
March 28, 2004**KOST FORER GABBAY & KASIERER**
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of December 2003

	Note	Consolidated		Convenience translation into U.S.\$ in thousands **)
		December 31,		
		2003	2002	
		Adjusted NIS in thousands		
CURRENT ASSETS				
Cash and cash equivalents	4	97,218	110,707	21,618
Deposits with financial institutions	5	-	1,422	-
Short term investments	6	7,016	6,980	1,560
Customers	7	35,916	23,941	7,987
Insurance companies	8	46,124	42,424	10,257
Outstanding premiums	9	163,784	89,150	36,421
Debtors and debit balances	10	46,881	40,286	10,425
Inventory of buildings for sale	11	-	572	-
		<u>396,939</u>	<u>315,482</u>	<u>88,268</u>
INVESTMENTS AND LONG TERM LOANS				
Investments of insurance companies	12	859,261	653,433	191,074
Reinsurers' share in insurance reserves and outstanding claims	13	43,286	47,806 *)	9,626
Investment in affiliates and others	14a	3,662	455	814
Long term investments	15	15,834	20,803	3,521
Loans	16	23,871	24,172	5,308
		<u>945,914</u>	<u>746,669</u>	<u>210,343</u>
FIXED ASSETS				
Cost	17	1,343,214	1,155,230	298,691
Less accumulated depreciation		<u>202,810</u>	<u>145,404</u>	<u>45,099</u>
		<u>1,140,404</u>	<u>1,009,826</u>	<u>253,592</u>
DEFERRED ACQUISITION COSTS AND OTHER ASSETS, NET				
Other assets and deferred expenses, net	18	48,940	43,238	10,883
Deferred acquisition costs in insurance companies	19	76,346	55,796	16,977
Deferred taxes	32e	46,099	45,064	10,251
		<u>171,385</u>	<u>144,098</u>	<u>38,111</u>
		<u>2,654,642</u>	<u>2,216,075</u>	<u>590,314</u>

*) Reclassified.

**) See Note 2z.

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

CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of December 2003

	Note	Consolidated		Convenience translation into U.S.\$ in thousands (**)
		December 31,		
		2003	2002	
		Adjusted NIS in thousands		
CURRENT LIABILITIES				
Credit from banking corporations	20	250,427	363,572	55,688
Suppliers and service providers	21	26,748	20,838	5,948
Insurance companies		19,823	18,928	4,407
Creditors and credit balances	22	99,383	74,738	22,100
Current maturities of convertible capital notes	23	12,325	13,994	2,741
Current maturities of subsidiary's convertible capital notes	14b(2)a	-	30,996	-
Current maturities of subsidiary's convertible debentures	24	9	9	2
		<u>408,715</u>	<u>523,075</u>	<u>90,886</u>
LONG TERM LIABILITIES				
Convertible capital notes	23	16,628	32,759	3,698
Subsidiary's convertible debentures	24	32	40	7
Company's debentures	25	100,000	-	22,237
Loans from banking corporations and others	26	882,578	666,842	196,259
Deferred taxes	32e	25,877	21,650	5,754
Liabilities for severance pay, net	27	2,364	1,969	526
		<u>1,027,479</u>	<u>723,260</u>	<u>228,481</u>
INSURANCE RESERVES AND OUTSTANDING CLAIMS	28	<u>984,642</u>	<u>749,704</u> *)	<u>218,955</u>
MINORITY INTEREST		<u>108,982</u>	<u>93,738</u>	<u>24,234</u>
CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES	29			
SHAREHOLDERS' EQUITY	30			
Share capital		203,457	202,190	45,243
Capital reserves		29,346	25,430	6,526
Deficiency		<u>(46,805)</u>	<u>(41,875)</u>	<u>(10,408)</u>
		185,998	185,745	41,361
Shares held by the Company		<u>(61,174)</u>	<u>(59,447)</u>	<u>(13,603)</u>
		<u>124,824</u>	<u>126,298</u>	<u>27,758</u>
		<u>2,654,642</u>	<u>2,216,075</u>	<u>590,314</u>

*) Reclassified.

**) See Note 2z.

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

March 28, 2004

Date of approval of the financial statements

Shalom Schneidman
Chairman of the BoardMoshe Schneidman
Managing Director
and Member of the BoardRonen Nekar
Finance Manager

COMPANY BALANCE SHEETS
Adjusted to the NIS of December 2003

	<u>Note</u>	<u>Company</u>		<u>Convenience translation into U.S.\$ in thousands *)</u>
		<u>December 31,</u>		
		<u>2003</u>	<u>2002</u>	
		<u>Adjusted NIS in thousands</u>		
CURRENT ASSETS				
Cash and cash equivalents	4	1,262	881	281
Short term investments	6	290	403	64
Customers	7	190	82	42
Debtors and debit balances	10	1,315	343	293
		<u>3,057</u>	<u>1,709</u>	<u>680</u>
LONG TERM INVESTMENTS AND LOANS				
Investment in subsidiaries	14b	<u>314,683</u>	<u>318,575</u>	<u>69,976</u>
FIXED ASSETS				
	17			
Cost		55,649	52,420	12,375
Less accumulated depreciation		<u>10,320</u>	<u>9,452</u>	<u>2,295</u>
		<u>45,329</u>	<u>42,968</u>	<u>10,080</u>
DEFERRED ACQUISITION COSTS AND OTHER ASSETS, NET				
Other assets and deferred expenses, net	18	7,630	818	1,697
Deferred taxes	32e	<u>4,872</u>	<u>4,945</u>	<u>1,083</u>
		<u>12,502</u>	<u>5,763</u>	<u>2,780</u>
		<u>375,571</u>	<u>369,015</u>	<u>83,516</u>

*) See Note 2z.

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

COMPANY BALANCE SHEETS
Adjusted to the NIS of December 2003

	Note	Company		Convenience translation into U.S.\$ in thousands *)
		December 31,		
		2003	2002	
		Adjusted NIS in thousands		
CURRENT LIABILITIES				
Credit from banking corporations	20	102,171	164,378	22,720
Suppliers and service providers	21	771	128	171
Creditors and credit balances	22	5,085	5,343	1,131
Current maturities of convertible capital notes	23	12,325	13,994	2,741
		<u>120,352</u>	<u>183,843</u>	<u>26,763</u>
LONG TERM LIABILITIES				
Convertible capital notes	23	16,628	32,759	3,698
Debentures	25	100,000	-	22,237
Loans from banking corporations and others	26	13,767	26,115	3,061
		<u>130,395</u>	<u>58,874</u>	<u>28,996</u>
CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES	29			
SHAREHOLDERS' EQUITY				
Share capital	30	203,457	202,190	45,243
Capital reserves		29,346	25,430	6,525
Deficiency		(46,805)	(41,875)	(10,408)
		185,998	185,745	41,360
Shares held by the Company		(61,174)	(59,447)	(13,603)
		<u>124,824</u>	<u>126,298</u>	<u>27,757</u>
		<u>375,571</u>	<u>369,015</u>	<u>83,516</u>

*) See Note 2z.

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

March 28, 2004			
Date of approval of the financial statements	Shalom Schneidman Chairman of the Board	Moshe Schneidman Managing Director and Member of the Board	Ronen Nekar Finance Manager

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

Adjusted to the NIS of December 2003

		Consolidated			Convenience translation into U.S.\$ in thousands **)
		Year ended December 31,			
		2003	2002	2001	
		Adjusted NIS in thousands (except per share data)			
Income					
From insurance business	31a	678,391	503,924	451,096	150,854
From lease of assets		108,176	96,513	80,957	21,055
From construction business		640	16,274	4,306	142
From asset management and stock exchange services		2,965	-	-	659
From sales of software		6,363	1,840	7,271	1,415
Capital gain, net	31h	6,616	5,105	7,877	1,471
		<u>803,151</u>	<u>623,656</u>	<u>551,507</u>	<u>178,596</u>
Costs and expenses					
Insurance business	31b	652,256	461,645	402,974	145,042
Maintenance of assets:					
Depreciation		19,990	16,388	14,034	4,445
Others		5,545	5,577	3,534	1,233
Construction business	31c	640	13,869	4,183	142
From asset management and stock exchange services	31d	3,473	-	-	772
Cost of sales of software	31e	14,531	10,489	13,427	3,232
Financing expenses, net	31f	33,174	51,519	39,587	7,377
Administrative and general expenses	31g	16,208	18,699	21,583	3,604
		<u>745,817</u>	<u>578,186</u>	<u>499,322</u>	<u>165,847</u>
Income before income taxes		57,334	45,470	52,185	12,749
Income taxes	32d	44,195	26,767	34,881	9,828
Income after income taxes		13,139	18,703	17,304	2,921
Company's share in losses of investees		(10)	-	(404)	(2)
Minority interest in profits of subsidiaries		(1,313)	(4,711)	(13,793)	(292)
Income for the year before cumulative effect		<u>11,816</u>	<u>13,992</u>	<u>3,107</u>	<u>2,627</u>
Cumulative effect of change in accounting policies, net, as at beginning of the year		(8,762)	-	-	1,948
Net income for the year		<u>3,054</u>	<u>13,992</u>	<u>3,107</u>	<u>679</u>
Earnings per share for NIS 1 nominal value of ordinary shares (in adjusted NIS, US dollars)	35				
<u>Basic</u>					
Before cumulative effect, net		0.22	0.27	0.06	0.049
Net cumulative effect		(0.18)	-	-	(0.04)
Net income for the year		<u>0.04</u>	<u>0.27</u>	<u>0.06</u>	<u>0.009</u>
<u>Diluted</u>					
Before cumulative effect, net		0.19	0.25	-	0.042
Net cumulative effect		(0.14)	-	-	(0.03)
Net income for the year		<u>0.05</u>	<u>0.25</u>	<u>(*</u>	<u>0.012</u>

*) Not applicable this year.

**) See Note 2z.

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

COMPANY'S STATEMENTS OF PROFIT AND LOSS

Adjusted to the NIS of December 2003

	Note	Company			Convenience translation into U.S.\$ in thousands *)
		Year ended December 31,			
		2003	2002	2001	
		Adjusted NIS in thousands			
Income					
From lease of assets		2,929	6,146	7,797	651
Capital gain, net	31h	4,193	1,245	6,760	932
		<u>7,122</u>	<u>7,391</u>	<u>14,557</u>	<u>1,583</u>
Costs and expenses					
Maintenance of assets:					
Depreciation		723	2,800	3,877	161
Others		239	527	802	53
Financing expenses, net	31f	15,623	7,215	14,403	3,474
Administrative and general expenses	31g	821	3,660	6,662	182
		<u>17,406</u>	<u>14,202</u>	<u>25,744</u>	<u>3,870</u>
Loss before income taxes		(10,284)	(6,811)	(11,187)	(2,287)
Income taxes	32c	178	73	73	39
Loss after income taxes		(10,462)	(6,884)	(11,260)	(2,326)
Company's share in results of subsidiaries		13,516	20,876	14,367	3,005
Net income for the year		<u>3,054</u>	<u>13,992</u>	<u>3,107</u>	<u>679</u>

*) See Note 2z.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**Adjusted to the NIS of December 2003**

	Share capital	Share premium	Capital reserves	Adjustments due to translation of subsidiaries' financial statements	Deficiency	Less shares held by the company and by subsidiaries	Total
Adjusted NIS in thousands							
Balance as at January 1, 2001	202,190	18,195	(1,225)	2,127	(49,209)	(55,334)	116,744
Exercise of a subsidiary's options	-	-	3,438	-	-	-	3,438
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	2,529	-	-	2,529
Distribution of Company shares as a dividend by a subsidiary	-	-	-	-	-	883	883
Net income for the year	-	-	-	-	3,107	-	3,107
Balance as at December 31, 2001	202,190	18,195	2,213	4,656	(46,102)	(54,451)	126,701
Acquisition of subsidiary's convertible debentures [see Note 14(b)(2)(b)]	-	(7,458)	-	-	-	-	(7,458)
Acquisition of Company shares	-	-	-	-	-	(4,996)	(4,996)
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	7,824	-	-	7,824
Dividend paid	-	-	-	-	(9,765)	-	(9,765)
Net income for the year	-	-	-	-	13,992	-	13,992
Balance as at December 31, 2002	202,190	10,737	2,213	12,480	(41,875)	(59,447)	126,298
Conversion of capital notes	1,267	2,161	-	-	-	-	3,428
Acquisition of Company shares	-	-	-	-	-	(1,727)	(1,727)
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	1,755	-	-	1,755
Dividend paid	-	-	-	-	(7,984)	-	(7,984)
Net income for the year	-	-	-	-	3,054	-	3,054
Balance as at December 31, 2003	<u>203,457</u>	<u>12,898</u>	<u>2,213</u>	<u>14,235</u>	<u>(46,805)</u>	<u>(61,174)</u>	<u>124,824</u>

Convenience translation into U.S. Dollars in thousands *)

Balance as at December 31, 2002	44,961	2,388	492	2,775	(9,312)	(13,219)	28,085
Conversion of capital notes	282	480	-	-	-	-	762
Acquisition of Company shares	-	-	-	-	-	(384)	(384)
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	390	-	-	390
Dividend paid	-	-	-	-	(1,775)	-	(1,775)
Net income for the year	-	-	-	-	679	-	679
Balance as at December 31, 2003	<u>45,243</u>	<u>2,868</u>	<u>492</u>	<u>3,165</u>	<u>(10,408)</u>	<u>(13,603)</u>	<u>27,757</u>

*) See Note 2z.

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

STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2003

	CONSOLIDATED				Convenience translation into U.S.\$ in thousands *)	COMPANY		
	Year ended December 31,			U.S.\$ in thousands *)		Year ended December 31,		
	2003	2002	2001			2003	2002	2001
	Adjusted NIS in thousands				Adjusted NIS in thousands			
CASH FLOWS FROM CURRENT ACTIVITIES								
Net income for the year	3,054	13,992	3,107	679	3,054	13,992	3,107	
Adjustments required to present cash flows from current activities (A)	7,591	68,488	45,246	1,688	(9,990)	(15,246)	1,960	
Net cash provided by (used in) current activities	10,645	82,480	48,353	2,367	(6,936)	(1,254)	5,067	
CASH FLOWS FROM INVESTMENT ACTIVITIES								
Acquisition of shares and convertible debentures of subsidiaries from minority shareholders	-	(66,924)	(37,260)	-	-	(56,760)	(55,595)	
Acquisition of subsidiaries first consolidated (B)	(11,594)	-	(57,336)	(2,578)	-	-	-	
Proceeds from realization of investment in a subsidiary consolidated in the past (C)	-	-	-	-	-	19,433	-	
Proceeds from redemption of convertible debentures into shares of a subsidiary	-	-	-	-	-	40,484	-	
Investment in an affiliate	-	-	(859)	-	-	-	-	
Acquisition of Company shares held by a subsidiary	-	-	-	-	-	(39,074)	-	
Payments to creditors for acquisition of a company	-	-	(31,988)	-	-	-	-	
Acquisition of fixed assets	(117,868)	(143,484)	(129,797)	(26,210)	(3,877)	(1,302)	(1,532)	
Proceeds from sale of fixed assets	1,406	1,075	1,309	313	696	628	375	
Exercise of securities, net	5,993	6,895	705	1,333	-	-	-	
Long term loans granted	-	(7,314)	(12,262)	-	(11,782)	(42,067)	-	
Redemption of long term loans	-	1,458	1,344	-	31,086	44,143	2,877	
Realization of deposits with financial institutions, net	1,525	1,226	6,547	339	-	-	-	
Other assets and deferred expenses	(7,829)	(22)	(1,144)	(1,741)	(7,829)	-	-	
Net cash provided by (used in) investment activities	(128,367)	(207,090)	(260,741)	(28,544)	8,294	(34,515)	(53,875)	
Balance carried forward	(117,722)	(124,610)	(212,388)	(26,177)	1,358	(35,769)	(48,808)	

*) See Note 2z.

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

STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2003

	CONSOLIDATED			Convenience translation into U.S.\$ in thousands *)	COMPANY		
	Year ended December 31,				Year ended December 31,		
	2003	2002	2001		2003	2002	2001
	Adjusted NIS in thousands				Adjusted NIS in thousands		
Balance brought forward	(117,722)	(124,610)	(212,388)	(26,177)	1,358	(35,769)	(48,808)
CASH FLOWS FROM FINANCING ACTIVITIES							
Acquisition of Company's shares by the Company and a subsidiary	(1,727)	(4,996)	-	(384)	(1,727)	(4,995)	-
Redemption of convertible capital notes	(12,965)	(13,978)	(13,772)	(2,883)	(12,965)	(14,428)	(13,876)
Redemption of capital notes convertible into subsidiary's shares	(15,418)	(9,747)	-	(3,429)	-	-	-
Redemption of debentures convertible into subsidiary's shares	(9)	(359)	(5,720)	(2)	-	-	-
Issue of debentures	99,384	-	-	22,100	99,384	-	-
Issue of shares to minority in subsidiaries (net of issue expenses)	5,490	4,819	14,023	1,221	-	-	-
Redemption of long term loans from banking corporations	(76,143)	(86,862)	(57,154)	(16,932)	(40,495)	(35,873)	(21,890)
Receipt of long term loans from banking corporations	269,420	246,601	126,562	59,911	21,490	10,192	54,431
Increase (decrease) in short term credit from banking corporations, net	(160,052)	61,218	96,952	(35,591)	(58,680)	88,527	30,697
Payment of dividend to minority in a subsidiary	-	-	(2,565)	-	-	-	-
Dividend paid	(7,984)	(9,765)	-	(1,775)	(7,984)	(9,765)	-
Net cash provided by (used in) financing activities	99,996	186,931	158,326	22,236	(977)	33,658	49,362
Translation differences in relation to cash balances in foreign autonomic subsidiaries	4,237	6,497	4,871	942	-	23	82
Increase (decrease) in cash and cash equivalents	(13,489)	68,818	(49,191)	(2,999)	381	(2,088)	636
Balance of cash and cash equivalents at the beginning of the year	110,707	41,889	91,080	24,617	881	2,969	2,333
Balance of cash and cash equivalents at the end of the year	97,218	110,707	41,889	21,618	1,262	881	2,969

*) See note 2z

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

STATEMENTS OF CASH FLOWS

Adjusted to the NIS of December 2003

	CONSOLIDATED				COMPANY		
	Year ended December 31,			Convenience translation into U.S.\$ in thousands *)	Year ended December 31,		
	2003	2002	2001		2003	2002	2001
	Adjusted NIS in thousands				Adjusted NIS in thousands		
(A) Adjustments required to present cash flows from current activities							
Income and expenses not involving cash flows:							
Company's share in losses (income) of investees net of dividend received	10	-	404	2	(13,516)	(20,876)	1,866
Minority interest in profits of subsidiaries	1,313	4,711	13,793	292	-	-	-
Depreciation and amortization	42,143	34,683	31,379	9,371	2,052	3,996	5,547
Impairment of fixed assets	11,683	-	-	2,598	-	-	-
Capital loss (gain), net	(347)	(170)	321	(77)	(265)	(94)	(128)
Capital gain from issue to a third party	(6,269)	(4,945)	(8,198)	(1,394)	(3,928)	(1,151)	(6,632)
Deferred taxes, net	10,665	5,590	650	2,371	73	73	73
Liability for severance pay, net	238	330	(3,839)	53	-	-	-
Increase in insurance reserves and outstanding claims net of reinsurance	239,458	144,157	133,879	53,248	-	-	-
Increase in deferred acquisition costs in an insurance company	(20,550)	(10,778)	(10,721)	(4,570)	-	-	-
Decrease (increase) in value of securities, net	(1,060)	(1,672)	2,102	(235)	113	(85)	2,490
Interest and erosion of loans and long term liabilities, net	(5,652)	(10,426)	(5,651)	(1,257)	2,389	(646)	1,927
Interest on loans to subsidiaries	-	-	-	-	3,789	(543)	(2,344)
	<u>271,632</u>	<u>161,480</u>	<u>154,119</u>	<u>60,402</u>	<u>(9,293)</u>	<u>(19,326)</u>	<u>2,799</u>
Changes in assets and liabilities:							
Decrease in inventory of apartments for sale	572	12,246	2,716	127	-	-	-
Decrease (increase) in customers	(10,316)	3,433	(13,358)	(2,294)	(108)	373	(195)
Increase in insurance companies, net	(2,326)	(24,601)	(33,564)	(517)	-	-	-
Increase in outstanding premiums	(74,634)	(13,868)	(10,443)	(16,596)	-	-	-
Increase in investments of insurance companies, net	(203,032)	(84,905)	(77,647)	(45,148)	-	-	-
Decrease (increase) in debtors and debit balances	1,487	1,467	11,009	331	(973)	574	(514)
Increase (decrease) in suppliers and service providers	5,607	8,362	(3,320)	1,247	642	(30)	(7)
Increase (decrease) in creditors and credit balances	18,601	4,874	15,734	4,136	(258)	3,163	(123)
	<u>(264,041)</u>	<u>(92,992)</u>	<u>(108,873)</u>	<u>(58,714)</u>	<u>(697)</u>	<u>4,080</u>	<u>(839)</u>
	<u>7,591</u>	<u>68,488</u>	<u>45,246</u>	<u>1,688</u>	<u>(9,990)</u>	<u>(15,246)</u>	<u>1,960</u>

*) See Note 2z.

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

STATEMENTS OF CASH FLOWS**Adjusted to the NIS of December 2003**

	CONSOLIDATED			Convenience translation into U.S.\$ in thousands *)	COMPANY		
	Year ended December 31,				Year ended December 31,		
	2003	2002	2001		2003	2002	2001
	Adjusted NIS in thousands				Adjusted NIS in thousands		
(B) Acquisition of subsidiaries first consolidated							
Assets and liabilities of subsidiaries as at consolidation date:							
Working capital (except for cash and cash equivalents)	(5,972)	-	742	(1,328)	-	-	-
Investment in other companies	(1,676)	-	-	(373)	-	-	-
Affiliate	(1,541)	-	-	(342)	-	-	-
Fixed assets, net	(1,540)	-	(58,078)	(342)	-	-	-
Deferred taxes, net	(3,291)	-	-	(732)	-	-	-
Credit from banking corporations	7,212	-	-	1,603	-	-	-
Initial difference from acquisition	(4,786)	-	-	(1,664)	-	-	-
	(11,594)	-	(57,336)	(2,578)	-	-	-
(C) Proceeds from realization of investments in a subsidiary consolidated in the past							
Deficiency in working capital (except for cash and cash equivalents)	-	-	-	-	-	(2,534)	-
Fixed assets, net	-	-	-	-	-	43,885	-
Related companies	-	-	-	-	-	(13,521)	-
Capital reserves from acquisition of a related company	-	-	-	-	-	15,477	-
Loans from banking corporations (including current maturities)	-	-	-	-	-	(23,874)	-
	-	-	-	-	-	19,433	-

*) See Note 2z.

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

STATEMENTS OF CASH FLOWS
Adjusted to the NIS of December 2003

	CONSOLIDATED			Convenience translation into U.S.\$ in thousands *)	COMPANY		
	Year ended December 31,				Year ended December 31,		
	2003	2002	2001		2003	2002	2001
	Adjusted NIS in thousands				Adjusted NIS in thousands		
(D) Material activities not involving cash flows							
Capital issue against conversion of convertible capital notes	3,428	-	-	762	3,428	-	-
Receipts on account of a subsidiary's options against capital reserve	-	-	3,438	-	-	-	3,438
Minority interest in distribution of the Company's shares as a dividend by a subsidiary	-	-	883	-	-	-	883
Acquisition of a building against long term investments	-	-	49,720	-	-	-	-
Issue of capital notes convertible into shares of a subsidiary against creditors for acquisition of a company	-	-	46,383	-	-	-	-
Capital issue by a subsidiary against conversion of convertible capital notes of a subsidiary	15,479	5,639	-	3,442	-	-	-

*) See Note2z.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. The Company is a public company whose shares are registered for trade on the Tel-Aviv Stock-Exchange.
- b. The Company's activities
 The Company, through its investees, operates in the real estate, insurance and finance lines of business. See Notes 14 and 33 below.
- c. Definitions
 In these financial statements
- | | |
|--|--|
| The Company | - Zur Shamir Holdings Ltd. and its subsidiaries which are real estate companies. |
| The group | - the Company and its investees which are listed in the attached list. |
| Subsidiaries | - companies which are not real estate companies and in which the Company has control (as defined by Statement No. 57) and their financial statements are consolidated with the Company's financial statements. |
| Proportionally consolidated subsidiaries | - companies held by a number of entities, amongst which there is a legal agreement for joint control, and whose financial statements are proportionally consolidated with the Company's financial statements. |
| Affiliates | - companies in which the Company has material influence which are not subsidiaries and the Company's investment in them is included in the financial statements on an equity basis. |
| Investees | - subsidiaries, proportionally consolidated subsidiaries or affiliates. |
| Other companies | - companies that are not investees and the investment in them is presented on a cost basis. |
| Interested parties | - as defined by the Securities Regulations (Preparation of Annual Financial Statements), 1993. |
| Related parties | - as defined in Statement No. 29 of the Institute of Certified Public Accountants in Israel. |
| Index | - the Consumer Price Index (hereunder - CPI) published by the Central Bureau of Statistics. |
- d. The Notes relate to the Company's financial statements and the consolidated financial statements, except where stated that the Note relates to the Company only or consolidated only.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES

The significant accounting policies which are consistently applied in the preparation of the financial statements are as follows:

a. Accounting principles

The Company's financial statements are prepared in accordance with generally accepted accounting principles and in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993, while adjusting them to suit the Company's activities, taking into account that the statements of insurance companies are prepared in conformity with the accounting, reporting and presentation principles prescribed by the Insurance Supervision Law 1981 and the regulations issued thereunder, including the Insurance Business Statements Regulations (Details of Financial Statements), 1998 (hereunder - Financial Statement Details Regulations).

b. Adjusted financial statements

- 1) The Company and its Israeli subsidiaries maintain their accounting records in nominal NIS. In accordance with the Statements of the Certified Public Accountants in Israel, all the amounts in the financial statements (including the comparative figures), are stated in adjusted NIS of the same purchasing power. The adjusted purchasing power of the NIS reflects the average price level in December 2003, based on the CPI published on January 15, 2004 (178.6 points on an average basis of 1993 = 100).
- 2) The values of the non-monetary assets do not purport to reflect their realization or current financial value but, rather, their original historical value as adjusted to changes in the general purchasing power of the Israeli currency.
- 3) The term "cost" in the financial statements represents adjusted cost in NIS.
- 4) The Company's condensed nominal data is presented in Note 37.

c. Principles of adjustment1) Balance sheet

- (a) The values of non-monetary items (items whose amounts in the balance sheet reflect their historical value at the time of their acquisition or creation - see hereunder), have been adjusted according to changes in the CPI since their acquisition or creation.

The following items have been treated as non-monetary items: prepaid expenses, inventory of buildings for sale, long term investments, fixed assets and their accumulated depreciation, other assets and deferred expenses, net, income in advance and payments in advance from customers, the accounts of the capital and reserves of a capital nature which were received from the shareholders.

- (b) The equity value of investments in investees is determined on the basis of these companies' adjusted statements.
- (c) Monetary items (items whose amounts in the balance sheet reflect the updated or realization value as at balance sheet date) are presented in the adjusted balance sheet as at December 31, 2003, in the same amount as their nominal value for that day (comparative figures have been adjusted to the NIS of December 2003).

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

Activities recorded in shekels - Premiums and fees are adjusted based on the changes in the CPI from the CPI last published before the inception of the related policies up to the CPI last published before balance sheet date.

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

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

- (e) Current income taxes include the erosion of tax payments from the date of payment up to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

c. Principles of adjustment (Cont.)

2) Profit and loss statement (Cont.)

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

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

3) Statement of changes in shareholders' equity

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

A dividend announced after the balance sheet date and before the date of approval of the financial statements, will not be included as a liability in the financial statement until actual payment is made.

4) Adjustment on the basis of exchange rates and foreign subsidiaries:

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

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

d. The business cycle period

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

e. Consolidated financial statements

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)f. Investments in investees

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

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

- 3) Deferred taxes - see q below.

g. Cash equivalents

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

h. Deposits with financial institutions

Including deposits which were deposited with financial institutions redeemable upon request and without limitations as to their use.

i. Investments in securities1) Marketable securities

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

2) Non-marketable securities (investment in other companies)

The investment in another company is represented at cost, net of provision for decrease in value, if in management's opinion there is a permanent impairment in value, see n(2) below.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

j. Inventory of buildings for sale

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

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

Buildings under construction are recorded at cost which does not exceed the realization value less advances received from customers. The cost includes direct cost of the land, cost of land development and taxes and construction costs by the performing contractor.

k. Investments of insurance companies

1. Bank deposits that are originally invested for three months or less, are included in the cash and cash equivalents item.
2. Assets and liabilities in foreign currency or linked thereto, are included according to the representative exchange rate published by the Bank of Israel and that were in effect as of balance sheet date.
3. Assets and liabilities linked to the CPI are included according the CPI appropriated for assets or liabilities according to the commitment conditions.
4. Marketable bonds, shares and options to purchase shares are included at the market as at balance sheet date. Participation certificates in mutual funds are included at their redemption value as at balance sheet date.
5. Loans and deposits are included at their original value plus accumulated income, as of balance sheet date.

l. Fixed assets

- 1) The fixed assets are reported at cost less accumulated depreciation. Financing expenses relating to the financing of fixed assets acquisitions, calculated according to the real cost of the specific financing sources which were used for the investment during the period until operation, are included in the fixed assets cost. Improvements are charged to cost.

During each reporting period the Company examines the necessity for recording a provision for impairment in value, in accordance with Accounting Standard No. 15 (see n(1) below).

NOTES TO THE FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)**1. Fixed assets (Cont.)

- 2) Depreciation is calculated on the straight-line method at annual rates which are considered to be sufficient for the depreciation of assets over their estimated useful lives as follows:

	<u>%</u>
Real estate for lease and office buildings (excluding the land component)	2
Vehicles	15
Machinery, equipment and office furniture	6-33 (mainly 33%)
Installments and leasehold improvements	(during the leasing period including the option period).

- 3) The Company capitalizes to the cost of the construction of the buildings credit costs, resulting from the investment in the construction of the buildings according to Accounting Standard No. 3. If the building's cost including the capitalized credit costs exceeds the recoverable amount, then a provision for impairment in the value of the asset will be made.

m. Other assets and deferred expenses

- 1) Convertible debentures and capital notes issue expenses - are amortized during the period the capital notes and debentures are in issue, in accordance with their repayment dates.

- 2) Costs of computer software development -

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

- 3) Goodwill - is amortized according to the straight line method over the period of ten years (see Note 2f(2) above).
- 4) Deferred expenses relating to foundation expenses are amortized over three years.
- 5) Selling expenses for lease of buildings are amortized over the leasing period.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)n. Impairment in value of assets1. Impairment in value of fixed assets

The Company implements Accounting Standard No. 15 "Impairment in value of assets". The Standard determines the accounting treatment and presentation required in the case of impairment in value of assets. The Standard applies to all assets appearing in the balance sheet, excluding inventory, assets resulting from establishment contracts, assets resulting from benefits to employees, deferred tax assets and financial assets (except for investments in investees that are not subsidiaries). In accordance with the new Standard, in case there is any sign of an impairment in value of an asset, the Company must examine if there is an impairment in value of an asset by comparing the carrying value of the asset to its recoverable value. The recoverable value is the higher of the net sale price of the asset and its value in use determined according to the present value of the estimated future cash flows expected to arise from the use of the asset and from its realization at the end of its useful life. If the carrying amount of the asset is higher than its recoverable value, a loss from impairment in value must be recorded, which is the difference between the carrying amount of the asset and its recoverable amount. A loss from impairment in value that is recognized, will be cancelled only if there are changes in the estimates used in determining the recoverable value of the asset at the time the loss from the impairment in value was recognized.

As a result of the implementation of the Standard, the Company recorded a provision for the impairment in value in the amount of about NIS 11.7 million, NIS 8.8 million net of taxes, which is included in the reporting year in the item "cumulative effect as at beginning of the year of change in accounting policies", see Note 17(c) below.

2. Impairment in value of investments in other companies

The Company examines the fair value of its investments during the reporting period and by checking irregular events, or the appearance of warning signs, that are likely to indicate a permanent impairment in value.

Based on the results of the above examination, the Company, if necessary, includes a provision for a permanent impairment in value, in the statements of profit and loss.

o. Provision for doubtful debts

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

p. Convertible capital notes and debentures

Capital notes and debentures are included based on probability of conversion tests, as determined in Statement No. 53 of the Institute of Certified Public Accountants in Israel. In case their conversion is not expected, they are presented as liability based on their liability value. In case their conversion is expected, they are included between liabilities and shareholders' equity, at the higher of the liability or capital value.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)q. Deferred taxes

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

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

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

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

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

r. Insurance business1) Life assurance business

- (a) Premiums including savings premiums, are recorded as income when they become due.
- (b) Maturities are accounted for on the policy maturity date.
Annuities are accounted for when due for payment.
Surrenders are accounted for when paid.
Death claims are accounted for when notified.
- (c) Life assurance reserves, the reinsurers' share therein, and deferred acquisition costs in life assurance, are determined on basis of annual actuarial valuations, taking into account the actual expenses in relation to the issue of the policies. The actuarial valuation is performed by the subsidiary's actuary who declared that the calculations were made on the basis of the data from the subsidiary according to accepted actuarial methods in Israel and consistent with last year. For calculating the reserve, the actuary used the same interest rates and mortality tables used for the preparation of the insurance tariff.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)r. Insurance business (Cont.)1) Life assurance business (Cont.)

- (d) The Financial Statements Details Regulations set principles for determining the amount of deferred acquisition costs of new life assurance policies (the "DAC"). According to the principles the DAC includes expenses involved in the issue of new policies, including selling, administrative and general expenses. According to the principles, the company amortizes the DAC in equal parts during the policy period but not over more than 15 years. Deferred acquisition costs related to cancelled policies are deleted at cancellation date. The Company examines the deferred acquisition cost balances in relation to the expected future income.
- (e) The reserve for group life assurance is calculated according to the Supervision of Insurance Regulations (Group Life Assurance), 1993.
- (f) The reserve for extraordinary risks is calculated as a percentage of the sum assured at risk.

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

The insurance company will hold reserves for extraordinary risks in life assurance at a rate of 0.2% of the retained sum at risk. A provision for the retained amount at risk as at December 31, 2003 will be made in equal parts over no more than twelve years financial statements. A provision for change in the retained amount at risk between a reporting year and the preceding year beginning at January 1, 2002, will be executed in equal parts over no more than eight years financial statements. It is possible to release funds from the reserve, on condition that the reserve is larger than 0.25% of the retained sum at risk. The reserve is calculated by the subsidiary according to the designated 0.2% of the retained sum at risk. The amount remaining needed for setting up the reserve in accordance with the above regulations totals to about NIS 24 million.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)r. Insurance business2) General insurance business

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

Outstanding claims comprise:

- (1) Known outstanding claims which include a provision set-up for the settlement and handling costs of all claims incurred, but not paid, as at the financial statements date, based primarily on individual case estimates and reports received by the lawyers who handle the claims.
- (2) A provision for claims incurred but not reported to the Company (hereunder - I.B.N.R.)
- (3) A provision for claims incurred but not enough reported which is computed based on past experience (hereunder - I.B.N.E.R.).
- (4) The accumulation amount as mentioned in note 2(r)(2)(a) which is higher than the I.B.N.R and the I.B.N.E.R.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)r. Insurance business (Cont.)2) General insurance business (Cont.)

- (e) Outstanding claims in the motor act line of business in Israel are included at the higher of individual estimates plus the amount of accumulation and an actuarial assessment. The comparison is calculated separately for each underwriting year. The actuarial calculation is made, based on an actuarial model which was approved by the Supervisor of Insurance Business. Similarly, the outstanding claims in motor insurance in Israel and Poland and comprehensive householders in Israel are included based on an actuarial valuation. The actuarial calculations are made in consistency with those of previous years.
- (f) Business from other insurance companies are included to the extent such results are reported in statements received by the balance sheet date.
- (g) Subrogations receivable from insurance companies in relation to claims which the subsidiaries paid to their policyholders are recorded under insurance companies in debt. Subrogations recorded in respect of outstanding claims are netted off from the outstanding claims.

The Company set out an appropriate provision in relation to the above subrogations, which is computed according to the higher of an individual case estimate of the claims department and an actuarial estimate based on past experience in the collection of subrogations.

(h) Reinsurance

The reinsurers' liabilities as at balance sheet date in respect of their share in the insurance reserves and outstanding claims, are presented less a provision for doubtful debts in accordance with Management's estimate.

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

s. Recognition of income

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)s. Recognition of income (Cont.)

- (3) From insurance business - See r' above.
- (4) From asset managements and Stock Exchange Services - Recognition of commissions and management fees from trading activities in securities (broker) are allocated when created. Income from management of mutual funds is allocated over the service period.
- (5) From software sales - Income from software sales is recognized according to the American Standard SOP 97-2 (as updated by SOP 98-4). According to this Standard, income from sale of software licenses is recognized when the following conditions are fulfilled: the software is passed to the customer, the collection of the payment is probable, the amount of the agreement is determined or can be determined and there is an objective and convincing proof that there is an agreement and the company is able to allocate the proceeds amongst the components of the agreement.

t. Derivative financial instruments

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

u. Earnings per share

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

v. Exchange rates and linkage

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

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

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

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

As at	Representative exchange rate of					CPI for December in points *)
	US Dollar	Canadian dollar	Euro	Pound Sterling	Zloty	
31.12.2003	4.379	3.408	5.533	7.850	1.017	178.6
31.12.2002	4.737	3.001	4.970	1.236	7.633	182.0
31.12.2001	4.416	2.776	3.907	1.107	6.400	170.9
31.12.2000	4.041	2.691	3.763	0.980	6.032	168.5
Rate of change in the year ended	%	%	%	%	%	%
31.12.2003	(7.6)	13.6	11.3	2.8	(17.7)	(1.9)
31.12.2002	7.3	8.1	27.2	19.3	19.3	6.5
31.12.2001	9.3	3.2	3.8	6.1	6.1	1.4

* The CPI is at the average basis of 1993=100.

w. Fair value of financial instruments

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

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

x. Use of estimates for the preparation of financial statements

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

NOTES TO THE FINANCIAL STATEMENTS

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

Transactions between the Company and its controlling shareholder are presented in accordance with the Securities Regulations (Presentation of Activities Between a Corporation and its Controlling Shareholder in the Financial Statements), 1996. Accordingly, the difference between the proceeds paid to the controlling shareholder for the transfer of the asset to the Company and the asset's carrying amount in the books of the controlling shareholder is allocated to the Company's equity.

y. Adoption of new accounting standards and their impact on the financial statements

During October 2001, the Israeli Accounting Standards Board published Accounting Standard No. 12 which deals with the discontinuance of adjusting financial statements and Accounting Standard No. 13 that deals with the influence of changes in foreign exchange rate. In December 2002, Accounting Standard No. 17 was published, which deals with the delay in application of Accounting Standard No. 12 and No. 13 as at January 1, 2004.

According to Accounting Standards No. 12 and No. 17 which deal with the discontinuance of adjusting financial statements, commencing January 1, 2004, the adjustment of financial statements for changes in the general purchasing power of the Israeli currency will be discontinued. Until December 31, 2003, the Company continued to prepare adjusted financial statements in accordance with Statement No. 36 of the Institute of Certified Public Accountants in Israel. The adjusted amounts included in the financial statements as at December 31, 2003, will serve as the starting point for nominal financial reporting beginning January 1, 2004.

Accounting Standard No. 13 prescribes principles with respect to the effect of changes in foreign exchange rates. This Standard replaces Clarification No. 8 and No. 9 of Statement No. 36 of the Institute of Certified Public Accountants in Israel, which have been superseded upon the discontinuance of the adjustment of financial statements. The Standard deals with the translation of foreign currency transactions and with the translation of financial statements of foreign operations for incorporation into the financial statements of the reporting enterprise. The translation principles of Accounting Standard No. 13 are different from those applied to date.

In the Company's estimation, with the application of Accounting Standards No. 12, No. 13 and No. 17 beginning from the year 2004, the Company's future profits are likely to be lower than those reported in the past years which were based on the existing Accounting Standards. The above change will not effect the Company's cash flows. Other than the above, the effect of the new Accounting Standards on the Company's results of operations, financial position and cash flows is not expected to be material.

z. Convenience translation into U.S. Dollars

The adjusted financial statements as at December 31, 2003 and for the year then ended, have been translated into United States dollars using the representative exchange rate of the United States dollar as at December 31, 2003 (U.S. \$ 1 = NIS 4.379). The translation was made solely for the convenience of the readers. It should be noted that the adjusted New Israeli Shekel figures do not necessarily represent the current cost amounts of the various elements presented and that the translated United States dollar figures should not be construed to represent amounts that are receivable, payable or convertible into dollars.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 3:- CONSOLIDATED FINANCIAL STATEMENTS – COMPANY FIRST CONSOLIDATED**

- a. In the reporting year the financial statements of Moritz et Tuchler Ltd. (hereunder – Moritz Tuchler) which was purchased in September 2003, by a subsidiary, Direct Insurance – Financial Investments Ltd. (see Note 14(b)(2)(a)(5) hereunder), was consolidated for the first time.
- b. Hereunder are condensed data from the financial statements of Moritz Tuchler, as included in the adjusted consolidated financial statements:

	December 31, 2003
	Adjusted NIS in thousands
<u>In the balance sheet</u>	
Amount of assets	31,453
Amount of liabilities	11,296
Goodwill created from acquisition	4,547
	Period from acquisition day until balance sheet date
	Adjusted NIS in thousands
<u>In the statement of profit and loss</u>	
Income	2,965
Expenses	3,234
Loss	377

NOTE 4:- CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Cash and bank in Israeli currency	42,020	26,384	106	452
Cash and bank in foreign currency	11,418	84	456	3
Short term deposits in Israeli currency	17,607	8,308	700	426
Short term deposits in foreign currency	26,173	75,931	-	-
	<u>97,218</u>	<u>110,707</u>	<u>1,262</u>	<u>881</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 5:- DEPOSITS WITH FINANCIAL INSTITUTIONS**

	<u>Consolidated</u>	
	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>	
Deposits in financial institutions -linked to the CPI	-	1,422

NOTE 6:- SHORT TERM INVESTMENTS

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>			
Marketable securities presented at market value:				
Shares	813	640	290	403
Marketable securities presented at cost:				
Current maturities of bonds (see Note 15)	6,203	6,340	-	-
	<u>7,016</u>	<u>6,980</u>	<u>290</u>	<u>403</u>

NOTE 7:- CUSTOMERS

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>			
Lease of real estate *)	26,454	21,763	190	82
Purchasers of apartments in a construction project	-	925	-	-
Others *)	9,502	1,292	-	-
Total	35,956	23,980	190	82
Less - provision for doubtful debts	40	39	-	-
	<u>35,916</u>	<u>23,941</u>	<u>190</u>	<u>82</u>
*) Including customers in foreign currency (mainly Pounds Sterling)	<u>27,740</u>	<u>20,785</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 8:- INSURANCE COMPANIES – DEBIT BALANCES**

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Debit balances for insurance companies and reinsurers - current account	7,068	7,918
Debit balances of local companies for unsettled subrogations as at reporting date – maturity:		
Up to one year before reporting date	21,027	17,160
Over a year and less than two years before reporting date	10,353	11,336
More than two years before reporting date	7,676	6,010
	<u>39,056</u>	<u>34,506</u>
	<u>46,124</u>	<u>42,424</u>

NOTE 9:- OUTSTANDING PREMIUMS

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
In NIS - unlinked	78,430	37,990
In Zlotych - unlinked	5,383	-
Linked to the CPI	81,080	51,650
	<u>164,893</u>	<u>89,640</u>
Less - provision for doubtful debts	1,109	490
	<u>163,784</u>	<u>89,150</u>
<u>Divided into:</u>		
General insurance	163,420	89,060
Life assurance	364	90
	<u>163,784</u>	<u>89,150</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 10:- DEBTORS AND DEBIT BALANCES**

	Consolidated		Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Prepaid expenses in respect of insurance claims	11,169	9,341	-	-
Other prepaid expenses	14,113	11,568	580	78
Deferred taxes [see Note 32(e)]	3,117	8,201	-	-
Income taxes	8,129	5,639	287	199
VAT	-	1,003	99	-
Related companies *)	114	-	326	66
Deposit for acquisition of a company [see Note 14(b)(2)(b)(2)]	1,846	1,811	-	-
Current maturity of long term loans [see Note 16]	12	5	-	-
Others	8,381	2,718	23	-
	<u>46,881</u>	<u>40,286</u>	<u>1,315</u>	<u>343</u>

*) Bears interest in the amount of increase of the CPI.

NOTE 11:- INVENTORY OF BUILDINGS FOR SALE

a. Composition:

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Costs:		
Land	-	56
Cost of land development and construction (through a performing contractor)	-	516
Total *)	<u>-</u>	<u>572</u>
*) Out of this inventory of completed apartments	<u>-</u>	<u>422</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 11:- INVENTORY OF BUILDINGS FOR SALE (Cont.)**

- b. In accordance with building permits issued to the Company, the Company built six residential apartment buildings in three construction units which contain 200 apartments in the Chen Hatzafon Project in Petach Tikva.

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

	Number of apartments in each unit	Number of apartments sold in the reporting year	Number of apartments sold	
			2003	2002
First unit	66	-	66	66
Second unit	68	1	68	67
Third unit	66	-	66	66
	<u>200</u>	<u>1</u>	<u>200</u>	<u>199</u>

NOTE 12:- INVESTMENTS OF INSURANCE COMPANIES

	CONSOLIDATED	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Cash and cash equivalents	74,636	89,180
Bonds (a)	440,693	308,740
Marketable shares	48,239	25,280
Mutual funds	23,210	19,902
Options	6,051	377
Loans (b)	7,914	2,813
Bank deposits (c)	258,518	207,141
	<u>859,261</u>	<u>653,433</u>

a. Bonds

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
<u>Issuers and linkage basis of bonds</u>		
(1) Israeli Government issue or guarantee:		
Marketable in Israel		
Linked to the CPI	149,549	139,780
Linked to the exchange rate of foreign currency	4,874	19,997
Unlinked	131,290	45,463
	<u>285,713</u>	<u>205,240</u>
Marketable abroad	-	5,738
	<u>285,713</u>	<u>210,978</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 12:- INVESTMENTS OF INSURANCE COMPANIES (Cont.)**a. Bonds (Cont.)

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
(2) Other issuers:		
Marketable in Israel:		
Linked to the CPI	35,501	58,900
Linked to the exchange rate of foreign currency	23,831	3,250
Unlinked	10,161	6,298
	<u>69,493</u>	<u>68,448</u>
Marketable abroad	20,852	746
	<u>90,345</u>	<u>69,194</u>
Non-marketable in Israel – linked to the CPI	64,413	28,568
Non-marketable abroad	222	-
	<u>64,635</u>	<u>28,568</u>
Total bonds	<u><u>440,693</u></u>	<u><u>308,740</u></u>

b. Loans1. Distribution by securities

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Secured by mortgages on buildings	1,509	1,857
By pledge on life assurance policies	162	-
By pledge on vehicles	2,080	-
Loans to employees *)	4,163	956
	<u>7,914</u>	<u>2,813</u>

*) Are not secured by collateral in excess of the offsetting right according to law.

b. Distribution according to linkage basis, average interest rates and average life span:

	Average	Average	Adjusted NIS
	interest	life span	in thousands
	rates	years	
	%		
As at December 31, 2003			
In shekels - linked to the CPI	3.65	4.0	7,724
In Zlotych	5.25	1.5	190
			<u>7,914</u>
As at December 31, 2002 - linked to the CPI	3.0	8.1	<u>2,813</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 12:- INVESTMENTS OF INSURANCE COMPANIES (Cont.)**c. Bank deposits

	Consolidated		
	Average interest rate	Average life span	Linkage basis
	%	Years	Adjusted NIS in thousands
As at December 31, 2003:			
Linked to the CPI	5.97	4.72	257,289
Unlinked - denominated in foreign currency	4.60	2.00	1,229
			<u>258,518</u>
As at December 31, 2002:			
Linked to the CPI	6.06	6.09	196,046
Unlinked	7.94	0.13	11,095
			<u>207,141</u>

NOTE 13:- REINSURERS' SHARE IN INSURANCE RESERVES AND OUTSTANDING CLAIMS

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Insurance reserves:		
Life assurance	1,711	1,581
General insurance	<u>2,938</u>	<u>4,274</u>
	<u>4,649</u>	<u>5,855</u>
Outstanding claims:		
Life assurance	1,493	577
General insurance	<u>37,144</u>	<u>41,374 *)</u>
	<u>38,637</u>	<u>41,951</u>
	<u>43,286</u>	<u>47,806</u>

*) Reclassified.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 14:- INVESTMENT IN INVESTEES AND OTHERS**a. In the consolidated balance sheet

1) Composition

	<u>Affiliates</u>		<u>Other companies</u>		<u>Total</u>	
	<u>December 31,</u>		<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Cost of shares	1,173	-	2,535	859	3,708	859
Accumulated profits	358	-	(404)	(404)	(46)	(404)
	<u>1,531</u>	<u>-</u>	<u>2,131</u>	<u>455</u>	<u>3,662</u>	<u>455</u>

2) Details of main holdings

- a) Affiliates – includes investment in the amount of NIS 1,531 thousand in a conglomerate that owns real estate used for lease.
- b) Other companies -

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>	
Earnix Inc. (hereunder - Earnix) (1)	455	455
Ma'alot the Israel Company for Grading Securities Ltd.	62	-
Stock Exchange Offices Ltd.	<u>1,614</u>	<u>-</u>
	<u>2,131</u>	<u>455</u>

- (1) Earnix is registered in the United States and holds a subsidiary, in Israel which operates in development and marketing of software for management of pricing and income. The rate of ownership of the Company in Earnix dropped from 38.25% as at December 31, 2001 to 17.9% as at the beginning of 2002 as a result of the allocation of additional stock to a shareholder.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- INVESTMENT IN INVESTEEES (Cont.)

b. In the Company balance sheet

(1) Composition

		Percentage in equity and control	Cost of shares	Reserves and accumulated profits (losses)	Profit from issue to third party and expiry of a subsidiary's options	Total	Loans	Total
<u>As at December 31, 2003:</u>								
Direct Insurance - Financial Investments Ltd.	2(a)	48.39	38,064	44,682	6,807	89,553	-	89,553
Adgar Investments and Development Ltd.	2(b)	100.00	182,804	21,814	6,708	211,326	19,795	231,121
Zur Shamir Finances (1997) Ltd.	2(c)	100.00	-	(13,174)	-	(13,174)	7,183	(5,991)
			<u>220,868</u>	<u>53,322</u>	<u>13,515</u>	<u>287,705</u>	<u>26,978</u>	<u>314,683</u>
<u>As at December 31, 2002:</u>								
Direct Insurance - Financial Investments Ltd.	2(a)	52.25	38,064	48,730	2,879	89,673	-	89,673
Adgar Investments and Development Ltd.	2(b)	100.00	182,804	3,964	6,708	193,476	40,896	234,372
Zur Shamir Finances (1997) Ltd.	2(c)	100.00	-	(10,546)	-	(10,546)	5,076	(5,470)
			<u>220,868</u>	<u>42,148</u>	<u>9,587</u>	<u>272,603</u>	<u>45,972</u>	<u>318,575</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- INVESTMENT IN INVESTEES (Cont.)b. In the Company balance sheet (Cont.)2. Additional information:a. Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance)

1) Direct Insurance began operating in October 1994. Direct Insurance operates through its subsidiaries in the field of insurance. The shares of Direct Insurance are listed for trade in the Tel Aviv Stock Exchange. Detailed in sections 2) - 5) hereunder, are the main details relating to subsidiaries of Direct Insurance.

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

a. Direct I.D.I. (formerly - Personal Direct Insurance Company (1996) Ltd.) is an insurance company which operates as a direct insurer in the life assurance and general insurance branches.

b. On December 8, 2000 the Company signed an agreement of principles and on January 24, 2001 the Company signed an annex to the agreement of principles, by which it will acquire all the share capital of Direct I.D.I. The total consideration for the shares was set at the amount of NIS 78,683 thousand as follows:

The amount of NIS 32,116 thousand paid by the Company to the sellers, out of which NIS 11,009 thousand was placed in trust, to guarantee 75% of certain liabilities of the Company by the sellers (the balance of the deposit as at December 31, 2003 amounted to NIS 1,846 thousand, see Note 10 below) as well as NIS 46,567 thousand capital notes issued by the Company, convertible into 8,402,138 ordinary shares of NIS 1 par value each of the Company. Capital notes issued, but not converted into shares will allow the sellers to receive from the Company amounts in three portions at the 14, 24, and 34 months after their issue. The issued capital notes are linked to the CPI and do not bear interest. As at balance sheet date all the capital notes were converted or cashed in.

As a result of the acquisition Direct Insurance reported an initial difference in the amount of NIS 46,982 thousand. The balance of the initial difference as at December 31, 2003 amounts to about NIS 32,887 thousand.

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

b. In the Company balance sheet (Cont.)

2. Additional information: (Cont.)

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

2) (Cont.)

c. Hereunder is information regarding the equity of Direct I.D.I. pursuant to the Supervision of Insurance Business Regulations (Minimum Shareholders' Capital Required from and Insurer), 1998, (hereunder - the Capital Regulations):

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Primary capital</u>	<u>Shareholders' equity</u>	<u>Primary capital</u>	<u>Shareholders' equity</u>
	<u>Adjusted NIS in thousands</u>			
Amount required as per regulations	<u>72,261</u>	<u>150,801 *)</u>	<u>72,294</u>	<u>134,735 *)</u>
Existing amount as per regulations:				
Total shareholders' equity, as per balance sheet	<u>172,157</u>	<u>172,157</u>	<u>160,144</u>	<u>160,144</u>
Surplus	<u>99,896**)</u>	<u>21,356**)</u>	<u>87,850</u>	<u>25,409</u>

*) Including inadmissible assets in the amount of NIS 35,811 thousand (previous year the amount of NIS 34,939) from this the amount of NIS 18,857 thousand for deferred taxes (previous year in the amount of NIS 25,483 thousand).

***) In March 2004 Direct I.D.I. decided to distribute a dividend to Direct Insurance in the amount of NIS 19,000 thousand.

According to the Supervisor of Insurance's approval of the split-up plan the insurance company's capital will not be lower than the requirements pursuant to the Capital Regulations plus the deferred taxes for losses as recorded in the insurance company's books. The distribution of a dividend from capital surplus is subject to the liquidity requirements and meeting the investment regulations determined by the Supervisor of Insurance.

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

a. Idit operates in marketing, distribution, sales and utilization of technologies, computer software, know-how and methods in the direct insurance business domain abroad. According to an agreement as of May 18, 1998 between Direct Insurance and Idit, Idit received the rights in the assets in consideration for the issue of shares. The continuation of Idit's operations is dependent on the flow of finance from Direct Insurance and its other shareholders.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- INVESTMENT IN INVESTEES (Cont.)

b. In the Company balance sheet (Cont.)

2. Additional information: (Cont.)

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

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

b. As of December 31, 2003 Direct Insurance holds 55.56% (31.12.2002 - 58.14%; 31.12.2001 - 75.76%) of Idit.

The decrease in the holding rate results from issue to an unrelated party during the years 2001 - 2003. This resulted in Direct Insurance recording capital gain in the amount of NIS 2,341 thousand, in the amount of NIS 3,785 thousand and in the amount of NIS 1,566 thousand during the years 2003, 2002 and 2001 respectively.

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

a. GDII is a foreign company registered in the Netherlands, wholly owned by Direct Insurance. GDII wholly owns a company in Poland Spolka Akcyjna LINK4 Towarzystwo Ubezpieczen ("LINK4"), that was established by GDII in December 2002, which operates as an insurance company in Poland (see b below).

Prior to the establishment of the Polish insurance company, was the establishment of the company IDIP Spolka Z Organiczna Odpowiedzialnoscia ("IDIP") that dealt in initiating the insurance operations in Poland in 2002.

b. In December 2002, LINK4 received, from the Polish Ministry of Finance, a Polish insurance license to operate in the motor, loss of property and other general insurance branches. In January 2003, LINK4 began selling motor insurance policies. According to the conditions of the license, and the Polish capital and investment requirements GDII invested in LINK4 the amount of about NIS 77 million (Euro 16.5 million).

As at December 31, 2003 LINK4 meets the capital requirements determined by the Polish Supervisory Authorities.

5) Moritz et Tuchler Ltd. (hereunder - Moritz Tuchler)

a. Moritz Tuchler operates in capital market activities in Israel, including trading of securities (brokering), securities investment portfolio management for clients, underwriting, distributions and fund investment management activities. Moritz Tuchler is a company traded on the Tel Aviv Stock Exchange.

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

b. In the Company balance sheet (Cont.)

2. Additional information: (Cont.)

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

5) Moritz et Tuchler Ltd. (hereunder - Moritz Tuchler) (Cont.)

b. Complete ownership of and control in Moritz Tuchler was purchased by Direct Insurance in September 2003 in consideration of NIS 21.2 million. Out of this amount of NIS 0.9 million was deposited in trust to secure certain liabilities. The transaction received all the necessary approvals.

c. As a result of the above purchase, Direct Insurance recorded an initial difference in the amount of NIS 4,786 thousand. The balance of the initial difference as at December 31, 2003 totals the amount of NIS 4,547 thousand.

6) Senior employees of Direct I.D.I. have an option plan in the framework of which options were granted. As at balance sheet date the balance of the options was 1,460,707. The options are exercisable into shares of Direct Insurance. The option realization increment is linked to the CPI and varies with date of issue.

The Company's rate of holding in Direct Insurance, under the assumption of realization of the options as described above, is 47.10%.

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

<u>December 31, 2003</u>		<u>December 31, 2002</u>	
<u>Equity value</u>	<u>Market value</u>	<u>Equity value</u>	<u>Market value</u>
<u>Adjusted NIS in thousands</u>			
<u>89,553</u>	<u>202,228</u>	<u>89,673</u>	<u>109,136</u>

8) As a result of the acquisition of additional shares of Direct Insurance by the Company during the years 1999 - 2002 in the grand total of NIS 4,600 thousand and as a result of the self-purchase of shares by Direct Insurance in the amount of NIS 10,163 thousand in the year 2002, goodwill was recorded in the amount of NIS 3,796 thousand and the amortized balance as at the reporting date is NIS 1,802 thousand.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- INVESTMENT IN INVESTEES (Cont.)

b. In the Company balance sheet (Cont.)2. Additional information: (Cont.)c. Adgar Investments and Development Ltd.

- 1) Adgar Investments and Development Ltd. (hereunder - Adgar), deals directly and through foreign subsidiaries, in leasing of buildings in Israel and abroad, promotions and project development.
- 2) Acquisition offer of the Company for securities of Adgar

In the beginning of 2002 the Company published a specification of a plan for an acquisition of Adgar's shares and debentures. The results of the acquisition offer provided the Company a 100% holding of Adgar's issued and paid-up share capital. In view of the results of the acquisition offer Adgar's shares were cancelled for trade on January 31, 2002. Following the acquisition offer and the early redemption by the Company the debentures were cancelled for trade on May 11, 2002.

The Company's total investment in Adgar's shares and debentures amounted to about NIS 76 million, out of which NIS 7.8 million is to the shareholders in control. As a result of the investment in shares the Company recorded a net initial difference less the deferred taxes relating the buildings in the amount of NIS 8,519 thousand. In addition, the Company recorded for the acquisition of debentures a capital reserve in the Company in the amount of NIS 7,458 thousand.

- 3) Senior employees of Adgar have an option plan in the framework of which options were granted, the balance of which as at balance sheet date is 6,290,000 options. The options are exercisable into Adgar shares in consideration for the realization increment of NIS 4.50 for each option, subject to adjustments. (See item 5 below).
- 4) Issue of Adgar shares and options in January 2004
 - a. On January 28, 2004 Adgar completed the issue of shares and options, pursuant to a prospectus that was published. Within the framework of the prospectus Adgar issued 23,500,000 ordinary shares of NIS 1 nominal value each and 7,990,000 options. Each option is exercisable into an ordinary share of NIS 1 nominal value upon paying the exercise price of NIS 5.5 per option linked to the CPI. The options are exercisable up to December 31, 2007.
 - b. As a result of the issue the Company's holding rate in Adgar dropped in the year 2004 from 100% to 72%, and the Company is likely to report a capital gain in the amount of about NIS 15 million in the first quarter of the year 2004.

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

b. In the Company balance sheet (Cont.)

2. Additional information: (Cont.)

c. Adgar Investments and Development Ltd. (Cont.)

5) The Company's holding rate in Adgar, under the assumption of the exercise of options given to employees as mentioned above, and taking into account the issue from January 2004, is 61.47%.

6) Linkage and interest rates conditions of the loans:

	Interest rate *) %	December 31,	
		2003	2002
		Adjusted NIS in thousands	
Linked to the Euro	4.8	(3,771)	26,513
Unlinked [see Note 31(g)]	6.6	23,566	14,383
		19,795	40,896

*) The interest rate is as at December 31, 2003. The maturity date of the loans is yet to be determined.

c. Zur Shamir Finances (1997) Ltd.

Zur Shamir Finances (1997) Ltd. (hereunder - "Zur Shamir Finances") was incorporated on June 29, 1997 and deals in financing and investments. Zur Shamir Finances has the status of a financial institution, as implied in the Value Added Tax Law 1976.

NOTE 15:- LONG TERM INVESTMENTS

	Consolidated		
	December 31,		
	2003	2002	
		Adjusted NIS in thousands	
Debentures of Meshulam Levinstein Engineering and Contractors Ltd.	22,037	27,143	
Less current maturities of debentures (see Note 6)	6,203	6,340	
	15,834	20,803	

NOTES TO THE FINANCIAL STATEMENTS**NOTE 16:- LOANS**a. Composition

	<u>Annual interest rate (1) %</u>	<u>Consolidated December 31,</u>	
		<u>2003</u>	<u>2002</u>
<u>Adjusted NIS in thousands</u>			
Loans linked to the CPI:			
To related parties 2)	4.0	2,104	4,751
To others – unsecured loans	4.0	432	412
Loans linked to foreign currency: 3)			
Linked to Pounds Sterling redeemable in one installment in March 2010	7.0	17,663	15,747
Linked to the Canadian dollar	8.0 - 9.6	<u>3,684</u>	<u>3,267</u>
		23,883	24,177
Less - current maturities		<u>12</u>	<u>5</u>
		<u>23,871</u>	<u>24,172</u>

- 1) The interest rates are in relation to December 31, 2003.
- 2) The loans are secured by subsidiary shares. See Note 36(G) below.
- 3) The loans were granted to a minority in subsidiaries and secured by a pledge on subsidiaries' shares held by the minority.

b. Maturity dates

	<u>Consolidated December 31,</u>	
	<u>2003</u>	<u>2002</u>
<u>Adjusted NIS in thousands</u>		
First year - current maturities	12	5
Fourth year	2,104	-
Fifth year	-	4,751
Sixth year onwards	17,662	15,747
With no determined maturity date	<u>4,105</u>	<u>3,674</u>
	<u>23,883</u>	<u>24,177</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17:- FIXED ASSETS

a. CompositionConsolidated

	<u>Real estate for rent</u>	<u>Office premises and leasehold improvements</u>	<u>Office equipment furniture and computers</u>	<u>Machines and equipment</u>	<u>Vehicles</u>	<u>Total</u>
	<u>(b)</u>	<u>(b)</u>	<u>(b)</u>	<u>(b)</u>	<u>(b)</u>	<u>(b)</u>
	<u>Adjusted NIS in thousands</u>					
Cost						
Balance at the beginning of the year	1,025,438	55,154	64,439	256	9,943	1,155,230
Adjustments relating to foreign autonomic subsidiaries	65,842	(75)	(476)	-	(23)	65,268
Additions in respect of company first consolidated	-	3,555	3,406	-	344	7,305
Additions	96,904	3,649	15,195	3	2,117	117,868
Disposals	(396)	-	(336)	-	(1,725)	(2,457)
Balance at the end of the year	<u>1,187,788</u>	<u>62,283</u>	<u>82,228</u>	<u>259</u>	<u>10,656</u>	<u>1,343,214</u>
Accumulated depreciation						
Balance at the beginning of the year	97,270	11,559	33,087	88	3,400	145,404
Provision for impairment in value (see c below)	11,683	-	-	-	-	11,683
Adjustments relating to foreign autonomic subsidiaries	6,175	-	(25)	-	(1)	6,149
Additions in respect of company first consolidated	-	2,580	2,966	-	219	5,765
Additions	19,716	2,600	11,385	20	1,486	35,207
Disposals	(217)	-	(212)	-	(969)	(1,398)
Balance at the end of the year	<u>134,627</u>	<u>16,739</u>	<u>47,201</u>	<u>108</u>	<u>4,135</u>	<u>202,810</u>
Depreciated cost as at December 31,2003	<u>1,053,161</u>	<u>45,544</u>	<u>35,027</u>	<u>151</u>	<u>6,521</u>	<u>1,140,404</u>
Depreciated cost as at December 31,2002	<u>928,168</u>	<u>43,595</u>	<u>31,352</u>	<u>168</u>	<u>6,543</u>	<u>1,009,826</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17:- FIXED ASSETS (Cont.)

a. Composition (Cont.)Company

	Real estate for rent (b)	Office buildings and leasehold improvements (b)	Office equipment furniture and computers	Vehicles	Total
	Adjusted NIS in thousands				
Cost					
Balance at the beginning of the year	40,194	6,596	3,768	1,862	52,420
Additions	3,562	-	315	-	3,877
Disposals	(396)	-	-	(252)	(648)
Balance at the end of the year	<u>43,360</u>	<u>6,596</u>	<u>4,083</u>	<u>1,610</u>	<u>55,649</u>
Accumulated depreciation					
Balance at the beginning of the year	6,704	1,280	1,247	221	9,452
Additions	601	119	138	227	1,085
Disposals	(217)	-	-	-	(217)
Balance at the end of the year	<u>7,088</u>	<u>1,399</u>	<u>1,385</u>	<u>448</u>	<u>10,320</u>
Depreciated cost as at December 31, 2003	<u><u>36,272</u></u>	<u><u>5,197</u></u>	<u><u>2,698</u></u>	<u><u>1,162</u></u>	<u><u>45,329</u></u>
Depreciated cost as at December 31, 2002	<u><u>33,490</u></u>	<u><u>5,316</u></u>	<u><u>2,521</u></u>	<u><u>1,641</u></u>	<u><u>42,968</u></u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17:- FIXED ASSETS (Cont.)

b. Real estate for rent and office buildings

	Consolidated			
	December 31,			
	2003		2002	
Real estate	Office buildings and leasehold improvements	Real estate	Office buildings and leasehold improvements	
for rent	for rent	for rent	for rent	Adjusted NIS in thousands
The Company:				
An apartment		190		-
A subsidiary - Zur Shamir Properties (1989) Ltd.:				
Office building on Karlibach St., Tel Aviv	-	36,685	-	37,379
Shop for lease on Karlibach St., Tel Aviv	1,222	-	1,237	-
	<u>1,222</u>	<u>36,685</u>	<u>1,237</u>	<u>37,379</u>
<u>A subsidiary – Adgar Parking N.V.</u>				
Parking lot in Antwerp, Belgium	3,562	-	-	-
<u>A subsidiary - Adgar Investments and Development Ltd. and its subsidiaries:</u>				
Abroad:				
Commercial building and office premises, in Antwerp, Belgium	51,578	-	46,560	-
Seven office buildings in Antwerp, Belgium	80,869	-	72,064	-
Four office buildings in London, United Kingdom	376,562	-	355,119	-
Real estate and two office buildings in Warsaw, Poland	155,085	-	160,894	-
Three office buildings in Montreal, Canada	190,078	-	116,196	-
In Israel:				
Two office buildings on Nachalat Benjamin St., Tel Aviv	12,946	-	22,893	-
An office building on Hamasger St., Tel-Aviv	28,617	-	30,380	-
A building on Shlomo Ben Yosef St., Haifa	8,612	-	9,528	-
Real estate and building for lease in Kiryat Tivon	13,843	-	13,846	-
Building for lease in Ofakim	3,301	-	3,419	-
Office premises under construction on Efal St., Kiryat Aryeh	56,100	-	25,219	-
Office premises on Hamifalim St., Kiryat Aryeh	4,447	-	4,437	-
Office premises on Hanechoshet St., Tel Aviv	52,041	-	52,319	-
Office premises on Hashaham St., Petah Tikva	14,298	-	13,867	-
Leasehold improvements	-	30	-	55
	<u>1,048,378</u>	<u>30</u>	<u>926,741</u>	<u>55</u>
<u>A subsidiary - Direct Insurance - Financial Investments Ltd. and its subsidiaries:</u>				
Leasehold improvements	-	7,075	-	5,287
Real estate in Tel-Aviv	-	609	-	-
	-	1,145	-	874
	-	8,829	-	6,161
Total	<u>1,053,161</u>	<u>45,544</u>	<u>928,168</u>	<u>43,595</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 17:- FIXED ASSETS (Cont.)**

- c. In accordance with the instructions of Accounting Standard No. 15 published by the Israel Accounting Standards Board, a subsidiary reached the conclusion that there are signs pointing to an impairment in value of a number of assets.

The value in use of the assets was calculated by capitalizing the cash flows expected to result from the assets at a capitalization rate of between 7% and 10% according to the type of asset, its location and quality of lessee.

As a result of the implementation of Accounting Standard No. 15 these financial statements include a loss from the impairment in value of assets with respect to buildings for lease in Israel in the amount of NIS 11,683 thousand (less tax effect of NIS 8,762 thousand). The loss from impairment in value of assets is included under the item cumulative effect as at beginning of the year of change in accounting policies, net in the statement of profit and loss for the year ended as at December 31, 2003.

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

	December 31,	
	2003	2002
	Adjusted NIS in thousands	
<u>The Company:</u>		
Ownership	37,904	38,806
Total in the Company's balance sheet	37,904	38,806
<u>Subsidiaries:</u>		
Ownership	836,530	702,479
Lease for generations	224,271	230,478
	1,060,801	932,957
Total in the consolidated balance sheet	1,098,705	971,763

- e. Real estate which is not yet registered with the Land Registrar for technical reasons

	Consolidated	
	December 31,	
	2004	2003
	Adjusted NIS in thousands	
Depreciated cost	28,617	30,380

NOTES TO THE FINANCIAL STATEMENTS**NOTE 17:- FIXED ASSETS (Cont.)**f. Capitalized financing costs

**December 31,
2003**
**Adjusted NIS
in thousands**

2,815

g. Pledges - see Note 29 hereunder.

NOTE 18:- OTHER ASSETS AND DEFERRED EXPENSES, NET

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>			
Issue expenses of capital notes and debentures				
Initial amount	15,499	7,720	15,499	7,720
Less - accumulated amortization	7,869	6,902	7,869	6,902
	<u>7,630</u>	<u>818</u>	<u>7,630</u>	<u>818</u>
Goodwill				
Initial amount	56,048	51,343	-	-
Less - accumulated amortization	16,484	10,709	-	-
	<u>39,564</u>	<u>40,634</u>	<u>-</u>	<u>-</u>
Foundation cost, capital increase and capital issue expenses				
Initial amount	295	254	-	-
Less - accumulated amortization	156	93	-	-
	<u>139</u>	<u>161</u>	<u>-</u>	<u>-</u>
Selling expenses in respect of real estate for rent				
Initial amount	2,151	1,996	-	-
Less - accumulated amortization	544	371	-	-
	<u>1,607</u>	<u>1,625</u>	<u>-</u>	<u>-</u>
	<u>48,940</u>	<u>43,238</u>	<u>7,630</u>	<u>818</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 19:- DEFERRED ACQUISITION COSTS IN INSURANCE COMPANIES**

	Consolidated	
	2003	2002
	Adjusted NIS in thousands	
In general insurance	50,492	38,619
In life insurance	25,854	17,177
	<u>76,346</u>	<u>55,796</u>

NOTE 20 - CREDIT FROM BANKING CORPORATIONS

a. <u>Composition</u>	Interest rates *) %	Consolidated		Company	
		December 31,		December 31,	
		2003	2002	2003	2002
		Adjusted NIS in thousands			
Short term loans:					
Unlinked	6.0-7.0	74,842	116,592	51,331	116,031
Linked to the dollar	2.2-2.75	28,444	73,397	16,852	10,831
Linked to the Pound Sterling	-	-	3,736	-	-
Linked to the Canadian dollar	4.3	33,781	30,088	-	-
Linked to the Euro	3.6-4.2	10,718	67,699	-	-
Overdrafts:					
In NIS	Prime + 1.5	937	-	-	-
		148,722	291,512	68,183	126,862
Current maturities of long term loans (Note 26)		<u>101,705</u>	<u>72,060</u>	<u>33,988</u>	<u>37,516</u>
		<u>250,427</u>	<u>363,572</u>	<u>102,171</u>	<u>164,378</u>

*) The interest rates are for December 31, 2003.

b. For information on Securities - see Note 29 hereunder.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 21:- SUPPLIERS AND SERVICE PROVIDERS**

	Consolidated		Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Open accounts in Israeli currency	20,900	15,753	222	123
Open accounts in foreign currency	5,848	5,085	549	5
	<u>26,748</u>	<u>20,838</u>	<u>771</u>	<u>128</u>

NOTE 22:- CREDITORS AND CREDIT BALANCES

	Consolidated		Company	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Creditors in relation to claims in an insurance company	15,343	12,167	-	-
Prepaid premium in an insurance company	24,711	22,219	-	-
Prepaid income	10,523	4,553	-	-
Provision for vacation, recreation pay, thirteenth month salary and bonuses	11,625	7,638	346	3
Employees	4,212	6,266	94	1,308
Institutions	8,271	7,203	264	490
External advisors and portfolio managers	2,145	-	-	-
Creditors in respect of transactions trading in securities	1,844	-	-	-
VAT	809	-	-	555
Interest payable	7,730	6,130	3,848	2,832
Related companies	-	-	136	-
Unrealized profit	-	2,302	-	-
Accrued expenses and sundry creditors	12,170	6,260	397	155
	<u>99,383</u>	<u>74,738</u>	<u>5,085</u>	<u>5,343</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 23:- CONVERTIBLE CAPITAL NOTES INTO SHARES**a. Composition

	Consolidated and Company	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Capital notes - serial B	15,702	26,562
Capital notes - serial C	13,422	20,558
	29,124	47,120
Less - current maturities	12,325	13,994
	16,799	33,126
Less - discount in respect of capital notes - serial C *)	171	367
	16,628	32,759
*) Initial amount	3,694	3,694
Less - amortization (including for conversions)	3,523	3,327
	171	367

b. Repayment dates

	Consolidated and Company	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
First year - current maturities	12,325	13,994
Second year	12,325	13,994
Third year	4,474	13,994
Fourth year	-	5,138
	29,124	47,120

NOTES TO THE FINANCIAL STATEMENTS

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

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

In 1996 the Company acquired 1,931,126 nominal value capital notes. In the year 2003 1,008,784 were converted and in the years 1999 and 2000, 903,584 capital notes were converted to preferred shares. During the years 1998 – 2003 34,275,790 nominal value of the capital notes were redeemed. The balance of capital notes in circulation is 10,724,923 nominal value and their market value is NIS 16,270 thousand.

Regarding conversion of capital notes after the balance sheet date – see Note 38.

Regarding securities - see Note 29(a)(1) hereunder.

2) Convertible capital notes - serial C:

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

In the years 1999 – 2003 25,350,624 nominal value capital notes were redeemed. In the year 2003 1,690,075 were converted. In the years 1999 and 2000, 24,542,657 nominal value capital notes were converted into preferred shares (22,183,088 nominal value out of these capital notes were converted by a subsidiary). The balance of capital notes in circulation is 11,416,644 nominal value and their market value is NIS 14,967 thousand.

Regarding conversion of capital notes after the balance sheet date – see Note 38.

Regarding securities - see Note 29(a)(2) hereunder.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 24:- SUBSIDIARY'S CONVERTIBLE DEBENTURES**

- a. In the framework of a prospectus issued by the subsidiary, Adgar Investments and Development Ltd. (hereunder - Adgar) from July 24, 1997, registered debentures (Serial C) were issued in the total amount of NIS 71,000 thousand nominal value. In January 1998, 346,410 registered options (Serial 4) were exercised in consideration for NIS 34,641 thousand nominal values debentures (Serial C), by a subsidiary of Adgar.

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

As a result of the acquisition offer for debentures by the Company, described in Note 14(b)(2)(b) above, Adgar informed of an early redemption of debentures and dealing of debentures was ceased on May 11, 2002. The balance of debentures as at reporting date constitutes the balance of non-marketable debentures held by the public.

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

	Consolidated			
	December 31, 2003		December 31, 2002	
	Balance sheet value	Nominal value	Balance sheet value	Nominal value
	Adjusted NIS in thousands		Adjusted NIS in thousands	
Debentures (including current maturities)	41	34	49	40

- c. Redemption dates

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
First year - current maturities	9	9
Second year	8	8
Third year	8	8
Fourth year	8	8
Fifth year	8	8
Sixth year onwards	-	8
	41	49

NOTES TO THE FINANCIAL STATEMENTS**NOTE 25:- DEBENTURES**

- a. On July 27, 2003 the Company raised from institutional investors the amount of NIS 100 million by way of the issue of debentures (Serial D). The debentures are linked to the CPI and bear interest at a rate of 5.95% that will be paid at the end of each year. The debenture fund will be repaid in two payments in July 2008 and 2009. The issue expenses amounted to about NIS 7.8 million.

- b. Redemption dates

	Adjusted NIS in thousands
Fifth year	50,000
Sixth year	50,000
	<u>100,000</u>

- c. Securities - see Note 29(a)(4) hereunder.

NOTE 26:- LOANS FROM BANKING INSTITUTIONS AND OTHERS

a. <u>Composition</u>	Annual interest rate *) %	<u>Consolidated</u>		<u>Company</u>	
		<u>December 31,</u>		<u>December 31,</u>	
		<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<u>Adjusted NIS in thousands</u>					
From banking institutions:					
Linked to the CPI	4.8-6.6	110,711	94,633	47,755	48,916
Linked to the Euro	3.6-5.3	114,681	20,014	-	-
Linked to the Euro	3.0-4.8 **)	108,976	84,734	-	-
Linked to the Pound Sterling	5.0 **)	11,518	12,986	-	-
Linked to the Pound Sterling	6.3-7.5	352,190	344,041	-	-
Linked to the U.S. dollar	3.2-4.4 **)	103,604	82,630	-	-
Linked to the Canadian dollar	5.9 **)	35,949	-	-	-
Linked to the Canadian dollar	5.9	122,160	84,136	-	-
Unlinked	6.5-6.9	24,000	14,716	-	14,715
		983,789	737,890	47,755	63,631
From others:					
Linked to the CPI	6.0	494	1,012	-	-
		984,283	738,902	47,755	63,631
Less - current maturities		101,705	72,060	33,988	37,516
		<u>882,578</u>	<u>666,842</u>	<u>13,767</u>	<u>26,115</u>

*) The interest rates are for December 31, 2003.

***) At a variable interest.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 26:- LOANS FROM BANKING INSTITUTIONS AND OTHERS (Cont.)**b. Redemption dates

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>			
First year - current maturities	101,705	72,060	33,988	37,516
Second year	118,259	81,584	7,868	26,115
Third year	80,846	43,008	5,899	-
Fourth year	154,100	81,657	-	-
Fifth year	196,210	92,730	-	-
Sixth year onwards	333,163	367,863	-	-
	<u>984,283</u>	<u>738,902</u>	<u>47,755</u>	<u>63,631</u>

c. Securities - see Note 29 hereunder.

NOTE 27:- LIABILITIES FOR SEVERANCE PAY, NETa. Composition

	<u>Consolidated</u>	
	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>	
Liabilities for severance pay	3,626	2,743
Less - funds deposited	<u>1,262</u>	<u>774</u>
	<u>2,364</u>	<u>1,969</u>

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

NOTES TO THE FINANCIAL STATEMENTS**NOTE 28:- INSURANCE RESERVES AND OUTSTANDING CLAIMS**

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Life assurance:		
Assurance reserve	5,850	4,879
Insurance reserve in respect of savings policies	37,313	20,338
Reserve for extraordinary risks	12,374	8,167
Outstanding claims	4,168	1,695
	<u>59,705</u>	<u>35,079</u>
General insurance:		
Reserve for unexpired risks	314,443	233,215
Outstanding claims	610,494	481,410 *)
	<u>924,937</u>	<u>714,625</u>
	<u>984,642</u>	<u>749,704</u>

*) Reclassified.

NOTE 29:- CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEESa. CompanyPledges

- 1) In order to secure the payment of the convertible capital notes (serial B) (principal, linkage differences and interest) in the amount of NIS 15,702 thousand, which were issued by virtue of a prospectus dated February 15, 1994 (see note 23 (c)(1) above), the Company gave a nominal pledge of NIS 1, which was deposited with a trustee. In addition, the Company undertook not to make any future pledge, and will ensure that Zur Shamir Properties (1989) Ltd. will also not make any future pledge on its present assets on Karlibach St., in Tel-Aviv, as long as the capital notes (serial B) are in circulation, unless the Company will create at the same time a pledge of the same type at an equal degree, to secure the redemption of the capital notes (serial B).
- 2) In order to secure the redemption of the capital notes (serial C) (principal, interest and linkage differences) in the amount of NIS 13,422 thousand, which were issued by virtue of a prospectus dated November 6, 1997 (see note 23 (c)(2) above), the Company created a nominal pledge in the amount of NIS 1 which was deposited with a trustee. In addition, the Company undertook not to create any type of current pledge on its assets, at an equal degree or prior to the pledge of the capital notes (Serial C) in favour of any third party, unless the Company will create a current pledge in favour of the holders of the capital notes (Serial C), at an equal degree, Pari Passu, to the pledge in favour of a third party.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 29:- CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES (Cont.)**a. Company (Cont.)Pledges (Cont.)

- 3) In the framework of receiving credit from the banks, the Company and a subsidiary, Adgar Investments and Developments Ltd., signed promissory notes to the banks according to which the Company balance sheets will continuously fulfill the minimum financial conditions: minimum capital and equity to the balance sheet total. As at the financial statements approval date, the Company is fulfilling the stipulation of the promissory note to the banks.
- 4) In the framework of the issuance of the Company's debentures and to secure their repayment, the Company and Adgar contracted with an insurance company. In the framework of the agreement the insurance company issued an insurance policy in favor of the debentures' trustee in order to secure the repayment of the debentures and Adgar's shares were pledged in favor of the insurance company in an unlimited fixed pledge. In addition, the Company and Adgar undertook additional liabilities towards the insurance company which are mainly as follows:
 - a. The Company committed not to issue or allocate and/or convertible securities into shares and/or options in such a way that the holdings of the Company in Adgar will decrease below the rate of 65% in complete dilution.
 - b. The product of the shareholders' equity of Adgar multiplied by the rate of the shares pledged to the insurance company out of the total Adgar's shares will not be lower than NIS 190 million, linked to the CPI of May 2003.
 - c. Adgar's shareholders' equity will not be lower than 15% of the balance sheet total of Adgar at any given time.
 - d. Regarding the liabilities in items a and b above, the Company's debts are reduced from the shareholders' equity and the Company liabilities, that are defined as subordinate regarding the repayment of the debentures, are added to it.

As at the approval date of the financial statements the Company complies with its above obligations. As at December 31, 2003 the debenture amount reported in the Company's books is about NIS 100 million.

b. A subsidiary, Adgar Investments and Development Ltd. (hereunder - Adgar)1) Pledges

- a. In order to secure its liabilities to the banks in the amount of NIS 246,135 thousand, Adgar registered permanent unlimited pledges on the assets, insurance rights, non-paid-up share capital and its goodwill as well as outstanding checks to the banks. In addition, Adgar registered a first degree mortgage on its real estate assets in favour of banks.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29:- CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES (Cont.)

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

1) Pledges (Cont.)

- b. The long term liabilities of Adgar's subsidiaries in the amount of NIS 637,584 thousand are secured by first degree permanent pledges on real estate assets and all the contractual rights in their respect.
- c. In the framework of a credit agreement for the construction of office premises in Petah Tikva, Adgar signed a promissory note to the bank according to which the shareholders' equity of Adgar will not decrease lower than NIS 75 million. Non-fulfillment of this condition is a cause for the cancellation of the credit agreement. In addition the two sides agreed that in case that the shareholders' equity decreases lower than NIS 140 million, then the credit line will decrease. As at the approval date of the financial statements Adgar meets the above conditions.
- d. In the framework of receiving credit from a bank, Adgar committed that the shareholders' equity will not decrease lower than NIS 100 million and 15% of the total balance sheet. The calculation of this ratio will not include the cost of the office premises in Petah Tikva.

Non-fulfillment of these conditions is a cause for the cancellation of the credit line and its immediate repayment. As at the approval date of the financial statements Adgar complies with its above obligations. As at December 31, 2003 the balance of the credit that Adgar received from the bank is about NIS 32.3 million.

- e. In the framework of receiving credit from a bank, a subsidiary of Adgar committed that the shareholders' equity including loans granted to the subsidiary will not decrease lower than 25% of the balance sheet amount. As at the approval date of the financial statements the subsidiary is fulfilling the above conditions. As at December 31, 2003 the loan amount is NIS 25,721 thousand and the proportion of the shareholders' equity including the loans granted constitute about 32% of its balance sheet amount.
- f. According to a loan agreement to finance the purchase of a building, a subsidiary of Adgar committed that the shareholders' equity in addition to owners loans will not decrease lower than 30% of the loan's balance.

As at the approval date of the financial statements the subsidiary is fulfilling the above condition. As at December 31, 2003 the loan amount is NIS 85,037 thousand and the shareholders' equity, in addition to owners loans, constitutes about 71% of the loan balance.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29:- CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES (Cont.)

- b. A subsidiary, Adgar Investments and Development Ltd. (hereunder - Adgar) (Cont.)
- 2) Guarantees
- a. Discount Bank Israel Ltd. is a guarantor to the purchasers of the apartments in the Chen Hatzafon project, in the amount of about NIS 210 thousand, to secure Adgar's liabilities, pursuant to the instructions laid down in Section 2(1) to the Sales Law (apartments) (security of investments of purchasers of apartments), 1974.
- b. Adgar deposited with the municipality a bank guarantee in the amount of NIS 86 thousand, linked to the building input index, to guarantee the work it undertook to perform. The guarantee will be effective up to the completion of the work.
- c. Adgar and its subsidiary are guarantors, at the rate of 74% of a loan in the amount of about NIS 10.4 million which was granted to another subsidiary of Adgar by Bank Leumi Le-Israel B.M.
- 3) Commitments
- a. Adgar committed with contractors to perform construction work. The total commitment amount is about NIS 84 million.
- b. The Board of Directors of Adgar and The Company approved to commit in an agreement with a subsidiary to rent 9,000 square meters of office space in a new building that is under construction in Petah Tikva. The term of rent is for 10 years and the monthly rental fees will be about US \$ 138 thousand. The agreement is subject to approval of the general assembly of the subsidiary.
- c. A subsidiary, Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance)
1. Guarantees
- a. In the by-laws applicable to members of the Tel Aviv Stock Exchange Clearing House (hereunder - the Clearing House) that includes a subsidiary, there is an unlimited mutual guarantee in favor of the Clearing House, regarding damages resulting from the lack of inventory or a monetary deficiency of any member of the Clearing House.
- b. In accordance with the decision of the Board of Directors of the Stock Exchange Clearing House, beginning January 13, 2003, a risk fund of the Clearing House was established to guarantee the liabilities of its members regarding activities in Israel and abroad (including Clearing House activities in providing Clearing House services abroad to members through "Citibank").
- The subsidiary's share in the fund is NIS 4,702 thousand, of which the amount of NIS 2,247 thousand is guaranteed by a guarantee letter of the subsidiary and the amount of NIS 2,455 thousand, is guaranteed by a deposit.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29:- CONTINGENT LIABILITIES, COMMITMENTS, PLEDGES AND GUARANTEES (Cont.)c. A subsidiary, Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance)
(Cont.)1. Pledges (Cont.)

b. (Cont.)

In accordance with the decision made by the Clearing House from January 2004, the subsidiary's share in the risk fund of the Clearing House will be updated to the amount of NIS 7,684 thousand.

According to Stock Exchange regulations, at least half of the amount required to be completed (the amount of NIS 1.4 million), will be guaranteed by an autonomic bank guarantee and/or a deposit and/or by government bonds and/or by holding bond funds and/or short term credit.

c. A subsidiary gave a bank guarantee in the amount of about NIS 200 thousand, to a landlord, as a guarantee to meet the subsidiary's liabilities according to the rental agreement.

d. To guarantee a subsidiary's liabilities of consultancy and software integration, a subsidiary, its subsidiary and other shareholders of the subsidiary gave a guarantee up to the amount of Euro 2.3 million. The guarantee is valid until June 2005. The realization of the guarantee is also subject to exhaustion of proceedings available to the client in respect to the subsidiary.

e. A subsidiary gave a client a guarantee in the amount of about Euro 227.5 thousand to guarantee the fulfillment of its liabilities to the client.

2. Commitments

a. The Board of Directors of a subsidiary approved to commit to an agreement with a related company to rent 9,000 square meters of office space in a new building that is under construction in Petah Tikva. The rental period is for 10 years and the monthly rental fees will be about \$ 138 thousand.

b. A subsidiary committed to a software licensing, consultancy, software integration and upgrading agreement with two clients. For these commitments the subsidiary will receive the amount of about \$ 1,071 thousand upon completion of the work.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 30:- SHAREHOLDERS' EQUITY**a. Composition of share capital

	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Authorized</u>		<u>Issued and paid-up</u>	
	<u>Number of shares in thousands</u>			
Ordinary shares of NIS 1	120,000	120,000	58,126	58,126
Preferred shares bearing 3% dividend linked to the CPI, registered cumulative and participating of NIS 1	<u>120,000</u>	<u>120,000</u>	<u>24,880</u>	<u>23,607</u>
	<u>240,000</u>	<u>240,000</u>	<u>83,006</u>	<u>81,733</u>

*) Including shares held by the Company:

Ordinary shares of NIS 1	11,098	10,498
Preferred shares of NIS 1	<u>19,565</u>	<u>19,565</u>
	<u>30,663</u>	<u>30,063</u>
The rate of the issued and paid-up capital	<u>36.94%</u>	<u>36.78%</u>

b. Changes in the shareholders' equity1) During the year 2003:

- a. During the reporting period the Company purchased 600,000 ordinary shares of the Company of NIS 1 nominal value each at a cost of NIS 1,727 thousand.
- b. During the reporting period 1,008,784 capital notes (Serial B) and 1,690,075 capital notes (Serial C) were converted into 1,272,608 preferred shares of NIS 1 nominal value each.
- c. During the reporting period the Company paid a dividend in the amount of NIS 7,984 thousand (NIS 8,000 thousand in nominal values).

2) During the year 2002:a. Purchase of Company shares

In the year 2002 the Company purchased 1,289,877 ordinary shares of NIS 1 nominal value each and 607,365 preferred shares of NIS 1 nominal value each of the Company in the amount of NIS 4,996 thousand.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 30:- SHAREHOLDERS' EQUITYb. Changes in the shareholders' equity (Cont.)2) During the year 2002: (Cont.)b. Dividend paid

On June 17, 2002 the Company's Board of Directors came to the decision to distribute a cash dividend to its preferred shareholders and ordinary shareholders in the total amount of NIS 9,765 thousand (NIS 10,000 thousand in nominal values), of which part was paid to its preferred shareholders and the balance was paid to its ordinary shareholders and its preferred shareholders.

According to notification from the Company, as mentioned above, the Company paid preferred shareholders on July 10, 2002 a cash dividend in the gross amount of NIS 624 thousand for the years 2000, 2001 and 2002.

c. Issue of options to officeholders and employees

- 1) On July 17, 2003 the Company's Board of Directors and audit Committee authorized, and on August 28, 2003 the Company's General Assembly approved the allocation of 2,900,000 options (series 7) of the Company, to controlling shareholders who are officeholders, and to allocate employees 880,000 options (series 7) of the Company. The options were issued on October 2, 2003.
- 2) The options are exercisable up until the end of the 60-month period from the date of allocation, at the exercise price of NIS 3.10 for each option (series 7) of the Company. In accordance with the conditions of the options, not all the shares from the exercise of options will be allocated to recipients, rather the number of shares that reflects the gross benefit embedded in the option, which will be calculated at the time the option is exercised.
- 3) The right of recipients to exercise options was amended in the following manner: $\frac{1}{3}$ will be given 24 months after the date of issue, an additional $\frac{1}{3}$ will be given at the end of every 12 month period after that, only if they are employed by the Company at the time of distribution.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 31:- INFORMATION REGARDING THE STATEMENTS OF PROFIT AND LOSS**a. Income from insurance business

	Consolidated				
	2003		2002	2001	
	Life assurance business	General insurance business	Total	Total	Total
Adjusted NIS in thousands					
Premiums and fees	48,025	711,453	759,478	580,979	489,668
Less - reinsurance	8,652	37,993	46,645	42,079	18,837
	39,373	673,460	712,833	538,900	470,831
Increase in insurance reserves	(17,828)	-	(17,828)	(11,904)	(6,956)
Increase in reserve for unexpired risks net of reinsurance	-	(82,689)	(82,689)	(29,399)	(39,846)
Investment income	4,074	62,001	66,075	6,327	27,067
	<u>25,619</u>	<u>652,772</u>	<u>678,391</u>	<u>503,924</u>	<u>451,096</u>

b. Expenses of insurance business

	Consolidated				
	2003		2002	2001	
	Life assurance business	General insuranc business	Total	Total	Total
Adjusted NIS in thousands					
Claims in respect of insurance policies	10,164	435,255	445,419	326,864	288,393
Selling, administrative and general expenses	20,408	188,234	208,642	121,013	117,120
Increase in deferred acquisition costs	(8,686)	(11,894)	(20,580)	(10,701)	(10,724)
Commissions from reinsurance and co-insurance, net	(2,248)	4,492	2,244	1,557	(2,850)
Amortization of initial difference relating to general insurance business	-	5,429	5,429	5,377	5,014
	<u>19,638</u>	<u>621,516</u>	641,154	444,110	396,953
Establishment and promotion expenses of insurance companies abroad			146	12,095	486
Expenses not included in the insurance business statements			10,956	5,440	5,535
			<u>652,256</u>	<u>461,645</u>	<u>402,974</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 31:- INFORMATION REGARDING THE STATEMENTS OF PROFIT AND LOSS (Cont.)**c. Expenses of construction business

	Consolidated		
	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
Cost of apartments sold *)	517	12,680	2,751
Selling, administrative and general expenses in relation to Chen Hatzafon construction project	123	1,189	1,432
	<u>640</u>	<u>13,869</u>	<u>4,183</u>
*) Cost of apartments sold:			
Land	56	1,470	322
Costs of land development and construction (through a performing contractor)	461	11,210	2,429
	<u>517</u>	<u>12,680</u>	<u>2,751</u>

d. Cost of asset management and Stock Exchange Services

	Consolidated			Company		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
General and Administrative expenses	3,234	-	-	-	-	-
Amortization of initial difference	239	-	-	-	-	-
	<u>3,473</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

e. Cost of sales and software

	Consolidated		
	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
Cost of sales and work	6,425	1,052	6,551
Research and development expenses	-	1,538	789
Selling and marketing expenses	3,720	2,402	1,115
Administrative and general expenses	3,969	3,626	3,594
Amortization of initial difference	417	1,871	1,378
	<u>14,531</u>	<u>10,489</u>	<u>13,427</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 31:- INFORMATION REGARDING THE STATEMENTS OF PROFIT AND LOSS (Cont.)**f. Financing expenses, net

	Consolidated			Company		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
In respect of short term credit, net (including erosion of monetary items, net)	3,321	4,793	9,157	1,929	1,026	1,421
Erosion and interest of long term liabilities, net	45,506	35,607	32,318	12,450	5,523	9,565
Amortization of issue expenses and discount of capital notes and convertible debentures	1,131	751	2,828	1,131	751	927
Loss (profit) from securities	(1,060)	(1,672)	2,102	113	(85)	2,490
Loss (profit) from securities of an insurance company not included in insurance business	(15,724)	12,040	(6,818)	-	-	-
	<u>33,174</u>	<u>51,519</u>	<u>39,587</u>	<u>15,623</u>	<u>7,215</u>	<u>14,403</u>

g. Administrative and general expenses

	Consolidated			Company		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Salaries and related expenses	8,709	8,497	12,523	3,973	4,795	3,724
Fees of external members of the board of directors	884	1,013	757	225	301	309
Elimination of advances for excess expenses	102	125	134	102	125	134
Legal expenses, audit expenses and professional services	2,133	3,618	3,430	795	613	433
Municipal and government taxes and maintenance expenses	854	1,140	1,167	682	975	859
Financial surveys and locating of projects	1,045	904	1,490	-	-	83
Depreciation and amortization	940	1,728	1,051	339	445	743
Others	1,541	1,674	1,031	404	778	377
	<u>16,208</u>	<u>18,699</u>	<u>21,583</u>	<u>6,520</u>	<u>8,032</u>	<u>6,662</u>
Less management fees from a subsidiary	-	-	-	(5,699)	(4,372)	-
	<u>16,208</u>	<u>18,699</u>	<u>21,583</u>	<u>821</u>	<u>3,660</u>	<u>6,662</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 31:- INFORMATION REGARDING THE PROFIT AND LOSS STATEMENTS (Cont.)**h. Capital gain, net

	<u>Consolidated</u>			<u>Company</u>		
	<u>Year ended December 31,</u>			<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	Adjusted NIS in thousands					
Profit from expiry of a subsidiary's options	-	-	6,911	-	-	6,911
Capital gain from sale of shares, conversion of capital notes exercise of options and from issue to a third party in a subsidiary	6,269	4,935	1,287	3,928	1,151	(279)
Capital profit (loss) from sale of fixed assets, net	347	170	(321)	265	94	128
	<u>6,616</u>	<u>5,105</u>	<u>7,877</u>	<u>4,193</u>	<u>1,245</u>	<u>6,760</u>

NOTE 32:- INCOME TAXESa. Tax law applicable to the Israeli companies

The Company and its Israeli subsidiaries are assessed in accordance with the Income Tax Law (Adjustments Due to Inflation) - 1985. According to the law, the results for tax purposes are measured when they are adjusted to the changes in the CPI. In November 2001 the Knesset enacted the amendment to the Income Tax Law (Adjustments Due to Inflation) (Amendment No. 14), 2001, which gives the Minister of Finance the authority, upon approval of the Finance Committee of the Knesset, to order with respect to a given tax year, during the year or up until February 28 of the following year, that the provisions of the law, in whole or in part, shall not be applicable, if the rate of increase in the index during the year does not exceed 3%. In February 2004, the Minister of Finance and the Finance Committee decided that the Adjustments Law will be applied in the year 2003.

The tax liability for the year 2003 is calculated in accordance with the law, while taking into consideration the decrease in the CPI during the year.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 32:- INCOME TAXES**b. Losses and deductions for tax purposes transferred to subsequent years

- 1) The Company has accumulated loss for tax purposes in the amount of about NIS 79 million (December 31, 2002 about NIS 77 million) for which no deferred taxes in the amount of about NIS 28 million were recorded.
- 2) Subsidiaries, except for an insurance subsidiary, have losses carried forward for tax purposes in the amount of about NIS 49 million (December 31, 2002 about NIS 53 million). The subsidiaries recorded deferred taxes in respect of part of the losses in the amount of about NIS 18 million (December 31, 2002 about NIS 9 million). The insurance subsidiary in Israel has a loss carried forward for tax purposes in the amount of about NIS 52 million (December 31, 2002 about NIS 72 million) for which deferred taxes were recorded.

c. Income taxes included in the statement of profit and loss

Composition:

	Consolidated			Company		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Current taxes	33,596	22,607	31,817	105	-	-
Taxes in respect of previous years	(1,409)	(37)	2,664	-	-	-
Deferred taxes	13,586	5,590	650	73	73	73
Taxes in respect of adjustments resulting from the translation of financial statements of investees	(1,578)	(1,393)	(250)	-	-	-
Income taxes	44,195	26,767	34,881	178	73	73

NOTES TO THE FINANCIAL STATEMENTS**NOTE 32:- INCOME TAXES (Cont.)**

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

	Consolidated			C o m p a n y		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Profit (loss) before income taxes	<u>57,334</u>	<u>45,470</u>	<u>52,185</u>	<u>(10,284)</u>	<u>(6,811)</u>	<u>(11,187)</u>
	<u>36%</u>	<u>36%</u>	<u>36%</u>	<u>36%</u>	<u>36%</u>	<u>36%</u>
Tax amount based on statutory tax rates	20,640	16,369	18,787	(3,702)	(2,452)	(4,027)
Tax (tax saving) in relation to:						
Undeductable expenses net of exempt income	(702)	372	542	(197)	188	188
Adjustment of depreciation and amortization	2,325	2,091	2,188	44	-	-
Profit from exercise of a subsidiary's shares and from dilution of holdings	(2,256)	(414)	100	(1,414)	(414)	100
Profit from expiry of a subsidiary's options	-	-	(2,488)	-	-	(2,488)
Profit tax on salary tax	1,033	876	660	-	-	-
Profits of subsidiaries consolidated at the tax rates of an insurance company	13,948	3,940	5,536	-	-	-
Utilization of losses and deferred taxes in respect of losses from previous years	(185)	(1,113)	(2,432)	(185)	-	-
Inflationary deduction and loss for which no deferred taxes were provided	11,473	9,475	11,090	5,646	2,751	6,300
Taxes in respect of previous years	(1,409)	(37)	2,664	-	-	-
Change of tax rate in Poland	4,264	-	-	-	-	-
Income based on other tax rates and timing differences in respect of foreign companies	(4,702)	(5,033)	(1,766)	(14)	-	-
Erosion of tax payments and deductions at source	(234)	241	-	-	-	-
	<u>44,195</u>	<u>26,767</u>	<u>34,881</u>	<u>178</u>	<u>73</u>	<u>73</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 32:- INCOME TAXES (Cont.)

e. Composition and movement in deferred taxes

	<u>Depreciable assets</u>	<u>In respect of buildings under construction</u>	<u>In respect of deferred acquisition costs in insurance</u>	<u>Investment in securities</u>	<u>In respect of other balance sheet items</u>	<u>In respect of loss carried forward</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>						
<u>Consolidated</u>							
Balance as at January 1, 2003	(9,228)	(61)	(3,413)	589	9,413	34,315	31,615
Adjustments relating to foreign autonomic subsidiaries	(1,071)	-	-	-	89	80	(902)
Company first consolidated	-	-	-	-	446	2,845	3,291
Cumulative effect as at the beginning of the year	2,921	-	-	-	-	-	2,921
Allocation to profit and loss statement	(6,264)	61	(2,058)	(286)	(8,249)	3,210	(13,586)
Balance as at December 31, 2003	<u>(13,642)</u>	<u>-</u>	<u>(5,471)</u>	<u>303</u>	<u>1,699</u>	<u>40,450</u>	<u>23,339</u>
<u>Company</u>							
Balance as at January 1, 2003	4,945	-	-	-	-	-	4,945
Allocation to profit and loss statement	(73)	-	-	-	-	-	(73)
Balance as at December 31, 2003	<u>4,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,872</u>

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

NOTES TO THE FINANCIAL STATEMENTS**NOTE 32:- INCOME TAXES (Cont.)**e. Composition and movement in deferred taxes (Cont.)

Deferred taxes are presented in the balance sheet as follows:

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>Adjusted NIS in thousands</u>			
Current assets	3,117	8,201	-	-
Other assets	46,099	45,064	4,872	4,945
Long term liabilities	(25,877)	(21,650)	-	-
	<u>23,339</u>	<u>31,615</u>	<u>4,872</u>	<u>4,945</u>

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

The reports issued for the years up to and including 1999 are considered as final tax assessments pursuant to Section 145 to the Income Tax Ordinance, subject to the conditions stated in the Income Tax Ordinance.

NOTE 33:- SEGMENTS OF ACTIVITIESa. General

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 33:- SEGMENTS OF ACTIVITIES (Cont.)

b. Information according to business segments

Year 2003:

1. Business results of segments for the year ended as at December 31, 2003:

	<u>Insurance</u>	<u>Construction</u>	<u>Lease of assets</u>	<u>Others</u>	<u>Adjustments</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>					
Income from external sources	678,391	640	108,176	9,328	-	796,535
Inter-company income	-	-	3,126	7,723	(10,849)	-
Capital gain and other income, net	-	-	-	6,616	-	6,616
Total	<u>678,391</u>	<u>640</u>	<u>111,302</u>	<u>23,667</u>	<u>(10,849)</u>	<u>803,151</u>
Results of the segment	<u>41,201</u>	<u>-</u>	<u>38,901</u>	<u>(1,402)</u>		78,700
Unallocated expenses:						
Administrative and general expenses						(6,480)
Financing expenses, net						<u>(14,886)</u>
Profit before income taxes						57,334
Income taxes						<u>44,195</u>
Profit after income taxes						13,139
Company's share in results of investees						(10)
Minority share in profits of subsidiaries						(1,313)
Cumulative effect as at beginning of the year of change in accounting regulations, net						<u>(8,762)</u>
Net profit for the year						<u>3,054</u>
2) Segment assets	<u>1,345,411</u>	<u>-</u>	<u>1,212,505</u>	<u>30,649</u>		2,588,565
Joint unallocated assets						<u>66,077</u>
Total consolidated assets						<u>2,654,642</u>
Liabilities of the segment	<u>1,209,602</u>	<u>-</u>	<u>900,706</u>	<u>17,210</u>		2,127,518
Joint unallocated liabilities						<u>293,318</u>
Total consolidated liabilities						<u>2,420,836</u>
3) Capital investments	<u>18,318</u>	<u>-</u>	<u>98,375</u>	<u>1,134</u>		117,827
Unallocated capital investments						<u>41</u>
Total capital investments						<u>117,868</u>
4) Depreciation and amortization	<u>18,460</u>	<u>-</u>	<u>19,706</u>	<u>1,541</u>		39,707
Unallocated depreciation and amortization						<u>2,436</u>
Total depreciation and amortization						<u>42,143</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 33:- SEGMENTS OF ACTIVITIES (Cont.)**

b. Information according to business segments (Cont.)

Year 2002:

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

	<u>Insurance</u>	<u>Construction</u>	<u>Lease of assets</u>	<u>Others</u>	<u>Adjustments</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>					
Income from external sources	503,924	16,274	96,513	1,840	-	618,551
Inter-company income	-	-	3,119	7,219	(10,338)	-
Capital gain and other income, net	-	-	-	5,105	-	5,105
Total	<u>503,924</u>	<u>16,274</u>	<u>99,632</u>	<u>14,164</u>	<u>(10,338)</u>	<u>623,656</u>
Results of the segment	<u>30,188</u>	<u>2,405</u>	<u>24,398</u>	<u>(3,492)</u>		53,499
Unallocated expenses:						
Administrative and general expenses						(4,249)
Financing expenses, net						<u>(3,780)</u>
Profit before income taxes						45,470
Income taxes						<u>(26,767)</u>
Profit after income taxes						18,703
Minority share in profits of subsidiaries						<u>(4,711)</u>
Net profit for the year						<u>13,992</u>
2) Segment assets	<u>1,068,201</u>	<u>1,497</u>	<u>1,077,805</u>	<u>10,159</u>		2,157,662
Joint unallocated assets						<u>58,413</u>
Total consolidated assets						<u>2,216,075</u>
Liabilities of the segment	<u>934,747</u>	<u>-</u>	<u>778,357</u>	<u>3,425</u>		1,716,529
Joint unallocated liabilities						<u>279,510</u>
Total consolidated liabilities						<u>1,996,039</u>
3) Capital investments	<u>23,640</u>	<u>-</u>	<u>128,991</u>	<u>407</u>		153,038
Unallocated capital investments						<u>663</u>
Total capital investments						<u>153,701</u>
4) Depreciation and amortization	<u>12,526</u>	<u>38</u>	<u>16,483</u>	<u>2,965</u>		32,012
Unallocated depreciation and amortization						<u>2,671</u>
Total depreciation and amortization						<u>34,683</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 33:- SEGMENTS OF ACTIVITIES (Cont.)**

b. Information according to business segments (Cont.)

Year 2001:

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

	<u>Insurance</u>	<u>Construction</u>	<u>Lease of assets</u>	<u>Others</u>	<u>Adjustments</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>					
Income from external sources	451,096	4,306	80,957	7,271	-	543,630
Inter-company income	-	-	3,083	-	(3,083)	-
Capital gain and other income, net	-	-	-	7,877	-	7,877
Total	<u>451,096</u>	<u>4,306</u>	<u>84,040</u>	<u>15,148</u>	<u>(3,083)</u>	<u>551,507</u>
Segment results	<u>55,079</u>	<u>749</u>	<u>12,901</u>	<u>1,647</u>		70,376
Unallocated expenses:						
Administrative and general expenses						(2,816)
Financing expenses, net						<u>(15,375)</u>
Profit before income taxes						52,185
Income taxes						<u>(34,881)</u>
Profit after income taxes						17,304
Company's share in losses of an affiliate						(404)
Minority share in profits of subsidiaries						<u>(13,793)</u>
Net profit for the year						<u>3,107</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 33:- SEGMENTS (Cont.)**c. Information according to geographic segments

1) Income according to geographic segment:

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
Israel	652,000	537,615	477,869
Great Britain	43,555	41,572	33,798
Belgium	12,895	12,189	10,674
Poland	71,698	22,462	21,295
Canada	16,640	7,978	601
Others	<u>6,363</u>	<u>1,840</u>	<u>7,270</u>
	<u>803,151</u>	<u>623,656</u>	<u>551,507</u>

2) Assets according to geographic segments:

	Year ended	
	December 31,	
	2003	2002
Adjusted NIS in thousands		
Israel	1,627,784	1,336,527
Great Britain	424,797	388,180
Belgium	137,746	123,188
Poland	228,694	231,943
Canada	199,276	124,613
Others	<u>36,345</u>	<u>11,624</u>
	<u>2,654,642</u>	<u>2,216,075</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 34:- LINKAGE TERMS OF BALANCES

a. Consolidated balance sheet

As at December 31, 2003:

	Linked to to CPI	Linked to or in Euro	Linked to or in Pound Sterling	Linked to or in U.S. Dollar	Linked to or in Canadian Dollar	Linked to or in Zlotych	Unlinked	Total
	Adjusted NIS in thousands							
<u>Assets</u>								
Cash and cash equivalents	-	5,190	15,681	12,086	4,634	-	59,627	97,218
Customers	1,693	2,339	23,251	625	404	-	7,604	35,916
Insurance companies	39,056	-	-	2,198	-	110	4,760	46,124
Outstanding premiums	80,714	-	-	-	-	4,994	78,076	163,784
Debtors and debit balances	10,017	198	14	64	249	514	7,414	18,470
Loans (including current maturity)	2,536	-	17,663	-	3,684	-	-	23,883
Investments of an insurance company	265,013	-	-	-	-	5,182	70,873	341,068
Reinsurers share in insurance reserves and outstanding claims	43,286	-	-	-	-	-	-	43,286
	<u>442,315</u>	<u>7,727</u>	<u>56,609</u>	<u>14,973</u>	<u>8,971</u>	<u>10,800</u>	<u>228,354</u>	<u>769,749</u>
<u>Liabilities</u>								
Credit from banking corporations	-	10,718	-	28,444	33,781	-	75,779	148,722
Suppliers and service providers	-	1,598	506	893	521	2,330	20,900	26,748
Insurance companies	-	-	-	19,823	-	-	-	19,823
Creditors and credit balances	1,211	1,007	2,719	695	2,568	6,318	49,631	64,149
Convertible capital notes (including current maturities)	13,251	-	-	15,702	-	-	-	28,953
Loans from banking corporations and from others (including current maturity)	111,205	223,657	363,708	103,604	158,109	-	24,000	984,283
Convertible debentures to subsidiary shares	41	-	-	-	-	-	-	41
Insurance reserves and outstanding claims in an insurance company	950,951	-	-	-	-	33,691	-	984,642
Debentures	100,000	-	-	-	-	-	-	100,000
	<u>1,176,659</u>	<u>236,980</u>	<u>366,933</u>	<u>169,161</u>	<u>194,979</u>	<u>42,339</u>	<u>170,310</u>	<u>2,357,361</u>

The above data includes information regarding monetary balances only. As at December 31, 2003 the Group has non-monetary asset balances in the amount of NIS 1,884,893 thousand.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 34:- LINKAGE TERMS OF BALANCES (Cont.)

a. Consolidated balance sheet (Cont.)

As at December 31, 2002:

	Linked to CPI	Linked to or in Euro	Linked to or in Pound Sterling	Linked to or in U.S. Dollar	Linked to or in Canadian Dollar	Linked to or in Zlotych	Unlinked	Total
	Adjusted NIS in thousands							
<u>Assets</u>								
Cash and cash equivalents	-	26,680	12,318	7,291	4,724	25,003	34,691	110,707
Deposits in financial institutions	1,422	-	-	-	-	-	-	1,422
Customers	2,094	1,041	18,896	341	507	-	1,062	23,941
Insurance companies	34,507	-	-	4,527	-	-	3,390	42,424
Outstanding premiums	51,370	-	-	-	-	-	37,780	89,150
Debtors and debit balances	9,031	11	92	-	243	23	1,771	11,171
Loans (including current maturity)	5,163	-	15,747	-	3,267	-	-	24,177
Investments of an insurance company	198,859	-	-	-	-	-	100,275	299,134
Reinsurers share in insurance reserves and outstanding claims	47,806*)	-	-	-	-	-	-	47,806*)
	<u>350,252</u>	<u>27,732</u>	<u>47,053</u>	<u>12,159</u>	<u>8,741</u>	<u>25,026</u>	<u>178,969</u>	<u>649,932</u>
<u>Liabilities</u>								
Credit from banking corporations	-	67,699	3,736	73,397	30,088	-	116,592	291,512
Suppliers and service providers	-	870	412	657	786	2,360	15,753	20,838
Insurance companies	-	-	-	18,928	-	-	-	18,928
Creditors and credit balances	282	1,154	2,584	178	745	284	40,437	45,664
Convertible capital notes (including current maturities)	20,191	-	-	26,562	-	-	-	46,753
Loans from banking corporations and from others (including current maturity)	95,645	104,748	357,027	82,630	84,136	-	14,716	738,902
Convertible debentures and capital notes to subsidiary shares	31,045	-	-	-	-	-	-	31,045
Insurance reserves and outstanding claims in an insurance company	749,704*)	-	-	-	-	-	-	749,704*)
	<u>896,867</u>	<u>174,471</u>	<u>363,759</u>	<u>202,352</u>	<u>115,755</u>	<u>2,644</u>	<u>187,498</u>	<u>1,943,346</u>

*) Reclassified.

The above data includes information regarding monetary balances only. As at December 31, 2002 the Group has non-monetary asset balances in the amount of NIS 1,566,143 thousand.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 34:- LINKAGE TERMS OF BALANCES (Cont.)**a. Company's balance sheet (Cont.)

As at December 31, 2003:

	<u>Linked to CPI</u>	<u>Linked to or in Euro</u>	<u>Linked to or in U.S. Dollar</u>	<u>Unlinked</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>				
Assets					
Cash and cash equivalents	-	456	-	806	1,262
Customers	190	-	-	-	190
Debtors and debit balances	211	177	-	347	735
Loans to subsidiaries	<u>7,183</u>	<u>-</u>	<u>-</u>	<u>19,795</u>	<u>26,978</u>
	<u>7,584</u>	<u>633</u>	<u>-</u>	<u>20,948</u>	<u>29,165</u>
Liabilities					
Credit from banking corporations	-	-	16,852	51,331	68,183
Suppliers and service providers	-	549	-	222	771
Creditors and credit balances	-	138	-	4,947	5,085
Convertible capital notes (including current maturity)	13,251	-	15,702	-	28,953
Debentures	100,000	-	-	-	100,000
Loans from banking corporations (including current maturity)	<u>47,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,755</u>
	<u>161,006</u>	<u>687</u>	<u>32,554</u>	<u>56,500</u>	<u>250,747</u>

The above data includes information regarding monetary balances only. As at December 31, 2003 the Company has non-monetary asset balances in the amount of NIS 346,406 thousand.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 34:- LINKAGE TERMS OF BALANCES (Cont.)**a. Company's balance sheet (Cont.)

As at December 31, 2002:

	<u>Linked to CPI</u>	<u>Linked to or in Euro</u>	<u>Linked to or in U.S. Dollar</u>	<u>Unlinked</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>				
Assets					
Cash and cash equivalents	-	1	2	878	881
Customers	82	-	-	-	82
Debtors and debit balances	199	-	-	66	265
Loans to a subsidiary	<u>5,076</u>	<u>26,513</u>	<u>-</u>	<u>14,383</u>	<u>45,972</u>
	<u>5,357</u>	<u>26,514</u>	<u>2</u>	<u>15,327</u>	<u>47,200</u>
Liabilities					
Credit from banking corporations	-	-	10,831	116,031	126,862
Suppliers and service providers	-	5	-	123	128
Creditors and credit balances	-	18	-	5,325	5,343
Convertible capital notes (including current maturity)	20,191	-	26,562	-	46,753
Loans from banking corporations (including current maturity)	<u>48,916</u>	<u>-</u>	<u>-</u>	<u>14,715</u>	<u>63,631</u>
	<u>69,107</u>	<u>23</u>	<u>37,393</u>	<u>136,194</u>	<u>242,717</u>

The above data includes information regarding monetary balances only. As at December 31, 2002 the Company has non-monetary asset balances in the amount of NIS 321,815 thousand.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 35:- EARNINGS PER SHARE**

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

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
Consolidated			
Net profit per profit and loss statements before cumulative effect	11,816	13,992	3,107
Accumulated preferred shares dividend	<u>(264)</u>	<u>(124)</u>	<u>(239)</u>
Net profit used in determination of the basic net profit per share before cumulative effect	11,552	13,868	2,868
Following components added:			
Effect of conversion of capital notes Serial B	(491)	1,574	(*)
Effect of conversion of capital notes Serial C	<u>874</u>	<u>1,328</u>	<u>(*)</u>
Net profit used in determination of the diluted net profit per share before cumulative effect	<u>11,935</u>	<u>16,770</u>	<u>2,868</u>
Company			
Net profit per profit and loss statements after cumulative effect	3,054	13,992	3,107
Accumulated preferred shares dividend	<u>(264)</u>	<u>(124)</u>	<u>(239)</u>
Net profit used in determination of the basic net profit per share after cumulative effect	2,790	13,868	2,868
Following components added:			
Effect of conversion of capital notes Serial B	(491)	1,574	(*)
Effect of conversion of capital notes Serial C	<u>874</u>	<u>1,328</u>	<u>(*)</u>
Net profit used in determination of the diluted profit per share after cumulative effect	<u>3,173</u>	<u>16,770</u>	<u>2,868</u>
Weighted number of share capital (number of shares in thousands)			
Year ended December 31,			
	2003	2002	2001
Total ordinary and preferred shares issued and fully redeemed	83,006	81,733	81,733
Less the following components:			
Mutual holding of ordinary shares	(10,748)	(10,216)	(9,833)
Mutual holding of preferred shares	<u>(19,565)</u>	<u>(19,423)</u>	<u>(19,094)</u>
Number of shares used in determination of basic net profit per share	52,693	52,094	52,806
Addition of the following components:			
Effect of conversion of capital notes (Serial B)	5,362	8,548	(*)
Effect of conversion of capital notes (Serial C)	<u>5,189</u>	<u>7,943</u>	<u>(*)</u>
Number of shares used in determination of diluted earnings per share	<u>63,244</u>	<u>68,585</u>	<u>52,806</u>

*) Anti dilution effect.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 36:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED AND RELATED PARTIES**

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	Adjusted NIS in thousands			
a. Balances of related parties are included in the following <u>balance sheet items</u>				
In the investment in investees item:				
Loans to subsidiaries	-	-	26,978	45,972
In the loans item *):				
Loan to general manager and member of the board	692	667	-	-
Loan to subsidiary's general manager and director	1,412	1,362	-	-
Loan to subsidiary's general manager	2,825	2,722	-	-

*) See Note 33d hereunder.

b. Income (expenses) during the reporting year

	<u>Consolidated</u>			<u>Company</u>		
	<u>Year ended December 31,</u>			<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	Adjusted NIS in thousands					
Income from rent	-	-	-	2,847	2,855	2,827
Management fees from subsidiary		-	-	5,699	4,372	-
Interest to subsidiaries		-	-	(339)	(543)	(2,142)
Interest in respect of loans to related parties	178	241	69	-	-	-
Salary of directors who are not interested parties	(884)	(1,013)	(757)	(225)	(301)	(309)
Number of directors	20	24	20	6	5	4
Salary, bonuses and related expenses to interested parties	(7,769)	(6,961)	(8,137)*	(2,909)	(3,869)	(2,830)
Number of salary receivers	4	4	4	3	3	3

*) Including compensation for cancellation of an option plan in the amount of NIS 2,992 thousand to the chairman of the board in a subsidiary who serves as a director in the Company.

NOTES TO THE FINANCIAL STATEMENTS

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

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

The amount of the insurance for the year 2001 - \$ 7.5 million and for the years 2002 – 2003 \$ 10 million for each case and for the period. In addition, the insurance includes a refund for legal expenses in Israel only in the amount of \$ 1 million for the year 2001 and \$ 2 million for the years 2002 - 2003.

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

- d. The Company and Adgar, including all their subsidiaries committed to an agreement on October 4, 1995, that was approved by the general assembly of the Company, to give each other deposits in total amount not exceeding NIS 20,000 thousand, linked to the index of August 1995, for any length of time. The deposits are short term, in that the receiver is required to repay any deposit within 3 banking business days from requirement day and the receiver has the right to early repayment within 3 business days, without repayment commission. In a decision of the Company's Board of Directors from January 4, 2004 that was also approved by Adgar's Board of Directors, it was decided that the framework of the total amount of deposits will not exceed the amount determined in the above agreement (as at December 31, 2003 about NIS 23.6 million) and that the interest the deposits will bear will be determined according to the average prime interest of Bank Hapoalim and Bank Leumi on loans for the above amounts.

Each company is a guarantor to deposits that the other company deposits in the accounts of its subsidiaries.

- e. The Company is a guarantor in the line of credit to Adgar that as at December 31, 2003 amounts to about NIS 232 million.
- f. The Company has an agreement with Adgar to give management and consulting services. According to the agreement the Company will supply Adgar with management and consulting services as detailed in the agreement in consideration of management fees. The management fees amount was determined at a basic amount of about NIS 4.2 million, in addition to a rate of 1% - 1.25% of the balance of the line of credit that the Company is guarantor for, in favor of Adgar. See e above.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 33:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

(Cont.)

- g. On September 30, 2001 the general meeting of the subsidiary, Direct Insurance - Financial Investments Ltd. (hereunder - Direct Insurance) approved the granting of loans by Direct Insurance and/or through its subsidiary, to the chairman of the board of directors and to the general manager of Direct Insurance, who serve as directors in the Company, for financing the acquisition of Direct Insurance's shares. The acquired shares will be pledged against the loans at a first degree pledge in favour of Direct Insurance. The loan agreements determine, amongst others, that the loans will bear interest of 4% per annum and they will be linked to the CPI. The loans will be redeemed at the end of five years from the date of approval of the loan agreements by the general meeting. The loan agreements are non-recourse agreements, therefore Direct Insurance is entitled to realize the pledge if the loans are not redeemed. On January 9, 2002, a subsidiary, Direct - I.D.I. Insurance Company Ltd. granted loans in the amount of NIS 646 thousand to the chairman of the board and NIS 1,317 thousand to the general manager. The acquired shares were deposited with a trustee to secure the borrowers' liabilities in the loan agreements that were signed with them.

On January 9, 2002 Direct - I.D.I. Insurance Company Ltd. granted a loan in the amount of NIS 2,634 thousand to the general manager of the insurance company. The acquired shares were deposited with a trustee to secure the borrowers' loan liabilities. The loan agreement determines, that the loan will bear interest of 4% per annum and it will be linked to the CPI. On November 3, 2003 the shares were sold. The proceeds of the share which exceeds the loan balance, repaid the loan in February 2004. The difference between the share proceeds and the loan amount was paid to the general manager.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 37:- COMPANY'S FINANCIAL STATEMENTS IN TERMS OF NOMINAL VALUES**a. Balance sheets

	December 31,	
	2003	2002
	NIS in thousands	
Current assets		
Cash and cash equivalents	1,262	898
Short term investments	290	411
Customers	190	84
Debtors and debit balances	1,315	349
	<u>3,057</u>	<u>1,742</u>
Investment in investees	<u>231,188</u>	<u>244,614</u>
Fixed Assets, net	<u>27,312</u>	<u>24,313</u>
Other assets, net	<u>7,569</u>	<u>588</u>
Deferred taxes	<u>3,374</u>	<u>3,424</u>
	<u>272,500</u>	<u>274,681</u>
Current liabilities		
Credit from banking corporations	102,171	167,562
Suppliers and service providers	771	130
Creditors and credit balances	5,085	5,446
Current maturity of capital notes convertible into shares	12,325	14,265
	<u>120,352</u>	<u>187,403</u>
Long term liabilities		
Capital notes convertible into shares	16,653	33,454
Loans from banking corporations	13,767	26,621
Debentures	100,000	-
	<u>130,420</u>	<u>60,075</u>
Shareholders' equity	<u>21,728</u>	<u>27,203</u>
	<u>272,500</u>	<u>274,681</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 37:- COMPANY'S FINANCIAL STATEMENTS IN TERMS OF NOMINAL VALUES (Cont.)**b. Statements of profit and loss

	Year ended December 31,		
	2003	2002	2001
	NIS in thousands		
Income			
From lease of assets	2,967	6,212	7,742
Capital gain, net	<u>4,410</u>	<u>1,232</u>	<u>4,602</u>
	<u>7,377</u>	<u>7,444</u>	<u>12,344</u>
Costs and expenses			
Maintenance of assets	639	2,597	3,960
Financing, net	10,646	19,635	15,527
Administrative and general expenses	<u>785</u>	<u>3,563</u>	<u>6,234</u>
	<u>12,070</u>	<u>25,795</u>	<u>25,721</u>
Loss before income taxes	(4,693)	(18,351)	(13,377)
Income taxes	<u>(155)</u>	<u>(50)</u>	<u>(50)</u>
Loss after income taxes	(4,848)	(18,401)	(13,427)
Company's share in profits of investees, net	<u>9,600</u>	<u>11,727</u>	<u>13,045</u>
Net profit (loss) for the year	<u><u>4,752</u></u>	<u><u>(6,674)</u></u>	<u><u>(382)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

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

c. Statements of changes in shareholders' equity

	Share capital	Share premium	Capital reserves	Adjustments due to translation of subsidiaries financial statements	Deficiency	Less shares held by the Company and by subsidiaries	Total
NIS in thousands							
<u>Balance as at January 1, 2001</u>	81,733	24,973	(2,141)	4,771	(12,700)	(47,700)	48,936
Exercise of subsidiary's options	-	-	2,935	-	-	-	2,935
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	864	-	-	864
Distribution of Company's shares as dividend by a subsidiary	-	-	-	-	-	569	569
Loss for the year	-	-	-	-	(382)	-	(382)
<u>Balance as at December 31, 2001</u>	81,733	24,973	794	5,635	(13,082)	(47,131)	52,922
Acquisition of convertible debentures of a subsidiary	-	(6,919)	-	-	-	-	(6,919)
Acquisition of Company shares	-	-	-	-	-	(4,857)	(4,857)
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	2,731	-	-	2,731
Dividend paid	-	-	-	-	(10,000)	-	(10,000)
Loss for the year	-	-	-	-	(6,674)	-	(6,674)
<u>Balance as at December 31, 2002</u>	81,733	18,054	794	8,366	(29,756)	(51,988)	27,203
Conversion of convertible capital notes	1,273	2,172	-	-	-	-	3,445
Acquisition of Company shares	-	-	-	-	-	(1,743)	(1,743)
Adjustments due to translation of financial statements of foreign subsidiaries	-	-	-	(3,929)	-	-	(3,929)
Dividend paid	-	-	-	-	(8,000)	-	(8,000)
Profit for the year	-	-	-	-	4,752	-	4,752
<u>Balance as at December 31, 2003</u>	83,006	20,226	794	4,437	(33,004)	(53,731)	21,728

NOTES TO THE FINANCIAL STATEMENTS

NOTE 38:- EVENTS AFTER BALANCE SHEET DATE

- a. According to the prospectus of January 2004, a subsidiary – Adgar Investments & Development Ltd. issued shares and options. As a result of the issue the Company's holding rate in Adgar decreased to 72%. The Company is expected to record income of about NIS 15 million in the first quarter of the year 2004. In addition, see Note 14(b)(2)(b) above.
- b. After the balance sheet date 1,149,578 capital notes (Series B) and 6,557,465 capital notes (Series C) were converted into 3,555,455 preferred shares.

APPENDIX TO THE FINANCIAL STATEMENTS

List of Subsidiaries

Rate of ownership and control by the holding company as at December 31, 2003:

<u>Holding company</u>	<u>Name of the company</u>	<u>Rate of ownership %</u>	<u>Rate of control %</u>
Zur Shamir holdings Ltd.	Direct Insurance - Financial Investments Ltd.	52.25%	52.25%
	Adgar Investments and Development Ltd. *)	100%	100%
	Zur Shamir Finances Ltd.	100%	100%
	Adgar Parking N.V.	100%	100%
	Zur Shamir Properties (1989) Ltd.	100%	100%
	Nachalot Zur Ltd.	100%	100%
Direct Insurance - Financial Investments Ltd.	Direct - I.D.I. Insurance Company Ltd.	100%	100%
	Idit I.D.I. Technologies Ltd.	55.56%	55.56%
	GDII Global Direct Insurance Investments B.V.	100%	100%
	Moritz et Tuchler Ltd.	100%	100%
Moritz et Tuchler Ltd.	Moritz et Tuchler Underwriting Ltd.	100%	100%
	Moritz et Tuchler Jerusalem (1979) Ltd.	100%	100%
	Company Plot 45 in Block 6938 Ltd.	25%	25%
Moritz et Tuchler Jerusalem (1979) Ltd.	Moritz et Tuchler Mutual Fund Managements (1991) Ltd.	100%	100%
Direct - I.D.I. Insurance Co. Ltd.	Dr. Can and Color Ltd.	50%	50%
	Shamir Direct Assessments Ltd.	100%	100%
	Earnix Inc.	17.9%	17.9%
Dr. Can and Color Ltd.	Dr. Can and Color Jerusalem Ltd.	50%	50%
	Dr. Can and Color Haifa Ltd.	50%	50%
	Dr. Can and Color Ra'anana Ltd.	100%	100%
GDII Global Direct Insurance Investments B.V.	IDIP Direct Insurance B.V.	100%	100%
	Spolka Akcyjna Link4 Towarzystwo Ubezpieczen	100%	100%
Zur Shamir Properties(1989) Ltd.	Karlibach Management and Services Ltd.	100%	100%
Adgar Investments and Development Ltd.	Adgar Nof Tivon Ltd.	74%	74%
	Adgar International Holdings Ltd.	100%	100%
	Adgar Trust	100%	100%
Adgar International Holdings Ltd.	Adgar Investment and Development Belgium N.V.	100%	100%

*) After balance sheet date the rate decreased to 72%.

APPENDIX TO THE FINANCIAL STATEMENTS**List of Subsidiaries (Cont.)**

Rate of ownership and control by the holding company as at December 31, 2003: (Cont.)

Holding company	Name of the company	Rate of ownership %	Rate of control %
Adgar Investment and Development Belgium B.V.	Adgar Properties N.V.	100%	100%
	Adgar UK N.V.	82.5%	82.5%
	Adgar Sutherland N.V.	90.0%	90.0%
	Adgar Lemanstreet N.V.	75.0%	75.0%
	Adgar Plantin N.V.	100%	100%
	Adgar Investment and Development Poland N.V.	100%	100%
	Adgar Solar House B.V.	100%	100%
	Wingate Ltd.	100%	100%
	Gilquest Ltd.	100%	100%
	Adgar Theater Building N.V.	100%	100%
Adgar Investment and Development Poland N.V.	Adgar Postepu S.P.Z.O.O.	100%	100%
Adgar Trust	AD-AM LP.	92.5%	92.5%
	AD-AM Albert Building L.P.	82.5%	82.5%
	1881 Yonge Street L.P.	100%	100%
	1 Richmond Street West L.P.	100%	100%
