

**Translated
from the
Hebrew original**

DIRECT INSURANCE - FINANCIAL INVESTMENTS LTD.

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2003

DIRECT INSURANCE - FINANCIAL INVESTMENTS LTD.

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2003

ADJUSTED TO THE SHEKEL OF DECEMBER 2003

INDEX

	<u>Page</u>
Auditors' Report to the Shareholders	2 - 3
Balance Sheets	4 - 5
Statements of Profit and Loss	6
Statements of Changes in Shareholders' Equity	7
Life Assurance Business Statements	8
General Insurance Business Statements	9
Statements of Cash Flows	10 - 14
Notes to the Financial Statements	15 - 68
Appendix to Financial Statements - List of subsidiaries	69

AUDITORS' REPORT

To the Shareholders of

DIRECT INSURANCE - FINANCIAL INVESTMENTS LTD.

We have audited the accompanying financial statements of DIRECT INSURANCE - FINANCIAL INVESTMENTS LTD. (hereunder - the Company) and the consolidated financial statements of the Company and its subsidiaries:

- Balance sheets as at December 31, 2003 and 2002 - consolidated and Company
- Statements for each of the three years in the period ended December 31, 2003:
 - Statements of profit and loss - consolidated and Company
 - Statements of changes in shareholders' equity
 - Life assurance business statements - consolidated and Company
 - General insurance business statements - consolidated and Company
 - Statements of cash flows - consolidated and Company

These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of an affiliated company, which is included on the equity basis of which the Company's share in the loss totaled NIS 404 thousand for the year ended December 31, 2001. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for this affiliated company, is based solely on the reports of the other auditors.

We conducted our audits 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 Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, as mentioned above:

- a. The aforementioned financial statements of the Company present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations, the changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003, in conformity with generally accepted accounting principles. In addition, in our opinion the above financial statements are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements) 1993.

- b. The aforementioned consolidated financial statements of the Company and its subsidiaries present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2003 and 2002 and the results of its consolidated operations and cash flows, of the Company and consolidated, for each of the three years in the period ended December 31, 2003, in conformity with the accounting, reporting and presentation principles prescribed by the Insurance Business Supervision Law, 1981, and the regulations enacted in pursuance thereto.

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

Tel-Aviv, Israel
March 18, 2004

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

BALANCE SHEETS

Adjusted to the shekel of December 2003

	Note	CONSOLIDATED		COMPANY	
		December 31,		December 31,	
		2003	2002	2003	2002
Adjusted NIS in thousands					
INVESTMENTS					
Cash and cash equivalents		127,368	170,041	26,770	3,139
Securities	4	518,541	354,299	-	-
Loans and deposits:					
Loans	5	7,914	2,813	-	-
Bank deposits	6	258,518	207,141	-	-
		266,432	209,954	-	-
Investees and others	7	3,662	455	265,963	257,164
Total investments		916,003	734,749	292,733	260,303
FIXED ASSETS, NET	8	44,909	38,801	1,013	42
AMOUNTS RECEIVABLE					
Insurance companies:					
Reinsurers' share in insurance reserves	9	4,649	5,855	-	-
Reinsurers' share in outstanding claims	9	38,637	41,951 *)	-	-
Other accounts	10	46,124	42,424	-	-
		89,410	90,230	-	-
Outstanding premiums	11	163,784	89,150	-	-
Debtors and debit balances	12	50,191	32,396	4,169	85
Total amounts receivable		303,385	211,776	4,169	85
DEFERRED ACQUISITION COSTS AND OTHER ASSETS					
Deferred acquisition costs:					
In life assurance	13	25,854	17,177	-	-
In general insurance		50,492	38,619	-	-
Total deferred acquisition costs		76,346	55,796	-	-
Other assets	14	37,434	37,586	-	-
Minority debt		792	-	-	-
Deferred taxes	18	32,829	27,817	-	-
		71,055	65,403	-	-
Total deferred acquisition costs and other assets		147,401	121,199	-	-
		1,411,698	1,106,525	297,915	260,430

*) Reclassified.

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

BALANCE SHEETS

Adjusted to the shekel of December 2003

	Note	CONSOLIDATED		COMPANY	
		December 31,		December 31,	
		2003	2002	2003	2002
Adjusted NIS in thousands					
SHAREHOLDERS' EQUITY	19	179,415	162,116	179,415	162,116
MINORITY INTERESTS			2,674		
LONG TERM LIABILITIES					
Deferred taxes	18	5,471	3,413		
Liabilities to banking corporations	17	92,679		92,679	
Total long term liabilities		98,150	3,413	92,679	
INSURANCE RESERVES AND OUTSTANDING CLAIMS					
Life assurance:					
Assurance reserve		5,850	4,880		
Assurance reserve for savings policies		37,313	20,338		
Reserve for extraordinary risks		12,374	8,167		
Outstanding claims		4,168	1,695		
Total life assurance		59,705	35,080		
General insurance:					
Reserve for unexpired risks		314,443	233,215		
Outstanding claims		610,494	481,410*)		
Total general insurance		924,937	714,625		
Total insurance reserves and outstanding claims		984,642	749,705		
PLEDGES AND COMMITMENTS	25				
OTHER LIABILITIES					
Insurance companies:					
Deposits of reinsurers		2,490	2,511		
Other accounts		17,333	16,417		
		19,823	18,928		
Current maturities of capital notes convertible into shares	7(b)(2)		30,996		30,996
Short term credit from banking corporations	15	27,419	63,593	22,124	63,593
Creditors and credit balances	16	102,249	75,100	3,697	3,725
Total other liabilities		149,491	188,617	25,821	98,314
		1,411,698	1,106,525	297,915	260,430

*) Reclassified

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

March 18, 2004	M. Schneidman	D. Schneidman	Yigal Mor
Date of approval of the financial statements	Chairman of the Board	Director and General Manager	Deputy Financial Officer

STATEMENTS OF PROFIT AND LOSS**Adjusted to the shekel of December 2003**

	Note	CONSOLIDATED			COMPANY		
		Year ended December 31,			Year ended December 31,		
		2003	2002	2001	2003	2002	2001
		Adjusted NIS in thousands			Adjusted NIS in thousands		
Transferred from insurance business statements:							
Income from life assurance business		5,98	3,77	1,25			
Income from general insurance business		<u>34,00</u>	<u>59,13</u>	<u>55,72</u>			
		39,98	62,90	56,97			
Income (loss) not included in the insurance business statements:							
Investment income (loss)		15,78	(11,95)	6,81	(2,22)	(1,12)	93
Software selling expenses, net	20(a)	(7,75)	(7,53)	(4,83)			
Asset management and Stock Exchange services expenses, net	20(b)	<u>(26)</u>					
		47,75	43,41	58,96	(2,22)	(1,12)	93
Administrative and general income (expenses) not included in the insurance business statements	20(c)	(11,10)	(17,53)	(6,02)	(1,37)	66	(3,28)
Income from issue to a third party		2,34	3,78	1,56	2,34	3,78	1,56
Expenses of amortization of initial difference		<u>(5,35)</u>	<u>(5,80)</u>	<u>(6,07)</u>			
Income (loss) before income taxes		33,63	23,85	48,42	(1,25)	3,32	(78)
Provision for income tax and profit tax	18	<u>35,14</u>	<u>19,80</u>	<u>26,47</u>	<u>(17)</u>	<u>17</u>	
Income (loss) after income taxes		(1,51)	4,04	21,95	(1,08)	3,14	(78)
Company's share in results of investees		(1)		(40)	2,99	2,70	22,74
Minority's share in losses of subsidiaries		<u>3,44</u>	<u>1,80</u>	<u>41</u>			
Net income for the year		<u><u>1,91</u></u>	<u><u>5,85</u></u>	<u><u>21,96</u></u>	<u><u>1,91</u></u>	<u><u>5,85</u></u>	<u><u>21,96</u></u>
Earnings per share	25						
Earnings per NIS 1 nominal value of ordinary shares (in adjusted NIS)		<u><u></u></u>	<u><u></u></u>	<u><u></u></u>	<u><u></u></u>	<u><u></u></u>	<u><u></u></u>

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

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

	Share capital *)	Share premium	Adjustments resulting from translation of financial statements of autonomic units held	Surplus	Debtors for shares	Less shares held by the Company	Total
	Adjusted NIS in thousands						
Balance as at January 1, 2001	61,7	57,0	-	24,07			142,84
Net profit for the year			-	21,96			21,96
Balance as at December 31, 2001	61,7	57,0	-	46,03			164,80
Exercise of options into shares		1	-				21
Conversion of capital notes into shares	1,0	4,5	-				5,63
Adjustments resulting from the translation of financial statements of autonomic Units held			282				28
Granting of loans to related parties to purchase Company shares			-		(4,51)		(4,51)
Acquisition of Company shares			-			(10,16)	(10,16)
Net profit for the year			-	5,85			5,85
Balance as at December 31, 2002	62,8	61,7	282	51,88	(4,51)	(10,16)	162,11
Exercise of options into shares	1,1	4,3	-				5,49
Conversion of capital notes into shares	2,7	12,6	-				15,47
Adjustments resulting from the translation of financial statements of autonomic Units held			(8,382)				(8,38)
Repayment of a loan to related parties to purchase Company shares		2	-		2,58		2,79
Net income for the year			-	1,91			1,91
Balance as at December 31, 2003	<u>66,8</u>	<u>78,9</u>	<u>(8,100)</u>	<u>53,80</u>	<u>(1,92)</u>	<u>(10,16)</u>	<u>179,41</u>

*) Details of the composition of share capital, see Note 19(a).

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

LIFE ASSURANCE BUSINESS STATEMENTS**Adjusted to the shekel of December 2003**

	Note	CONSOLIDATED		
		Year ended December 31,		
		2003	2002	2001
		Adjusted NIS in thousands		
Premiums	22(b)(1)	48,025	36,858	20,544
Less - reinsurance		8,652	8,390	3,062
Retained premiums		39,373	28,468	17,481
Investment income (loss)		4,074	(39)	77
Total revenues for the year		43,447	28,429	18,258
Claims paid and outstanding:				
Death and disability		10,501	6,519	1,384
Less - reinsurance		4,744	2,928	190
		5,757	3,591	1,194
Participation in profits in group life assurance paid		195		353
Total claims for the year		5,952	3,591	1,547
Increase in assurance reserves less reinsurance		18,257	12,121	7,008
Less - management fees for policies participating in profits	22(b)(2)	429	217	52
Increase in reserves, net		17,828	11,904	6,956
Increase in reserve for extraordinary risks		4,212	3,080	3,253
		22,040	14,984	10,209
Excess of income over claims for the year net of increase in reserves		15,455	9,854	6,502
Selling, administrative and general expenses		20,408	15,197	12,312
Increase in deferred acquisition costs		8,686	6,024	5,155
		11,722	9,173	7,157
Reinsurance commissions		2,248	3,091	1,912
Total expenses for the year, net		9,474	6,082	5,245
Income for the year from life assurance business - transferred to statements of profit and loss		5,981	3,772	1,257

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

GENERAL INSURANCE BUSINESS STATEMENTS *)**Adjusted to the shekel of December 2003**

	CONSOLIDATED		
	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
Premiums and fees	711,453	544,120	469,123
Less - reinsurance	<u>37,993</u>	<u>33,688</u>	<u>15,774</u>
Retained insurance premiums	673,460	510,432	453,349
Increase in reserve for unexpired risks net of reinsurance	<u>(82,689)</u>	<u>(29,399)</u>	<u>(39,847)</u>
Earned premiums	590,771	481,033	413,502
Investment income	<u>62,001</u>	<u>6,367</u>	<u>26,291</u>
Total revenues for the year	<u>652,772</u>	<u>487,400</u>	<u>439,793</u>
Claims paid and outstanding	441,339	323,810	310,573
Less - reinsurance	<u>6,084</u>	<u>3,617</u>	<u>26,980</u>
Total claims for the year	<u>435,255</u>	<u>320,193</u>	<u>283,593</u>
Excess income over claims for the year	<u>217,517</u>	<u>167,207</u>	<u>156,200</u>
Selling, administrative and general expenses	190,918	108,102	106,985
Reinsurance commissions	(4,090)	(3,887)	(2,257)
Commissions from co-insurance	<u>8,582</u>	<u>8,535</u>	<u>1,320</u>
	195,410	112,750	106,048
Increase in deferred acquisition costs	<u>(11,894)</u>	<u>(4,676)</u>	<u>(5,570)</u>
Total expenses for the year, net	<u>183,516</u>	<u>108,074</u>	<u>100,478</u>
Profit for the year from general insurance business - transferred to the profit and loss statements	<u>34,001</u>	<u>59,133</u>	<u>55,722</u>

*) Details of consolidated general insurance business results, according to insurance branches are presented in Note 23(a).

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

STATEMENTS OF CASH FLOWS

Adjusted to the shekel of December 2003

	CONSOLIDATED			COMPANY		
	Year ended December 31.			Year ended December 31.		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands			Adjusted NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES						
In life assurance business (a)	15,66	11,56	8,38			
In general insurance business (b)	22,23	60,36	(10,62)			
In other current activities (c)	<u>(43,45)</u>	<u>(52,09)</u>	<u>(41,09)</u>	<u>39,28</u>	<u>5,84</u>	<u>(5,76)</u>
Net cash provided by (used in) current activities	<u>(5,56)</u>	<u>19,83</u>	<u>(43,33)</u>	<u>39,28</u>	<u>5,84</u>	<u>(5,76)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES						
Changes in investment items earmarked to shareholders' equity and non-insurance liabilities:						
Securities	(36,42)	27,58	14,16			5,35
Loans	(1,66)	14	1,35			
Bank deposits			<u>22,99</u>			
	<u>(38,09)</u>	<u>27,73</u>	<u>38,51</u>			<u>5,35</u>
Companies first consolidated (d)	(11,59)					
Transfer of insurance activity to a subsidiary (e)						(59,45)
Investment in investees, net			(32,84)	(25,31)	(46,98)	(33,91)
Granting of a loan to related parties to purchase company shares		(4,51)				
Acquisition of company shares		(10,16)			(10,16)	
Redemption of capital note to subsidiary					10,88	
Loans granted to a subsidiary				(20,00)	(19,81)	
Acquisition of fixed assets	(19,45)	(24,04)	(9,31)	(1,10)	(4)	
Proceeds from realization of fixed assets	50	40	88			
Other assets			<u>(1,04)</u>			
Net cash used in investment activities	<u>(68,63)</u>	<u>(10,57)</u>	<u>(3,80)</u>	<u>(46,43)</u>	<u>(66,11)</u>	<u>(88,01)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Redemption of convertible capital notes into shares	(15,41)	(9,74)		(15,41)	(9,74)	
Credit from banking corporations	(46,77)	59,74		(44,86)	59,74	
Share issue to minority in a subsidiary less issue expenses		4,60	8,69			
Exercise of options into shares	5,49	21		5,49	21	
Receipt of long term loans from bank corporation	<u>85,56</u>			<u>85,56</u>		
Net cash provided by financing activities	<u>28,86</u>	<u>54,81</u>	<u>8,69</u>	<u>30,77</u>	<u>50,21</u>	
Translation differences for cash equivalents in autonomic units held	<u>2,65</u>	<u>4,13</u>				
Increase (decrease) in cash and cash equivalents	<u>(42,67)</u>	<u>68,20</u>	<u>(38,44)</u>	<u>23,63</u>	<u>(10,06)</u>	<u>(93,78)</u>
Balance of cash and cash equivalents as at the beginning of the year	<u>170,04</u>	<u>101,83</u>	<u>140,28</u>	<u>3,13</u>	<u>13,20</u>	<u>106,98</u>
Balance of cash and cash equivalents as at the end of the year	<u>127,36</u>	<u>170,04</u>	<u>101,83</u>	<u>26,77</u>	<u>3,13</u>	<u>13,20</u>

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

STATEMENTS OF CASH FLOWS

Adjusted to the shekel of December 2003

	CONSOLIDATED		
	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
(a) Cash flows from current activities in life assurance business			
Income from life assurance business	5,981	3,772	1,257
Items not involving cash flows:			
Increase in insurance reserves less reinsurance	22,023	15,231	10,259
Increase (decrease) in outstanding claims less reinsurance	1,557	839	(120)
Decrease (increase) in deferred acquisition costs	(828)	(601)	2,091
Depreciation	591	541	261
Investment activity, net:			
Securities	(16,517)	(7,740)	(6,363)
Bank deposits	(1,159)	(1,959)	
Loans	(162)		
Changes in other balance sheet items, net:			
Insurance companies	1,544	1,694	898
Outstanding premium	(274)	17	101
Debtors and debit balances	284	(99)	(190)
Creditors and credit balances	2,620	(130)	186
Net cash flows provided by current activities in life assurance business	<u>15,660</u>	<u>11,565</u>	<u>8,380</u>

The accompanying notes are an integral part of these statements

STATEMENTS OF CASH FLOWS

Adjusted to the shekel of December 2003

	CONSOLIDATED		
	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
(b) Cash flows from current activities in general insurance business			
Income from general insurance business	34,001	59,133	55,722
Items not involving cash flows:			
Increase in insurance reserves less reinsurance	82,564	29,747	39,838
Increase in outstanding claims less reinsurance	133,314	98,340	83,900
Increase in deferred acquisition costs	(11,873)	(4,735)	(5,567)
Depreciation	11,868	4,328	4,879
Investment activity, net:			
Securities	(111,302)	(39,909)	(57,044)
Bank deposits	(50,218)	(58,902)	(106,321)
Changes in other balance sheet items, net:			
Insurance companies	(4,349)	(26,295)	(34,462)
Outstanding premium	(74,360)	(13,885)	(10,545)
Debtors and debit balances	(4,726)	358	10,640
Creditors and credit balances	17,317	12,181	8,339
Net cash provided by (used in) current activities in general insurance business	<u>22,236</u>	<u>60,361</u>	<u>(10,621)</u>

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

STATEMENTS OF CASH FLOWS

Adjusted to the shekel of December 2003

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands			Adjusted NIS in thousands		
(c) Cash flows from other current activities						
Net income for the year	1,900	5,800	21,900	1,900	5,800	21,900
Income from insurance business	(39,900)	(62,900)	(56,900)			
	(38,000)	(57,000)	(35,000)	1,900	5,800	21,900
Items not involving cash flows:						
Deferred taxes	5,000	1,100	(100)	(500)	(100)	
Decrease (increase) in value of marketable securities, net		200	(100)			(100)
Company's share in results of investees less received dividend, net			400	41,400	1,300	(22,700)
Minority interest in losses of a subsidiary	(3,400)	(1,800)	(400)			
Erosion of capital notes	(900)	100		(900)	100	
Income from issue to third party	(2,300)	(3,700)	(1,500)	(2,300)	(3,700)	(1,500)
Depreciation and amortization	6,300	9,200	7,100	100		
Capital loss (gain)	(100)	(100)	100			
Increase in deferred acquisition costs in life assurance	(7,800)	(5,400)	(7,200)			
Decrease (increase) in debtors and debit balances, net	(5,000)	2,500	(1,600)	(3,500)	1,500	(1,500)
Increase (decrease) in creditors and credit balances, net	2,000	3,000	(2,600)	2,200	800	(1,800)
Net cash provided by (used in) other current activities	(43,400)	(52,000)	(41,000)	39,200	5,800	(5,700)

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

STATEMENTS OF CASH FLOWS

Adjusted to the shekel of December 2003

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands			Adjusted NIS in thousands		
(d) Company first consolidated						
Working capital (not including cash and cash equivalents)	(5,97)					
Investment in other companies	(1,67)					
Affiliate	(1,54)					
Fixed assets	(1,54)					
Deferred taxes, net	(3,29)					
Credit from banking corporations	7,21					
Initial difference	(4,78)					
	<u>(11,59)</u>					
(e) Transfer of insurance activity to a subsidiary						
Investments and amounts receivable (not including cash and cash equivalents)						359,48
Fixed assets						6,23
Deferred acquisition costs and other assets						63,42
Long term liabilities for deferred taxes						(1,05)
Insurance reserves and outstanding claims						(326,12)
Other liabilities						(37,33)
Receipts on account of shares						(124,07)
						<u>(59,45)</u>
(f) Material activities that do not involve cash flows						
Creditors in relation to acquisition of a company			(46,38)			(46,38)
Capital notes convertible into shares			46,38			46,38
Conversion of capital notes into shares	15,47	5,63		15,47	5,63	
Repayment of loan to a related party to purchase company shares	2,79			2,79		

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 which its shares are traded in the Tel-Aviv Stock Exchange. The Company's main activity is holding of insurance and finance companies' shares.
- b. The Company is held by Zur Shamir Holdings Ltd. (hereunder - Zur Shamir or the parent company) at a rate of 48% and by Bank Leumi Ltd. at a rate of about 19%. The rest of the shares are held by the public.
- c. Definitions

The Company	- Direct Insurance - Financial Investments Ltd.
The Group	- the Company and its investees that are included in the enclosed list.
Subsidiaries	- companies in which the Company has control (as defined in Statement No. 57), and that 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 it is included in the financial statements on an equity basis.
Investees	- subsidiaries, affiliates and proportionally consolidated subsidiaries.
Other companies	companies that are not investees and the investment in them is presented on a cost basis.
Related parties	- as implied in the Regulations of the Supervision of Insurance Business (Details of Accounts) 1998.
Interested party	- as implied by paragraph (1) to the definition of "Interested Party in a Corporation", under Section 1 to the Securities Law, 1968.
- e. The notes are in respect of the Company's financial statements and the consolidated financial statements, except when stated in the note that it relates to the Company only or to consolidated only.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES

The reporting principles and accounting policies which are applied in the financial statements are as follows:

a. Accounting principles

The consolidated financial statements, which mainly reflect the assets, liabilities and activities of the insurance subsidiaries, 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).

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, except for classification of items, which in Management's opinion are reported according to the nature of the Company's business which is a holding company that its main assets are not current assets, pursuant to Regulation 8 to the above Securities Regulations.

b. Adjusted financial statements**1) General**

The financial statements are prepared on the historical cost basis adjusted for the changes in the general purchasing power of the Israeli currency based on the CPI published on January 15, 2004.

The Group companies that operate in Israel currently manage their financial activities in nominal shekels. The nominal figures have been adjusted to shekels of a stable purchasing power in accordance with the Statements of the Institute of Certified Public Accountants in Israel and subject to the principles laid down by the Financial Statement Details Regulations. Subsidiaries that operate abroad manage their financial accounts in local currency. The financial statements of these companies are converted to shekels as described in Note 2(b)(4) below.

A summary of the Company's financial statements in nominal values which form the basis upon which the adjusted financial statements are reported, is presented in Note 30.

2) Adjustment principles of Israeli investees**a) Balance sheets**

The adjusted balance sheets are prepared according to the following principles:

Monetary items are included in the adjusted balance sheets at nominal values.

Non-monetary items (mainly - fixed assets, other assets, share capital and premium), are adjusted in accordance with the changes in CPI from the CPI of the month of transaction to the CPI of the month of the balance sheet.

The term "cost" in the financial statements relates to adjusted cost, except where stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

b. Adjusted financial statements (Cont.)

2) Adjustment principles of Israeli investees (Cont.)

a) Balance sheets (Cont.)

The adjusted value of non-monetary items does not necessarily represent their realization or real economic value, but rather represents their cost adjusted for the changes in the general purchasing power of the Israeli currency.

The equity value of investments in investees is determined on the basis of the adjusted statements of these companies as at balance sheet date.

b) Consolidated insurance business statements and profit and loss statements

The adjusted consolidated insurance business statements and profit and loss statements are prepared according to the following principles:

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 of the known CPI rate of increase in the reported year, according to the CPI last published before balance sheet date (hereunder - the known CPI).

Transactions during the year have been adjusted as follows:

Activities recorded in shekels - Premiums, fees and commissions in relation to general insurance business 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 end of the month of transaction to the CPI last published before balance sheet date.

Depreciation and amortization are adjusted on the basis of specific CPIs in parallel with the adjustment of the balance sheet item.

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

The Company's share in results of investees and the minority share in the results of subsidiaries, are determined according to their adjusted financial statements as at balance sheet date.

The provision for income taxes includes the inflationary erosion of advance tax payments during the reporting year.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

b. Adjusted financial statements (Cont.)

3) Comparative figures

- a) The amounts included in the financial statements of previous years have been expressed in terms of shekels of December of those years, on the basis of the above-mentioned principles.

The comparative figures in the financial statements have been adjusted to the shekels of December 2003, according to the increase in the CPI from the CPI of December of the related year up to the CPI of December 2003.

- b) The items "change in insurance reserves", "change in deferred acquisition costs" and the change in outstanding claims which form a part of the "claims" item in the life assurance and general insurance business statements, are adjusted in accordance with the increase in the known CPI during the year of account, as described above. Therefore, these adjustment differences do not correspond with the difference between the balance sheet amounts due to their adjustment, as described in sub paragraph (a) above.

The adjustment differences are included under investment income in the insurance business statements.

- 4) The foreign investees that operate autonomically, prepare their financial statements in foreign currency. The financial statements of those companies were converted from foreign currency to Israeli currency according to the exchange rate as at balance sheet date. The difference between the adjustment of the share of the holding companies according to the changes in the CPI, and the adjustment of the equity of the investees according to the changes in the exchange rate, is presented under shareholders' equity in a separate item ("adjustments from translation of the financial statements of autonomic investees")
- 5) Details of the index and the representative exchange rates:

	December 31,			Rate of change for the year		
	2003	2002	2001	2003	2002	2001
	In					
	points			%	%	%
The CPI (average basis 1993)						
- In relation to December	1	1	1			
- In relation to November	1	1	1			
	In NIS					
U.S. dollar representative exchange rate in NIS						
Euro representative exchange rate in NIS						
Zlotych representative exchange rate in NIS						(

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)c. Consolidation of the financial statements

- 1) The consolidated financial statements include the financial statements of the Company and its subsidiaries. Companies held under joint control are usually proportionally consolidated.
- 2) Inter-company transactions and balances between consolidated companies have been eliminated.

In addition, inter-company earnings from sales and transactions that yet been realized outside the Group have been eliminated.

- 3) Excess of cost of investment over equity value at the time of acquisition of consolidated companies is allocated to fixed assets and transferred to the statement of profit and loss parallel to the depreciation of the fixed assets. The excess of cost of acquisition which was not allocated to specific assets, is charged to goodwill which is presented as part of the other assets and deferred expenses. With respect to the amortization policy, see Note h(9) hereunder.

d. Use of estimates

The preparation of financial statements and especially those of insurance companies in accordance with the Supervision of Insurance Business Law, 1981, and the regulations in pursuance thereto and in accordance with generally accepted accounting principles, requires management to use estimates and assumptions which affect the reported information regarding assets and liabilities and information regarding contingent assets and outstanding liabilities which are reflected in the financial statements, as well as information regarding income and expenses during the reporting period. The actual results may differ from these estimates.

e. Life assurance business

- 1) Premiums, including savings premiums are accounted for as an income when due.
- 2) Maturities of policies are accounted for on the maturity date.
Annuities are accounted for when payment is due.
Surrenders are accounted for when paid.
Death claims are accounted for when notified.
- 3) Life assurance reserves, the reinsurers' share therein, and deferred acquisition costs in life assurance, are determined on the basis of an annual actuarial valuations, taking into account the actual expenses of the issue of the policies. The actuarial valuation is performed by the Company's actuary, Mr. Steven Kostyn that stated that these amounts are calculated based on the Company's data base in accordance with generally accepted actuarial methods in Israel and consistently with the previous year. For calculating the reserve the actuary used the same interest rates and mortality tables that the Company used for the preparation of the insurance tariff.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)e. Life assurance business (Cont.)

- 4) 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 incurred in the issue of new policies including selling, administrative and general expenses. According to these principles the DAC is amortized in equal parts during the policy period but not over more than 15 years. DAC for surrenders are eliminated at cancellation date. The Company examines the balance of the DAC in relation to expected future profits.
- 5) The reserve for group life assurance is calculated according to the Supervision of Insurance Regulations (Group Life Assurance), 1993.
- 6) The reserve for extraordinary risks is calculated as a percentage of the sum assured. The Supervisor of Insurance sent the insurance companies a draft set of regulations for calculating the reserve for extraordinary risks in life assurance based on agreed principles as set out below:

An insurance company will hold reserves for extraordinary risks in life assurance at a rate of 0.2% of the retained sum assured. Insurance companies whose retained extraordinary risk reserve as at December 31, 2001 is lower than the above rate are required to increase the reserve in equal parts over no more than twelve years financial statements. The set up of reserves according to changes in the retained sum assured from the prior year, beginning at January 1, 2002, will be executed in equal parts over no more than eight years financial statements. It is possible to release funds from the reserve, on the condition that the reserve is larger than 0.25% of the retained sum assured. The reserve is calculated according to the designated 0.2% of the retained sum. The amount needed for setting up the reserve in accordance with the above regulations totals to about NIS 24 million.

- 7) The Company maintains a separation of the life assurance business pursuant to the regulations for separation of accounts in life assurance.

f. General insurance business

- 1) 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. 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 record 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

f. General insurance business (Cont.)

- 2) 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.
- 3) A share of the acquisition costs, relating to unearned premium is carried forward as deferred acquisition costs. These expenses are calculated for each line of business according to the Company's actual rates which are lower than the standard rates.
- 4) Claims comprise of the settlement and handling costs of paid and outstanding claims arising from events occurring in the year of account and updates of the provision for outstanding claims reported in previous years. Any such adjustments are currently reflected in earnings.

Outstanding claims include:

- (a) Known outstanding claims which include a provision set-up for the settlement and direct handling costs of claims incurred, but not paid, as at the financial statements date. This reserve is based primarily on individual case estimates according to the opinion received from the lawyers who handle the claims.
 - (b) A provision for claims incurred but not reported to the Company (hereunder - I.B.N.R.)
 - (c) A provision for claims incurred but not enough reported which is computed based on past experience (hereunder - I.B.N.E.R.).
 - (d) The accumulation amount as mentioned in paragraph 3(e)(1) which exceeds the amount of the I.B.N.R and the I.B.N.E.R.
- 5) 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 and comprehensive householders are included based on an actuarial calculation. The actuarial calculations are made in consistency with those of previous years.
 - 6) Business from other insurance companies are included to the extent such results are reported in statements received by the balance sheet date.
 - 7) Subrogations receivable from insurance companies in relation to claims which the Company has already paid to its policyholders are recorded under insurance companies as a debit balance. Subrogations recorded by the Company in respect of outstanding claims are deducted 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 a specific estimate made by the claims department and an actuarial estimate which is based on past experience in the collection of subrogations.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

f. General insurance business (Cont.)

- 8) The Company's administrative and general expenses in general insurance are allocated according to the Insurance Supervisor publication, and are mainly attributed according to the relative share of each insurance branch in gross insurance fees.
- 9) Investment income in general insurance is attributed, in accordance with the publication of the Insurance Supervisor, according to the relative share of each branch in the opening balance of retained outstanding claims and insurance reserves, less deferred acquisition costs in addition to half of the insurance fees less claims paid.

g. 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 in accordance with the insurance policies.

Any reinsurer who will not fulfill his future obligations based on the reinsurance agreements, may cause the Company future losses.

h. Valuation of assets and liabilities

- 1) Bank deposits that their maturity date does not exceed three months upon deposit are reported under cash and cash equivalents.
- 2) Assets and liabilities in foreign currency or linked thereto are reported at the representative exchange rates published by the Bank of Israel and which were in force as at balance sheet date.
- 3) Assets and liabilities linked to the CPI are reported according to the related CPI for each asset or liability in accordance with the terms of the agreements.
- 4) Marketable bonds, marketable shares and marketable options for the purchase of shares are included at their market value as at balance sheet date. Participation certificates in mutual funds are included at redemption value as at balance sheet date.
- 5) Loans and deposits are included at initial value, plus accumulated income as at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)h. Valuation of assets and liabilities (Cont.)

- 6) Fixed assets are included in the balance sheet at cost, less accumulated depreciation.

Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The Company considers the need for recording an impairment in value in each reporting period, in accordance with the directions of Accounting Standard No. 15 (see (p) below).

- 7) Production costs for the development of prototypes of software which were produced after achievement of technological probability, are capitalized according to the principles laid down in FASB 86 and are included under other assets. The capitalized software costs are amortized based on the higher of the ratio of current sales and the sum of current and expected sales or according to depreciation based on the life expectancy of the software. In any case, the capitalized software costs are not amortized over more than three years.
- 8) Investment in investees is reported on the equity basis based on their audited financial statements which are prepared as at balance sheet date.
- 9) The initial difference that was created upon the acquisition of an insurance subsidiary is amortized at equal annual rates over the period of ten years.

i. Liabilities for severance pay

The Company's and its subsidiaries' liabilities for severance pay which include commitments by law, by agreement, custom and management's expectations, are fully covered by managers' insurance policies, deposits with provident funds, including accrued income, and by a complementary provision for severance pay which is included under creditors and credit balances.

j. Administrative and general expenses

Administrative and general expenses are allocated to the insurance business statements using an allocation method, which is based on the specific allocation of direct expenses and the allocation of other expenses on the basis of the salaries and office space proportions.

k. Income (loss) from investment in insurance companies

Investment income (loss) is allocated to the earnings statements corresponding to investments held against liabilities and against capital that existed during the reporting year.

l. Deferred taxes

- 1) Income taxes include deferred taxes for timing differences between the allocation of income and expenses to the adjusted statements and the amounts taken into account for tax purposes. Deferred taxes are calculated at the tax rates expected at the time of payment or realization, according to the applicable law at that time.
- 2) The calculation of deferred taxes does not take into account the taxes that would be payable in the event of a sale of investments in investees, as it is the Company's intention to keep the investments and not to realize them.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)1. Deferred taxes (Cont.)

Furthermore, deferred taxes were not provided in respect of taxes payable in the event of dividends distributed by investees, since the Company's policy is not to withdraw taxable dividends.

- 3) Deferred taxes receivable for temporary differences and loss carry forwards for tax purposes, are included in debtors and debit balances and other assets. Deferred taxes which are long term liabilities are included in long term liabilities for deferred taxes.

m. Income recognition

1. From insurance business - see Note 2(e) above.
2. From Management of assets and Stock exchange services - the commissions and management fees from conducting commercial activity in securities (brokering) are allocated when they arise. Income from managing trust funds is allocated over the service period.
3. From sale of software - income from the sale of software is recognized in accordance with the American Standard SOP 97-2 (as updated by SOP 98-4). According to the Standard, income from the sale of software licenses is recognized upon meeting the following conditions: the software was given to the client, the collection of the consideration is probable, the amount of the contract was determined or is determinable and there is a conclusive and objective proof of the existence of an agreement, and of the Company's ability to attribute the consideration between the components of the agreement.

n. Earnings per share

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

o. Application of new Accounting Standards and their effect 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 until 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.

The effect of the adoption of Accounting Standard No. 12 on the financial statements will depend on the rate of inflation, the composition of the Company's assets and the manner in which the assets are financed.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- REPORTING PRINCIPLES AND ACCOUNTING POLICIES (Cont.)

o. Application of new Accounting Standards and their effect on the financial statements (Cont.)

A draft amendment of the Financial Statement Details Regulations was received principally dealing with the application of Standard No. 12 on the insurance companies.

Accounting Standard No. 13 prescribes principles with respect to the effect of changes in foreign exchange rates. This Standard replaces Interpretations No. 8 and No. 9 of Opinion 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.

The Company believes that the effect of Standard No. 13 on its results of operations, financial position and cash flows is not expected to be material.

p. Impairment in value of fixed assets

Starting from January 1, 2003 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 employee benefits, 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 book value of the asset to its recoverable value. The recoverable amount 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 continuing use of the asset and from its disposal at the end of its useful life. If the book value of the asset is higher than its recoverable amount, a loss from impairment in value must be recorded, which is the difference between the book value 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 amount of the asset at the time the loss from the impairment in value was recognized. The implementation of the Standard does not have a significant effect on the Company's financial position nor on the results of activities.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3:- CONSOLIDATED FINANCIAL STATEMENTS - COMPANY FIRST CONSOLIDATED

- a. During the reporting year the financial statements of Moritz et Tuchler Ltd. (hereunder Moritz Tuchler) which was acquired in September 2003 [see Note 7(b)(5)] were 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 statements of profit and loss</u>	
Income	2,965
Expenses	3,234
Loss	377

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4:- SECURITIES

a. Composition

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Non convertible bonds and debentures:		
Non-marketable in Israel	64,413	28,568
Non-marketable outside Israel	222	-
Marketable in Israel	343,820	266,032
Marketable outside Israel	20,852	6,485
	<u>429,307</u>	<u>301,085</u>
Convertible bonds and debentures marketable in Israel	11,386	7,656
Total bonds and debentures (b)	<u>440,693</u>	<u>308,741</u>
Shares marketable in Israel	48,587	25,280
Options to purchase shares	6,051	377
Trust funds	23,210	19,901
	<u>77,848</u>	<u>45,558</u>
	<u>518,541</u>	<u>354,299</u>

b. Issuers and linkage bases of bonds and debentures

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
(1) Issued or guaranteed by the Government of Israel:		
Marketable in Israel		
Linked to the CPI	149,549	139,780
Linked to foreign currency exchange rates	4,874	19,997
Unlinked	131,290	45,463
	<u>285,713</u>	<u>205,240</u>
Marketable outside Israel	-	5,738
	<u>285,713</u>	<u>210,978</u>
(2) Other issuers		
Marketable in Israel		
Linked to the CPI	35,501	58,900
Linked to foreign currency exchange rates	23,831	3,250
Unlinked	10,161	6,298
	<u>69,493</u>	<u>68,448</u>
Marketable outside Israel	20,852	747
	<u>90,345</u>	<u>69,195</u>
Non-marketable in Israel - linked to the CPI	64,413	28,568
Non-marketable outside Israel	222	-
	<u>64,635</u>	<u>28,568</u>
Total bonds	<u>440,693</u>	<u>308,741</u>
c. Bonds and debentures deposited with the Bank of Israel	<u>2,816</u>	<u>2,578</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 5:- LOANS**a. Distribution by securities

	Consolidated	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Secured by pledge on vehicles	2,080	-
Secured by mortgages	1,509	1,856
Loans secured by pledge on life assurance policies	162	-
Loans to employees *)	4,163	957
	<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 interest rates	Average life span	Adjusted NIS in thousands
	%	years	
Consolidated			
As at December 31, 2003			
In shekels - linked to the CPI	3.65	4.0	7,724
In Zlotych	5.25	1.5	<u>190</u>
			<u>7,914</u>
As at December 31, 2002 - linked to the CPI	3.0	8.1	<u>2,813</u>

c. The balance includes three loans amounting to NIS 5,893 thousand each of which constitute more than five percent of the total loans.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6:- BANK DEPOSITS

In the consolidated balance sheet

	<u>Average interest rates %</u>	<u>Average life span Years</u>	<u>Adjusted NIS in thousands</u>
<u>As at December 31, 2003:</u>			
Linkage basis:			
Linked to the CPI	5.97	4.72	257,289
Unlinked - or denominated in foreign currency	4.6	2.0	<u>1,229</u>
			<u>258,518</u>
<u>As at December 31, 2002:</u>			
Linked to the CPI	6.06	6.09	196,046
Unlinked	7.94	0.13	<u>11,095</u>
			<u>207,141</u>

NOTE 7:- INVESTEEES

a. In the consolidated balance sheet

1) Composition:

	<u>Affiliates</u>		<u>Other companies</u>		<u>Total</u>	
	<u>December 31, 2003</u>	<u>December 31, 2002</u>	<u>December 31, 2003</u>	<u>December 31, 2002</u>	<u>December 31, 2003</u>	<u>December 31, 2002</u>
	<u>Adjusted NIS in thousands</u>					
Cost of shares	1,17		2,57	87	3,74	87
Accumulated income	37		(47)	(47)	(10)	(40)
	<u>1,54</u>		<u>2,10</u>	<u>40</u>	<u>3,64</u>	<u>47</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7:- INVESTEES (Cont.)

a. In the consolidated balance sheet (Cont.)

2) Details of the main holdings:

a) Affiliates - including an investment amounting to NIS 1,531 thousand in a real estate company that owns a rental property.

b) Other companies:

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

(1) Earnix is registered in the United States and holds a subsidiary in Israel, that deals with the development and marketing of a software for management and costing. The rate of the Company's ownership in Earnix decreased from 38.25% on December 31, 2001 to 17.9% at the beginning of 2002 as a result of the allocation of additional shares to an existing shareholder.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7:- INVESTEES (Cont.)

b. Company's balance sheet

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

a. Direct I.D.I. Insurance Company Ltd. (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 issued and paid-up 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/deposited 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 12 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.

c. Effective from December 31, 2000 there was reorganization by which the Company's insurance activities was split-up, including the holdings in the subsidiaries Shamir Direct Assessments Ltd., and Dr. Petach and Tzeva Ltd., to Direct I.D.I. The split-up received the endorsement of the Court in accordance with the directives of Sections 350 and 351 of Company Law, 1999.

d. During 2002 and 2003 the Company received a dividend from Direct I.D.I in the amount of NIS 44,477 thousand and in the amount of NIS 4,049 thousand respectively.

e. As a result of the acquisition the Company recorded 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 7:- INVESTEES (Cont.)

b. Company's balance sheet (Cont.)

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

f. Hereunder are the data pertaining to Direct I.D.I.'s capital in accordance with the Supervisor of Insurance Regulations (Minimal Share Capital Required from an Insurer), 1998 (hereunder - Capital Regulations):

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Initial Capital</u>	<u>Shareholders' equity</u>	<u>Initial Capital</u>	<u>Shareholders' equity</u>
	<u>Adjusted NIS in thousands</u>			
Amount required according to regulations	72,26	(* 150,801	72,29	(* 134,735
Existing amount according to regulations:				
Total shareholders' equity, according to balance sheet	<u>172,15</u>	<u>172,157</u>	<u>160,14</u>	<u>160,144</u>
Surplus	<u>99,89</u>	<u>(** 21,356</u>	<u>87,85</u>	<u>25,409</u>

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

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

The distribution of the dividend form surplus capital is subject to the liquidity requirements and its meeting the investment regulations determined by the Supervisor of Insurance.

Approval from the Supervisor of Insurance for the split-up plan, determined that the capital of an insurance company will not depreciate from that required by the Capital Regulation in addition to deferred taxes for losses recorded in the Company's books.

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 the Company 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 the Company and other shareholders.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7:- INVESTEES (Cont.)

b. Company's balance sheet (Cont.)

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

- b. As of December 31, 2003 the Company 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 the Company 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.

- c. On January 1, 2001 Idit's board of directors approved a plan to issue options exercisable into Idit's shares, which will be exercisable into up to 2,000 ordinary shares of NIS 1 par value each, which form 20% of the Company's capital before the issue.

In addition, Idit's board of directors decided to issue, from the above amount, 975 options to four officeholders in Idit. From the 975 options - 150 options to Idit's general manager, 175 options to a director and 150 options to the company's former general manager. The options' exercise price is \$ 440 per share, linked to the dollar exchange rate. The options' expiry date is the end of the year 2010. The plan was approved by Idit's general assembly.

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

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

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

- b. In December 2002, LINK4 received, from the Polish Ministry of Finance, a Polish insurance license to operate in the motor, 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7:- INVESTEES (Cont.)

b. Company's balance sheet (Cont.)

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.
- b. Complete ownership of and control in Moritz Tuchler was purchased 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, the Company 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.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 8:- FIXED ASSETS, NET****a. In the consolidated balance sheet**

	Buildings and real estate	Leasehold improvements	Furniture and equipment	Machinery and equipment	Software and computer s	Vehicles	Total
	Adjusted NIS in thousands						
Cost							
Balance as at beginning of year	931	9,103	10,579	256	50,445	7,234	78,548
Adjustment relating to independent subsidiaries outside Israel		(75)	(22)	-	(422)	(21)	(540)
Additions during the year		3,645	2,713	3	11,316	1,774	19,451
For a subsidiary first consolidated	1,412	2,143	1,614	-	1,792	34	7,305
Disposals during the year		-	21	-	280	1,104	1,405
Balance as at end of year	<u>2,343</u>	<u>14,816</u>	<u>14,863</u>	<u>259</u>	<u>62,851</u>	<u>8,229</u>	<u>103,361</u>
Accumulated depreciation:							
Balance as at beginning of year	57	3,816	3,926	88	28,962	2,894	39,743
Adjustment relating to independent subsidiaries outside Israel		-	(1)	-	(3)	(1)	(5)
Additions during the year	13	1,864	1,366	20	9,520	1,134	13,917
For a subsidiary first consolidated	520	2,060	1,409	-	1,557	214	5,760
Disposals during the year		-	5	-	200	76	91
Balance as at end of year	<u>590</u>	<u>7,740</u>	<u>6,695</u>	<u>108</u>	<u>39,836</u>	<u>3,489</u>	<u>58,458</u>
Depreciated cost as at December 31, 2003	<u>1,753</u>	<u>7,076</u>	<u>8,168</u>	<u>151</u>	<u>23,015</u>	<u>4,740</u>	<u>44,909</u>
Depreciated cost as at December 31, 2002	<u>874</u>	<u>5,287</u>	<u>6,653</u>	<u>168</u>	<u>21,483</u>	<u>4,336</u>	<u>38,801</u>
Annual depreciation rates	<u>3</u>	<u>9%-25%</u>	<u>6%-15%</u>	<u>6%-10%</u>	<u>20%-33</u>	<u>1</u>	
Main depreciation rate	<u>3</u>	<u>12%</u>	<u>7%</u>	<u>7%</u>	<u>33</u>	<u>1</u>	

NOTES TO THE FINANCIAL STATEMENTS**NOTE 8: FIXED ASSETS, NET (Cont.)****b. In the Company's balance sheet**

	<u>Leasehold improvements</u>	<u>Furniture and equipment</u>	<u>Software and computers</u>	<u>Vehicles</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>				
<u>Cost</u>					
Balance as at					
beginning of year	15	8	23	-	46
Additions during the year	<u>27</u>	<u>150</u>	<u>148</u>	<u>783</u>	<u>1,108</u>
Balance as at end of year	<u>42</u>	<u>158</u>	<u>171</u>	<u>783</u>	<u>1,154</u>
<u>Accumulated depreciation</u>					
Balance as at					
beginning of year	2	1	1	-	4
Additions during the year	<u>6</u>	<u>14</u>	<u>31</u>	<u>86</u>	<u>137</u>
Balance as of end of year	<u>8</u>	<u>15</u>	<u>32</u>	<u>86</u>	<u>141</u>
Depreciated cost as at					
December 31, 2003	<u>34</u>	<u>143</u>	<u>139</u>	<u>697</u>	<u>1,013</u>
Depreciated cost as at					
December 31, 2002	<u>13</u>	<u>7</u>	<u>22</u>	<u>-</u>	<u>42</u>
Annual depreciation rates	<u>10%</u>	<u>7%</u>	<u>33%</u>	<u>15%</u>	

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9:- 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	2,938	4,274
	<u>4,649</u>	<u>5,855</u>
Outstanding claims:		
Life assurance	1,493	577
General insurance	37,144	41,374 *)
	<u>38,637</u>	<u>41,951</u>
*) Reclassified		

NOTE 10:- INSURANCE COMPANIES - OTHER ACCOUNTS

	CONSOLIDATED	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Insurance companies' and reinsurers' debit balances for current accounts	7,068	7,918
Debit balances from local companies for subrogations that were not redeemed up to balance sheet date:		
Redemption date up to one year before the balance sheet date	21,027	17,160
Redemption date of over one year up to two years before the balance sheet date	10,353	11,336
Redemption date of over two years before the balance sheet date	7,676	6,010
	<u>39,056</u>	<u>34,506</u>
	<u>46,124</u>	<u>42,424</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 11:- OUTSTANDING PREMIUMS**

	CONSOLIDATED	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
In shekels – 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>
*) In relation to motor act premiums secured by credit card companies		
<u>Allocated to:</u>		
General insurance	163,420	89,060
Life assurance	364	90
	<u>163,784</u>	<u>89,150</u>

NOTE 12:- DEBTORS AND DEBIT BALANCES

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Prepaid expenses:				
In relation to claims	11,169	9,341	-	-
Others	13,103	10,635	44	-
	<u>24,272</u>	<u>19,976</u>	<u>44</u>	<u>-</u>
Stock exchange clearing house	2,861	-	-	-
Income taxes - Company	3,835	-	-	-
Deferred taxes receivable *)	2,083	6,862	624	74
Clients	2,749	1,292	-	-
Related companies **)	127	39	2,167	-
Debtors in relation to transactions in securities trading	6,753	-	-	-
Deposit regarding acquisition of a company [see note 7(b)]	1,846	1,811	-	-
Others	5,665	2,416	1,334	11
	<u>50,191</u>	<u>32,396</u>	<u>4,169</u>	<u>85</u>

*) See Note 18.

**) Bears interest at the rate of the increase in the CPI.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13:- DEFERRED ACQUISITION COSTS IN LIFE ASSURANCE

	CONSOLIDATED	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
Balance as at beginning of the year	17,177	11,134
Additions	12,392	8,650
Disposals and amortizations	(3,715)	(2,607)
Balance as at end of the year	<u>25,854</u>	<u>17,177</u>

In accordance with the instructions of the Insurance Supervisor, a declaration from the Company's actuary [see Note 2(e)(4)] was received according to which in accordance with the actuarial calculations, the total expected income from life assurance policies for which deferred acquisition costs were paid, are not lower than the deferred acquisition costs balance as at December 31, 2003.

NOTE 14 - OTHER ASSETS

	CONSOLIDATED	
	December 31,	
	2003	2002
	Adjusted NIS in thousands	
<u>Goodwill</u>		
Initial amount	51,768	46,982
Amortization	14,334	9,396
	<u>37,434</u>	<u>37,586</u>

NOTE 15 - SHORT TERM CREDIT FROM BANKING CORPORATIONS

	Annual interest rate as at December 31, 2003 %	CONSOLIDATED		COMPANY	
		December 31,		December 31,	
		2003	2002	2003	2002
		Adjusted NIS in thousands			
Short term loan – unlinked	6.05	22,124	-	22,124	-
Overdraft	Prime + 1.5	937	-	-	-
Dollar credit	2.2	4,358	-	-	-
Credit linked to the Euro		-	63,593	-	63,593
		<u>27,419</u>	<u>63,593</u>	<u>22,124</u>	<u>63,593</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 16:- CREDITORS AND CREDIT BALANCES****a. Composition:**

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Suppliers and service providers	21,953	14,937	233	112
Creditors in relation to claims	15,343	12,167	-	-
Prepaid premium	24,711	21,742	-	-
Prepaid income	1,824	477	-	-
Company income tax	-	192	91	141
Institutions for deductions and customs department and stamp duty	7,529	5,633	124	268
Employees	2,412	3,163	53	32
Provision for vacation pay and adjustment leave, recreation pay, thirteenth month salary and bonuses	11,210	7,562	1,634	406
Liabilities for severance pay (see (b) hereunder)	2,364	1,969	101	43
Consultants and external portfolio managers	2,145	-	-	-
Creditors in relation to transactions in securities trading	1,844	-	-	-
Unrealized income	-	2,302	-	2,302
Accrued expenses	8,322	4,763	201	174
Related companies	1,207	84	1,038	247
Others	1,385	109	222	-
	<u>102,249</u>	<u>75,100</u>	<u>3,697</u>	<u>3,725</u>

b. Hereunder are details of liabilities for severance pay, net:

1) Composition:

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Liabilities for severance pay	3,626	2,743	101	43
Less amounts funded	<u>1,262</u>	<u>774</u>	<u>-</u>	<u>-</u>
	<u>2,364</u>	<u>1,969</u>	<u>101</u>	<u>43</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16:- CREDITORS AND CREDIT BALANCES (Cont.)

- b.** Hereunder are details of liabilities for severance pay, net: (Cont.)
- 2) The Company and its subsidiaries' liabilities for severance pay, are calculated on the basis of the employees' last salary as of balance sheet date and in accordance with the Severance Pay Law, and are fully covered by current payments to insurance companies, to managers' insurance policies and provident funds, and by a balance of liability for severance pay.
 - 3) The amounts accumulated in the managers' insurance policies and the provident funds in the names of the employees and the liabilities in their respect, are not presented in the balance sheet, since they are not controlled or managed by the Company.
 - 4) The fund which is deposited in the compensation fund includes accrued profits up to balance sheet date. The funds deposited may be withdrawn only after the fulfillment of the liabilities pursuant to the Severance Pay Law or labour agreements.

NOTE 17:- LIABILITIES TO BANKING CORPORATIONS

a. Composition:

	Interest rate as at December 31, 2003 %	CONSOLIDATED AND COMPANY	
		December 31,	
		2003	2002
		Adjusted NIS in thousands	
Linked to the Euro	4.5 - 5.3	92,679	-

b. Redemption dates after the balance sheet date:

	Adjusted NIS in thousands
Fourth year	23,167
Fifth year	23,173
Sixth year and onwards	46,339
	92,679

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18:- INCOME TAXES

a. Tax law applicable to the companies

The Company and its 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 law would be applied in 2003.

Tax liability for the year 2003 is calculated in accordance with the above law, and has taken into consideration the decrease in the CPI during the year.

b. Composition:

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands			Adjusted NIS in thousands		
Provision for profit and income tax:						
Current taxes	31,475	19,021	28,388	200	246	-
Taxes for previous years	(1,361)	(347)	(1,881)	178	-	-
Deferred taxes	5,035	1,135	(30)	(550)	(74)	-
	<u>35,149</u>	<u>19,809</u>	<u>26,477</u>	<u>(172)</u>	<u>172</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 18:- INCOME TAXES (Cont.)**

- c. Hereunder is the reconciliation of the theoretical tax amount due, had the business results been liable to tax at the tax rate applicable on the Company compared to the actual tax rates:

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Income (loss) before income taxes	33,635	23,853	48,429	(1,253)	3,320	(781)
Tax rate applicable to the Company	45.8%	45.6%	45.3%	36%	36%	36%
Tax amount on basis of statutory tax rates	15,391	10,877	21,938	(451)	1,195	(281)
Tax (tax saving) in relation to:						
Income tax on salary tax	1,033	875	660	-	-	-
Unallowable expenses less exempt income	(730)	60	(205)	101	(890)	(537)
Depreciation and amortization	2,079	2,091	2,188	-	-	-
Income of subsidiaries which were consolidated according to the tax rates of other companies	10,923	3,045	1,043	-	-	-
Change in tax rate in Poland	4,264	-	-	-	-	-
Utilization of losses for which no deferred taxes were recorded last year	-	(133)	(13)	-	(133)	-
Timing differences in recognition of expenses and losses for which no deferred taxes were recorded	3,782	3,100	2,747	-	-	818
Erosion of tax advances	(232)	241	-	-	-	-
Taxes in relation to previous years	(1,361)	(347)	(1,881)	178	-	-
	35,149	19,809	26,477	(172)	172	-

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18:- INCOME TAXES (Cont.)

d. Composition of movement in deferred taxes:

	CONSOLIDATED			
	For current balance sheet items	For deferred acquisition costs in life assurance	For loss carried forward	Total
	Adjusted NIS in thousands			
Balance as at January 1, 2002	4,784	(2,004)	29,621	32,401
Movement during the year	<u>2,078</u>	<u>(1,409)</u>	<u>(1,804)</u>	<u>(1,135)</u>
Balance as at January 1, 2003	6,862	(3,413)	27,817	31,266
Adjustments relating to independent subsidiaries outside Israel	-	-	(81)	(81)
Company first consolidated	446	-	2,845	3,291
Movement during the year	<u>(5,225)</u>	<u>(2,058)</u>	<u>2,248</u>	<u>(5,035)</u>
Balance as at December 31, 2003	<u><u>2,083</u></u>	<u><u>(5,471)</u></u>	<u><u>32,829</u></u>	<u><u>29,441</u></u>
	COMPANY			
	For current balance sheet items			
	Adjusted NIS in thousands			
Balance as at January 1, 2002	-			
Movement during the year	<u>74</u>			
Balance as at January 1, 2003	74			
Movement during the year	<u>550</u>			
Balance as at December 31, 2003	<u><u>624</u></u>			

Deferred taxes are presented in the balance sheet as follows:

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2003	2002	2003	2002
Adjusted NIS in thousands				
Debtors and debit balances	2,083	6,862	624	74
Other assets	32,829	27,817	-	-
Long term liabilities	<u>(5,471)</u>	<u>(3,413)</u>	<u>-</u>	<u>-</u>
	<u><u>29,441</u></u>	<u><u>31,266</u></u>	<u><u>624</u></u>	<u><u>74</u></u>

e. The subsidiaries have losses for tax purposes as at December 31, 2003 in the amount of NIS 147 million for which NIS 119 million deferred taxes were recorded.

f. The Company and Direct I.D.I. have final tax assessments up to and including the tax year 2001. Idit has final tax assessments up to and including the tax year 1999.

Regarding the rest of the Israeli companies, tax assessments filed up to and including the tax year 1999 are considered final, in accordance with Clause 145 of the Income Tax Ordinance, subject to the conditions determined in the Income Tax Ordinance.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19:- SHAREHOLDERS' EQUITY

a. Share capital

1) Composition

	<u>Authorized</u>		<u>Issued and paid-up</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>			
Ordinary shares of NIS 1 nominal value each	<u>65,000</u>	<u>65,000</u>	<u>55,801</u>	<u>51,828</u>

b. Changes in the shareholders' equity

1) Changes during the year 2003:

- a. During 2003, 1,173,543 options were exercised into 1,173,543 ordinary shares of NIS 1 nominal value each for the consideration of NIS 5,490 thousand.
- b. On November 3, 2003 the Managing Director of a subsidiary, Direct I.D.I. Insurance Company Ltd., sold shares he purchased by way of a loan granted him (see 2(b) below) resulting in the increased recorded in the share capital of the Company in the amount of NIS 2,796 thousand.
- c. In October 2003, capital notes that were previous allocated to a subsidiary's shareholders, were converted in the amount of NIS 14,577,998 to 2,797,896 ordinary shares of NIS 1 nominal value each.

2) Changes during the year 2002:

- a. In March, 2002 the Company issued 1,027,444 ordinary shares of NIS 1 nominal value each to the holders of convertible capital notes who wished to convert their capital notes.
- b. During 2002, 72,000 options were realized into 72,000 ordinary shares of NIS 1 nominal value each.
- c. As stated in Note 21(f) on January 9, 2002, a subsidiary, Direct - I.D.I. Insurance Company granted loans in the amount of NIS 633 thousand to the chairman of the board, NIS 1,292 thousand to the general manager and NIS 2,584 thousand to the general manager of a subsidiary in order to finance the acquisition of the Company's shares.
The above loans form a "distribution" as defined in Section 1 to the Companies Law, 1999. Following the above, the Company's equity was decreased by the amount of the loans granted in the amount of NIS 4,510 thousand (see also 1(b) above).
- d. On April 22, 2002, the Company purchased 2,150,000 ordinary shares of NIS 1 nominal value each (4.15% of the Israeli share capital) of the Company at the total cost of NIS 10,163 thousand. This acquisition constitutes a "distribution" as defined in Section 1 to the Company Law, 1999.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18:- SHAREHOLDERS' EQUITY (Cont.)

c. Options

Senior employees in the subsidiary, Direct - I.D.I. Insurance Company Ltd., have exercisable options according to a plan for granting options from the year 1997 including the addendum to this plan.

As of December 31, 2003 there are 1,460,707 options of the Company which are exercisable into maximum 1,460,707 shares up to the end of the year 2008 (of this 357,707 Company options held by the former general manager of a subsidiary).

The exercise price of the options is linked to the CPI and varies in accordance with the date of allocation as follows:

<u>Date of allocation</u>	<u>Number of options</u>	<u>Exercise price</u>	<u>Base month CPI</u>
1.6.98	357,707	3.437	6.98
30.8.98	72,000	3.572	7.98
21.6.00	731,000	6.32	5.00
7.3.01	160,000	5.69	1.01
27.3.01	140,000	6.32	11.00
	<u>1,460,707</u>		

NOTE 20:- INCOME (EXPENSES) NOT INCLUDED IN THE INSURANCE BUSINESS STATEMENTS

a. Net software selling expenses

	<u>CONSOLIDATED</u>		
	<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<u>Adjusted NIS in thousands</u>		
Income from sale of software	6,363	1,840	7,271
Costs and expenses related to development and marketing of software	<u>(14,114)</u>	<u>(9,377)</u>	<u>(12,108)</u>
	<u>(7,751)</u>	<u>(7,537)</u>	<u>(4,837)</u>

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 20:- INCOME (EXPENSES) NOT INCLUDED IN THE INSURANCE BUSINESS STATEMENTS
(Cont.)**

b. Asset management and Stock Exchange services expenses, net

	CONSOLIDATED		
	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
Income	2,965	-	-
Administrative, general and other expenses	(3,234)	-	-
	<u>(269)</u>	<u>-</u>	<u>-</u>

c. Income less expenses (expenses less income) not included in the insurance business statements

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Expenses in the initiation of insurance transactions outside Israel	(14)	(12,09)	(48)			
Management fees				6,57	4,96	1,60
Wages and related expenses	(5,96)	(2,73)	(1,72)	(5,96)	(2,73)	(1,20)
Board members salaries	(16)	(14)	(26)	(16)	(14)	(20)
Professional services	(1,06)	(50)	(2,70)	(34)	(50)	(2,70)
Depreciation and amortization	(13)	-		(13)	-	
Office and communication expenses	(97)			(66)		
Others	(2,66)	(2,06)	(84)	(67)	(92)	(80)
	<u>(11,10)</u>	<u>(17,53)</u>	<u>(6,02)</u>	<u>(1,37)</u>	<u>66</u>	<u>(3,20)</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 21:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED AND RELATED PARTIES**a. Balance sheet balances

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2003	2002	2003	2002
	Adjusted NIS in thousands			
Under investees:				
Capital notes loan to investees	-	-	46,848	21,886
Under debtors and debit balances:				
Investees - current account	127	39	2,167	-
Loan to a general manager in a subsidiary	-	14	-	-
Under loans:				
Loan to a subsidiary's former general manager	9	55	-	-
Loan to a proportionally consolidated subsidiary	121	191	-	-
Under creditors and credit balances:				
Related companies	1,207	84	1,038	246
Under short term credit from banking corporations - Bank Leumi LeIsrael Ltd	-	63,593	-	63,593
Under long term liabilities to banking corporations - Bank Leumi LeIsrael Ltd.	92,679	-	92,679	-

NOTES TO THE FINANCIAL STATEMENTS**NOTE 21:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED AND RELATED PARTIES
(Cont.)**b. Income (expenses)

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2003	2002	2001	2003	2002	2001
	Adjusted NIS in thousands					
Management fees from subsidiaries	-	-	-	6,573	4,962	1,667
Board members salaries	(632)	(592)	(262)	(162)	(144)	(207)
Number of board members	13	14	11	9	9	11
Salary, related expenses and grant to the Chairman of the board of directors:						
Salary and related expenses	(710)	(740)	(736)	(710)	(740)	(736)
Grant	(696)*	(294)	-	(696)*	(294)	-
Salary, related expenses and grant to a managing director:						
Salary and related expenses	(965)	(1,002)	(436)	(965)	(1,002)	(436)
Grant	(696)*	(245)	-	(696)*	(245)	-
Consultation fees to an interested party	-	-	(1,015)	-	-	(1,015)
Grant to an interested party	-	-	-	-	-	-
Office premises leasing expenses	(3,164)	(3,185)	(3,017)	(20)	(38)	(5)
Office maintenance expenses	(1,360)	(1,177)	(933)	(192)	-	-

*) Grant expenses for the year 2003 include a grant from the previous year in the amount of NIS 296 thousand.

c. Officeholders' insurance and indemnification letters

- 1) The Company insured the officeholders' liability, in accordance with the Regulations of the Memorandum of Association. The insurance is in the Zur Shamir group framework that includes Zur Shamir Insurance Holdings Ltd., Adgar Investments and Development Ltd., the Company and their subsidiaries. The sum insured for the year 2001 - \$ 7.5 million and for the years 2002-2003 \$10 million, for each event and for the period. In addition, the insurance includes refunds regarding legal expenses in Israel only, for the year 2001 in the amount of \$ 1 million and for the years 2002-2003 - \$ 2 million. In the year 2004 the Company purchased for it and its subsidiaries insurance in the amount of \$ 7.5 million for each event and for the period, including a refund for legal expenses in Israel in the amount of \$ 1.5 million.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 20:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED AND RELATED PARTIES
(Cont.)**c. Officeholders' insurance and indemnification letters

2) A subsidiary issued its former general manager an indemnification letter for his activities as a Director in Avner Motor Vehicle Accident Victims Insurance Ltd. (hereunder - Avner). According to the indemnification letter the Company undertook to compensate the general manager for any financial liability that will be imposed on him due to any action he took while serving as an officeholder in Avner, including legal expenses. The indemnification letter will not be valid in the case of breach of good faith or obligation of caution, done intentionally or carelessly regarding the circumstances of the breach and its results, an action with the intention to make an illegal personal gain, and a fine or a forfeit that is imposed as a result of the felony. The indemnification is in an unlimited amount. At the end of the year 2001, the former general manager resigned his post as a director in Avner.

d. A management agreement was signed between the Company and a subsidiary, Direct I.D.I., by which the subsidiary will provide a monthly payment equal to 0.05% of the subsidiary's total assets according to the last audited balance sheet as will be updated at the beginning of the year, in consideration for management and consultation services as specified in the agreement.

e. A management agreement was signed between the Company and a subsidiary, LINK 4, according to which the subsidiary will pay the Company a quarterly payment based on the basis of cost plus 11% in consideration for management and consultation services detailed in the agreement.

f. Options to officeholders

For information regarding options, see Note 18(c).

g. Employment agreements and loans for acquisition of shares

1. On September 30, 2001 the Company's shareholders' meeting approved the employment agreements between the Company and the Company's chairman of the board and between the Company and the Company's general manager.

The employment agreements determine, inter alia, that the chairman of the board is entitled to a gross monthly salary of NIS 40,000 and the general manager is entitled to a gross salary of NIS 50,000. The salary is linked to the CPI of March 2002. The employment agreements include additional social benefits and other expenses which senior managers usually receive.

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 20:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED AND RELATED PARTIES
(Cont.)**f. Employment agreements and loans for acquisition of shares (Cont.)

1. (Cont.)

In addition, the above general meeting approved the granting of loans, either by the Company itself and/or through its subsidiary, to the chairman of the board and to the general manager for funding the acquisition of its shares. The acquired shares will be pledged against the loans at a first-degree pledge in favor of the Company. The loan agreements determine, inter alia, 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 assembly. The loan agreements are non-recourse agreements, therefore the Company is entitled to realize the pledge if the loans are not redeemed. The above loans form a “distribution” as defined in Section 1 to the Companies Law.

On January 9, 2002, a subsidiary, Direct - I.D.I. Insurance Company Ltd. granted loans in the amount of NIS 633 thousand to the chairman of the board and NIS 1,292 thousand to the general manager. The acquired shares were deposited with a trustee to secure the borrowers' liabilities according to the loan agreements that were signed with them.

2. On October 18, 2001, the subsidiary's board of directors, Direct - I.D.I. Insurance Company Ltd., approved the appointment and employment agreement of the insurance company's general manager, beginning from November 2001. In addition, the board of directors of the Company and its subsidiary approved the loan agreement between the above subsidiary and the general manager.

According to the agreement the subsidiary undertook to grant the general manager a loan for the acquisition of the Company's shares. The acquired shares will be pledged against the loan at a first-degree pledge in favor of the Company. The loan agreement determines, inter alia, that the loan will bear interest of 4% per annum and it will be linked to the CPI. The loan will be redeemed at the end of five years from the date it was granted. The loan agreement is a non-recourse agreement, therefore the Company is entitled to realize the pledge in case the loan is not redeemed. The above loan forms a “distribution” as defined in Section 1 to the Companies Law.

On January 9, 2002, the Company provided a loan in the amount of NIS 2,634 thousand to the general manager. The acquired shares were deposited with a trustee to secure the borrower's liabilities according to the loan agreement that was signed with him. On November 3, 2003 the shares were sold. The consideration for the shares that exceeded the balance of the loan was used to redeem the loan on February 2004. The difference between the consideration for the shares and the amount of the loan was paid to the general manager.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 22:- LINKAGE CONDITIONS OF FINANCIAL SURPLUS****a. In the consolidated balance sheet**

	December 31, 2003						
	Linked to the CPI	In Euros or linked to the Euro	In Zlotych		In dollars or linked to the dollar	Unlinked	Total
			or linked to the Zlotych	or linked to the Zlotych			
Adjusted NIS in thousands							
<u>Assets:</u>							
Cash and cash equivalents	-	11,691	3,763	1,206	110,708	127,368	
Securities	249,463	886	20,188	28,705	219,299	518,541	
Loans	7,724	-	190	-	-	7,914	
Bank deposits	257,289	-	1,229	-	-	258,518	
Amounts receivable from insurance companies	82,342	-	110	2,198	4,760	89,410	
Outstanding premiums	80,714	-	4,994	-	78,076	163,784	
Debtors and debit balances	5,832	1,873	514	-	15,617	23,836	
	<u>683,364</u>	<u>14,450</u>	<u>30,988</u>	<u>32,109</u>	<u>428,460</u>	<u>1,189,371</u>	
<u>Liabilities:</u>							
Insurance reserves and outstanding claims	950,951	-	33,691	-	-	984,642	
Other liabilities to insurance companies	-	-	-	19,823	-	19,823	
Credit from a banking corporation	937	-	-	4,358	22,124	27,419	
Liabilities to banking corporations	-	92,679	-	-	-	92,679	
Creditors and credit balances	1,207	138	6,318	-	68,051	75,714	
	<u>953,095</u>	<u>92,817</u>	<u>40,009</u>	<u>24,181</u>	<u>90,175</u>	<u>1,200,277</u>	

NOTES TO THE FINANCIAL STATEMENTS**NOTE 22:- LINKAGE CONDITIONS OF FINANCIAL SURPLUS (Cont.)****a. In the consolidated balance sheet (Cont.)**

	December 31, 2002					
	Linked to the CPI	In Euros or linked to the Euro	In		Unlinked	Total
			Zlotych or linked to the Zlotych	In dollars or linked to the dollar		
Adjusted NIS in thousands						
<u>Assets:</u>						
Cash and cash equivalents	-	22,954	25,003	4,186	117,898	170,041
Securities	227,248	6,484	-	23,247	97,320	354,299
Loans	2,813	-	-	-	-	2,813
Bank deposits	196,046	-	-	-	11,095	207,141
Amounts receivable from insurance companies	68,365	-	-	4,527	3,391	76,283
Outstanding premiums	51,370	-	-	-	37,780	89,150
Debtors and debit balances	1,867	231	22	-	3,438	5,558
	<u>547,709</u>	<u>29,669</u>	<u>25,025</u>	<u>31,960</u>	<u>270,922</u>	<u>905,285</u>
<u>Liabilities:</u>						
Insurance reserves and outstanding claims	735,758	-	-	-	-	735,758
Other liabilities to insurance companies	-	-	-	18,928	-	18,928
Capital notes (including current maturities)	30,996	-	-	-	-	30,996
Credit from a banking corporation	-	63,593	-	-	-	63,593
Creditors and credit balances	276	47	2,645	-	47,610	50,578
	<u>767,030</u>	<u>63,640</u>	<u>2,645</u>	<u>18,928</u>	<u>47,610</u>	<u>899,853</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22:- LINKAGE CONDITIONS OF FINANCIAL SURPLUS (Cont.)

a. In the Company balance sheet

	December 31, 2003					
	Linked to the CPI	In Euros or linked to the Euro	In		Unlinked	Total
			Zlotych or linked to the Zlotych	In dollars or linked to the dollar		
Adjusted NIS in thousands						
<u>Assets:</u>						
Cash and cash equivalents	-	1	-	-	26,769	26,770
Loans and capital notes to subsidiaries	-	46,848	-	-	-	46,848
Debtors and debit balances	2,167	-	-	-	1,334	3,501
	<u>2,167</u>	<u>46,849</u>	<u>-</u>	<u>-</u>	<u>28,103</u>	<u>77,119</u>
<u>Liabilities:</u>						
Credit from a banking corporation	-	-	-	-	22,124	22,124
Liabilities from banking corporations	-	92,679	-	-	-	92,679
Creditors and credit balances	1,129	-	-	-	2,568	3,697
	<u>1,129</u>	<u>92,679</u>	<u>-</u>	<u>-</u>	<u>24,692</u>	<u>118,500</u>
	December 31, 2002					
	Linked to the CPI	In Euros or linked to the Euro	In		Unlinked	Total
			Zlotych or linked to the Zlotych	In dollars or linked to the dollar		
Adjusted NIS in thousands						
<u>Assets:</u>						
Cash and cash equivalents	-	977	-	-	2,162	3,139
Loans and capital notes to subsidiaries	-	21,886	-	-	-	21,886
Debtors and debit balances	-	-	-	-	11	11
	<u>-</u>	<u>22,863</u>	<u>-</u>	<u>-</u>	<u>2,173</u>	<u>25,036</u>
<u>Liabilities:</u>						
Capital notes (including current maturities)	30,996	-	-	-	-	30,996
Credit from banking corporations	-	63,593	-	-	-	63,593
Creditors and credit balances	387	-	-	-	1,036	1,423
	<u>31,383</u>	<u>63,593</u>	<u>-</u>	<u>-</u>	<u>1,036</u>	<u>96,012</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23:- ADDITIONAL INFORMATION

a. Consolidated general insurance business

Hereunder are the business results of the general insurance according to the main insurance branches:

	Year ended December 31, 2003										Total		
	Property				Liabilities			Health				Total results in general insurance business in Israel	Results of motor vehicle insurance business in Poland
	Loss of	Motor	Comprehensive	Mortgages	Employers liability	Third	Motor	Personal	Illnesses and hospitalization				
	property	casco	apartments			party	act	accidents					
	Adjusted NIS in thousands												
Premiums	2,875	335,850	46,915	20,148	460	1,552	219,839		326	627,961	50,84	678,802	
Fees			-	-	-		32,642			32,642		32,642	
Total insurance premiums	2,875	335,850	46,915	20,148	460	1,552	252,481		326	660,603	50,84	711,447	
Less reinsurance	257	967	12,487	11,929	142	16	10,932		48	36,772	1,21	37,983	
	2,622	334,883	34,428	8,219	318	1,536	241,550		278	623,831	49,62	673,454	
Change in reserve for unexpired risks less reinsurance	(102)	(18,461)	(2,101)	-	(17)	(71)	(34,689)		(15)	(55,456)	(27,22)	(82,678)	
Earned insurance premiums	2,520	316,422	32,327	8,219	301	1,462	206,861		263	568,375	22,35	590,726	
Investment income	185	18,959	2,049	109	55	278	39,700		89	61,422	57	62,000	
Total revenues for the year	2,705	335,381	34,376	8,328	356	1,740	246,561		352	629,797	22,92	652,719	
Claims paid and outstanding	2,487	214,310	16,587	2,507	58	486	186,362	66	(1,290)	421,572	19,76	441,338	
Less - reinsurance	208	(432)	1,481	2,454	-		2,987	22	(637)	6,082		6,104	
Total claims for the year	2,279	214,742	15,106	53	58	486	183,375	41	(653)	415,490	19,76	435,256	
Excess income over claims for the year	430	120,639	19,270	8,275	298	1,254	63,186	(41)	1,005	214,307	3,20	217,507	
Selling, administrative and general expenses	600	69,080	8,879	26	84	288	53,232	2	9	132,200	58,71	190,911	
Commissions from reinsurance	(42)		(1,970)	(2,071)	-				(5)	(4,063)		(4,063)	
Commission from co-insurance		40	-	8,542	-					8,582		8,582	
	556	69,120	6,909	6,497	84	288	53,232	2	4	136,669	58,71	195,380	
Change in deferred acquisition costs	(5)	(1,336)	(135)	-	(1)	(6)	(3,469)		(8)	(4,910)	(6,92)	(11,832)	
Total expenses for the year, net	551	67,784	6,774	6,497	83	281	49,763	2	(4)	131,772	51,78	183,554	
Income (loss) from general													

DIRECT INSURANCE - FINANCIAL INVESTMENTS LTD.

insurance business

<u>(121</u>	<u>52,853</u>	<u>12,496</u>	<u>1,778</u>	<u>215</u>	<u>976</u>	<u>13,417</u>	<u>(43</u>	<u>1,009</u>	<u>82,58</u>	<u>(48,57</u>	<u>34,1</u>
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 23:- ADDITIONAL INFORMATION (Cont.)

a. Consolidated general insurance business (Cont.)

Hereunder are the business results of the general insurance according to the main insurance branches: (Cont.)

	Year ended December 31, 2002									
	Property				Liabilities			Health		Total
	Loss of property	Motor casco	Comprehensive apartments	Mortgages	Employers' liability	Third party	Motor act	Personal accidents	Illnesses and hospitalization	
	Adjusted NIS in thousands									
Premiums	2,49	297,46	41,230	15,87	258	75	153,02	6,04	336	517,49
Fees							26,62			26,62
Total insurance premiums	2,49	297,46	41,230	15,87	258	75	179,65	6,04	336	544,12
Less reinsurance	21		11,286	9,73	138		8,56	3,67	65	33,68
	2,28	297,46	29,944	6,136	120	74	171,09	2,37	271	510,43
Change in reserve for unexpired risks net of reinsurance	(28	(14,44	(2,883		(20	(6	(11,71		11	(29,39
Earned insurance premiums	2,00	283,02	27,061	6,136	100	67	159,37	2,37	282	481,03
Investment income	1	2,21	246	3		2	3,79	1	16	6,36
Total revenues for the year	2,01	285,24	27,307	6,166	100	70	163,17	2,38	298	487,40
Claims paid and outstanding	2,55	179,11	14,301	1,750	22	61	125,73	4	(532	323,81
Less: reinsurance		(4,20	2,467	1,818			3,68	7	(217	3,61
Total claims for the year	2,55	183,32	11,834	(6	22	61	122,04	(2	(315	320,19
Excess income over claims for the year	(53	101,91	15,473	6,236	(118	8	41,12	2,41	613	167,20
Selling, administrative and general expenses	50	62,73	8,117	50	5	15	35,83	58	62	108,10
Commission from reinsurance			(1,849	(2,03					(7	(3,88
Commission from co- insurance				6,800				1,72		8,52
	50	62,73	6,268	4,82	5	15	35,84	2,31	55	112,75
Change in deferred acquisition costs	(5	(2,86	(570		(6	(1	(1,17		5	(4,67
Total expenses for the year, net	44	59,87	5,698	4,82	48	13	34,67	2,31	60	108,07
Income (loss) from general insurance business	(98	42,04	9,775	1,406	(166	(5	6,45	9	553	59,13

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23:- ADDITIONAL INFORMATION (Cont.)

a. Consolidated general insurance business (Cont.)

Hereunder are the business results of the general insurance according to the main insurance branches: (Cont.)

	Year ended December 31, 2001									
	Property				Liabilities			Health		Total
	Loss of property	Motor casco	Comprehensive apartments	Mortgages	Employers' liability	Third party	Motor act	Personal accidents	Illnesses and hospitalization	
	Adjusted NIS in thousands									
Premiums	1,64	269,98	33,841	1,35	21	73	133,08	2,56	460	443,87
Fees							25,24			25,24
Total insurance premiums	1,64	269,98	33,841	1,35	21	73	158,33	2,56	460	469,12
Less reinsurance	12	(1,46	6,209	73	10		8,14	1,83	93	15,77
	1,52	271,44	27,632	62	11	72	150,18	73	367	453,34
Change in reserve for unexpired risks net of reinsurance	(27	(14,40	(2,416		(5	(19	(23,75		1,258	(39,84
Earned insurance premiums	1,24	257,04	25,216	62	5	53	126,43	73	1,625	413,50
Investment income	5	9,26	1,038		1	9	15,76		63	26,29
Total revenues for the year	1,30	266,30	26,254	62	7	62	142,19	73	1,688	439,79
Claims paid and outstanding	69	188,48	12,451	(12	16	76	105,11	26	2,760	310,57
Less: reinsurance		16,57	1,661	6		8	7,23	16	1,202	26,98
Total claims for the year	69	171,90	10,790	(18	16	68	97,88	10	1,558	283,55
Excess income over claims for the year	60	94,35	15,464	81	(8	(6	44,31	62	130	156,20
Selling, administrative and general expenses	37	62,85	7,792	18	50	17	34,97	40	128	106,98
Commission from reinsurance		23	(1,549	(11			(65	(15	(23	(2,25
Commission from co- insurance				53				78		1,32
	37	63,13	6,243	60	50	17	34,32	1,03	105	106,04
Increase in deferred acquisition costs	(5	(3,61	(481		(1	(3	(1,55		177	(5,57
Total expenses for the year, net	32	59,52	5,762	60	38	14	32,76	1,03	282	100,47
Income (loss) from general insurance business	28	34,87	9,702	21	(12	(20	11,54	(41	(152	55,72

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23:- ADDITIONAL INFORMATION (Cont.)

b. Life assurance business

- 1) Hereunder is the composition of policyholders' premiums and deposits in life assurance business according to the types of insurance:

	Year ended December 31,		
	2003	2002	2001
	Adjusted NIS in thousands		
Risk	19,981	12,827	8,479
Disability income insurance	2,038	1,640	1,191
Group policyholders	5,303	5,362	1,519
Others	6,851	5,746	3,046
	<u>34,173</u>	<u>25,575</u>	<u>14,235</u>
Savings	<u>13,852</u>	<u>11,283</u>	<u>6,309</u>
	<u><u>48,025</u></u>	<u><u>36,858</u></u>	<u><u>20,544</u></u>

- 2) Real average rate of return for policies participating in investment profits, according to lines of investment (the Company collects management fees from July 2001):

	Year ended December 31,					
	2003		2002		2001	
	%		%		%	
	Gross return	Net return per policyholder	Gross return	Net return per policyholder	Gross return	Net return per policyholder
Conservative basket (without any shares)	12.1	10.6	0.4	(1.1)	12.4	11.6
Moderate basket (up to 15% shares)	16.9	15.4	(4.1)	(5.6)	11.5	10.7
Share basket (up to 50% shares)	25.3	23.8	(12.3)	13.8	10.3	9.5

NOTES TO THE FINANCIAL STATEMENTS**NOTE 24:- GEOGRPHIC SEGMENTS**a. General

1. The main activities of the Company through its subsidiaries are in two geographic segments, Israel and Poland. In 2002, the Company operated as an insurer in Israel and initiated insurance activity in Poland. In 2003, the Company operated as an insurer in Israel and Poland. In addition, the segment of activity in Israel in 2003 includes asset management and Stock Exchange services activities of a subsidiary, Moritz et Tuchler Ltd., see Note 7(b)(5) above.
2. All the income and expenses are ascribed directly to geographic segments.
3. The sector (segment) assets include the operational assets that the sector use and are mainly composed of cash and cash equivalents, investments, debtors and debit balances, fixed assets, deferred expenses and other assets. The liabilities of the sector include all the operational liabilities that result from operational transactions of the sector and are mainly composed of reserves and outstanding claims, creditors and credit balances ad loans from banking corporations.

b. Information according to geographic segments

	Year ended December 31, 2003				Total
	Israel	Poland	Others	Adjustments	
	Adjusted NIS in thousands				
Income from premiums	708,638	50,840	-	-	759,478
Inter - company income	-	-	2,024	(2,024)	-
Other income	2,965	-	6,363	-	9,328
Total income	<u>711,603</u>	<u>50,840</u>	<u>8,387</u>	<u>(2,024)</u>	<u>768,806</u>
Segment results	<u>102,657</u>	<u>(54,141)</u>	<u>(14,881)</u>		33,635
Income tax					<u>35,149</u>
					(1,514)
Company share in results of investee					(10)
Minority interest in loss of subsidiaries					<u>3,440</u>
Net income for the year					<u>1,916</u>
Assets of the segments	<u>1,265,462</u>	<u>71,317</u>	<u>36,345</u>		1,373,124
Assets not allocated to the segments					<u>38,574</u>
Total consolidated assets					<u>1,411,698</u>
Liabilities of the segment	<u>1,085,778</u>	<u>133,859</u>	<u>7,175</u>		1,226,812
Liabilities not allocated to the segments					<u>5,471</u>
Total consolidated liabilities					<u>1,232,283</u>
Depreciation and amortization for the year	<u>13,317</u>	<u>4,358</u>	<u>1,179</u>		<u>18,854</u>
Capital investments for the year	<u>8,885</u>	<u>8,746</u>	<u>1,821</u>		<u>19,452</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 24:- GEOGRPHIC SEGMENTS (Cont.)**b. Information according to geographic segments (Cont.)

	Year ended December 31, 2002				Total
	Israel	Poland	Others	Adjustments	
	Adjusted NIS in thousands				
Income from premiums	580,978	-	-	-	580,978
Inter - company income	-	-	7,220	(7,220)	-
Other income	-	-	1,840	-	1,840
Total income	<u>580,978</u>	<u>-</u>	<u>9,060</u>	<u>(7,220)</u>	<u>582,818</u>
Segment results	<u>47,289</u>	<u>(13,380)</u>	<u>(10,056)</u>		23,853
Income tax					<u>19,809</u>
					4,044
Minority interest in loss of subsidiaries					<u>1,806</u>
Net income for the year					<u>5,850</u>
Assets of the segment	<u>997,363</u>	<u>62,404</u>	<u>11,624</u>	<u>-</u>	<u>1,071,391</u>
Assets not allocated to the segments					<u>35,134</u>
Total consolidated assets					<u>1,106,525</u>
Liabilities of the segments	<u>833,820</u>	<u>67,874</u>	<u>8,306</u>	<u>-</u>	910,000
Liabilities not allocated to the segment					<u>34,409</u>
Total consolidated liabilities					<u>944,409</u>
Depreciation and amortization for the year	<u>9,908</u>	<u>145</u>	<u>1,680</u>	<u>-</u>	<u>11,733</u>
Capital investments for the year	<u>7,741</u>	<u>15,854</u>	<u>452</u>	<u>-</u>	<u>24,047</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25:- PLEDGES AND COMMITMENTS

a. Pledges

1. 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 one of the members of the Clearing House.
2. In accordance with the decision of the Board of Directors of the Stock Exchange Clearing House, beginning January 13, 2003, a risk reserve/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, guaranteed by a deposit.

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 amended 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 foreign currency.

3. 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.
4. To guarantee a subsidiary's liabilities of consultancy and software integration, the Company, a subsidiary and its other shareholders 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.
5. 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.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 25:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)**b. Commitments

1. 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.
2. 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.

NOTE 26:- EARNINGS PER SHARE

Details about number of shares and the profit, which served as the basis for calculating the earnings per share for NIS 1 ordinary shares:

	<u>Year ended December 31, 2003</u>		
	<u>Weighted average number of shares</u>	<u>Income for the year (1)</u>	<u>Earnings per share</u>
	<u>Adjusted NIS in thousands</u>	<u>Adjusted NIS in thousands</u>	<u>NIS</u>
Income per statement of profit and loss and the nominal value of shares	50,224	1,916	
The effect of options that are expected to be exercised	<u>1,461</u>	<u>256</u>	
Number of shares and the income which served as the basis for calculating the basic earnings per share	<u>51,685</u>	<u>2,172</u>	<u>0.04</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 26:- EARNINGS PER SHARE (Cont.)**

Details about number of shares and the profit, which served as the basis for calculating the earnings per share for NIS 1 ordinary shares: (Cont.)

	Year ended December 31, 2002		
	Weighted average number of shares	Profit for the year (1)	Earnings per share
	Adjusted NIS in thousands		NIS
Income per statement of profit and loss and the nominal value of shares	50,138	5,850	
The effect of options that are expected to be exercised	<u>1,241</u>	<u>146</u>	
Number of shares and the profit which served as the basis for calculating the basic earnings per share	<u><u>51,379</u></u>	<u><u>5,996</u></u>	<u><u>0.12</u></u>
	Year ended December 31, 2001		
	Weighted average number of shares	Profit for the year (1)	Earnings per share
	Adjusted NIS in thousands		NIS
Income per statement of profit and loss and the nominal value of shares	50,729	21,961	
The effect of options that are expected to be exercised	<u>1,512</u>	<u>114</u>	
Number of shares and the profit which served as the basis for calculating the basic earnings per share	<u><u>52,241</u></u>	<u><u>22,075</u></u>	<u><u>0.42</u></u>

(1) The interest was calculated on the basis of an annual interest of 4% for the year 2003, 6% for the year 2002, and 5% for the year 2001.

NOTES TO THE FINANCIAL STATEMENTS**NOTE 27:- COMPANY'S CONDENSED FINANCIAL STATEMENTS ON THE BASIS OF NOMINAL VALUES****a. Balance sheets**

	December 31,	
	2003	2002
	NIS in thousands	
Investments		
Cash and cash equivalents	26,770	3,200
Debtors and debit balances	4,169	86
Investees	<u>263,066</u>	<u>257,731</u>
Total investments	<u>294,005</u>	<u>261,017</u>
Fixed assets, net	<u>1,034</u>	<u>43</u>
	<u>295,039</u>	<u>261,060</u>
Shareholders' equity	<u>176,539</u>	<u>160,808</u>
Long term liabilities		
Liabilities to banking corporations	<u>92,679</u>	<u>-</u>
Other liabilities		
Current maturities of capital notes convertible into shares	-	31,596
Credit from banking corporations	22,124	64,825
Creditors and credit balances	<u>3,697</u>	<u>3,831</u>
Total other liabilities	<u>25,821</u>	<u>100,252</u>
	<u>295,039</u>	<u>261,060</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 27:- COMPANY'S CONDENSED FINANCIAL STATEMENTS ON THE BASIS OF NOMINAL VALUES (Cont.)**b. Statements of profit and loss

	Year ended December 31,		
	2003	2002	2001
	NIS in thousands		
Financing income (expenses), net	(2,114)	(2,313)	752
Income from issue to third party	2,420	3,683	1,459
Administrative and general expenses	<u>(1,391)</u>	<u>664</u>	<u>(3,130)</u>
Income (loss) before income taxes	(1,085)	2,034	(919)
Provision for income tax and profit tax	<u>(170)</u>	<u>175</u>	<u>-</u>
Income (loss) after income taxes	(915)	1,859	(919)
Company's share in results of investees	<u>1,096</u>	<u>8,538</u>	<u>25,510</u>
Net profit for the year	<u><u>181</u></u>	<u><u>10,397</u></u>	<u><u>24,591</u></u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 27:- COMPANY'S CONDENSED FINANCIAL STATEMENTS ON THE BASIS OF NOMINAL VALUES (Cont.)**c. Statements of changes in shareholders' equity

	Share capital	Share premium	Adjustments resulting from translation of financial statements of independently held units	Surplus	Debtors for shares	Less shares held by the Company	Total
	NIS in thousands						
<u>Balance as at January 1, 2001</u>	50,729	45,668	-	37,948	-	-	134,345
Net income for the year	-	-	-	24,591	-	-	24,591
<u>Balance as at December 31, 2001</u>	50,729	45,668	-	62,539	-	-	158,936
Realization of options into shares	72	142	-	-	-	-	214
Conversion of capital notes into shares	1,027	4,498	-	-	-	-	5,525
Loan to interested parties to purchase Company shares	-	-	-	-	(4,363)	-	(4,363)
Purchase of Company shares	-	-	-	-	-	(10,111)	(10,111)
Adjustments resulting from translation of financial statements of autonomic units held	-	-	210	-	-	-	210
Net income for the year	-	-	-	10,397	-	-	10,397
<u>Balance as at December 31, 2002</u>	51,828	50,308	210	72,936	(4,363)	(10,111)	160,808
Realization of options into shares	1,174	4,350	-	-	-	-	5,524
Conversion of capital notes into shares	2,799	12,711	-	-	-	-	15,510
Repayment of a loan to an interested party to purchase Company shares	-	302	-	-	2,500	-	2,802
Adjustments resulting from translation of financial statements of autonomically held units	-	-	(8,286)	-	-	-	(8,286)
Net income for the year	-	-	-	181	-	-	181
<u>Balance as at December 31, 2003</u>	55,801	67,671	(8,076)	73,117	(1,863)	(10,111)	176,539

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28:- EVENT AFTER BALANCE SHEET DATE

On January 8, 2004 the Company signed a conditional agreement (hereunder - the agreement) to purchase 75% of the share capital of the American company, American Independent Insurance Holding Company (AIIHC) (hereunder - the transaction). AIIHC, an insurance holding company, that belongs to the American insurance Group ARCH, will hold the following insurance companies after the completion of the transaction: American Independent Insurance Company Inc. and Personal Service Insurance Company. These companies deal in the motor vehicle insurance branch in the field of general insurance in the States of Pennsylvania and Ohio. The scope of the annual premiums of the above insurance companies is estimated in the amount of about US \$ 110 million. The acquisition price of the shares mentioned above will be US \$ 23.75 million while the remaining 25% of the share capital will continue to be held by the ARCH Group.

The agreement is subject to a number of conditions and among them: completion of a due diligence to the satisfaction of our Company, receipt of approval of the Board of Directors of both sides to perform the transaction, receipt of the required permission by American law, including permission from the Supervisor of Insurance Authority in United States, as well as signing of the different agreements, among them the shareholders agreement. If all the predetermined conditions in the agreement are met, the transaction should be completed within five months from the date the agreement is signed.

NOTES TO THE FINANCIAL STATEMENTS

Appendix: List of Group companies (including only active companies)

 Holding company	 Name of the company	 Rate of ownership %	 Rate of control %	
Direct Insurance Financial Investments Ltd.	Direct I.D.I. Insurance Company Ltd.	100	100	subsidiary
	Moritz et Tuchler Ltd	100	100	subsidiary
	Idit I.D.I. Technologies Ltd.	55.56	55.56	subsidiary
	GDII Global Direct Insurance Investments B.V.	100	100	subsidiary
Direct I.D.I. Insurance Company Ltd	Shamir Direct Assessing Ltd.	100	100	subsidiary
	Dr. Pach and Tzeva Ltd.	50	50	subsidiary
	Earnix Inc.	17.9	17.9	Other company
Dr. Pach and Tzeva Ltd.	Dr. Pach and Tzeva Ra'anana Ltd.	100	100	subsidiary
	Dr. Pach and Tzeva Jerusalem Ltd.	50	50	subsidiary
GDII Global Direct Insurance Investments B.V.	Spolka Akcyjna Link 4	100	100	Other company
	IDIP Spolka Z Drganiczona	100	100	subsidiary
Moritz et Tuchler Ltd.	Moritz et Tuchler Underwriting Ltd.	100	100	subsidiary
	Moritz et Tuchler Jerusalem (1979) Ltd.	100	100	subsidiary
	Plot 45 Partition 6938 Ltd.	25	25	Affiliate
Moritz et Tuchler Jerusalem (1979) Ltd.	Moritz et Tuchler Trust Fund Management (1993) Ltd.	100	100	subsidiary
