

DIRECT INSURANCE - FINANCIAL INVESTMENTS LTD.

INTERIM FINANCIAL STATEMENTS

AS AT JUNE 30, 2007

UNAUDITED

DIRECT INSURANCE - FINANCIAL INVESTMENTS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2007

UNAUDITED

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The Board of Directors

The Board of Directors
Direct Insurance - Financial Investments Ltd.

Dear Sirs,

Re: Review of the unaudited interim consolidated financial statements
for the six and three months period ended June 30, 2007

At your request, we have reviewed the interim consolidated balance sheet of Direct Insurance - Financial Investments Ltd. as at June 30, 2007, and the consolidated statements of profit and loss, statements of changes in shareholders' equity, the consolidated insurance business statements and the consolidated statements of cash flows for the six and three months period then ended. Our review was conducted in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel, and included, among others, reading the aforementioned interim consolidated financial statements, reading the minutes of meetings of the shareholders and the Board of Directors and its committees and making inquiries with certain officers responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim consolidated financial statements of certain subsidiaries, whose assets constitute approximately 2.8% of total consolidated assets as of June 30, 2007, and whose revenues constitute approximately 0.1% of the total consolidated revenues for the six and three months then ended, respectively.

Since the review performed was limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the said interim consolidated financial statements.

Based on our review, nothing came to our attention that would indicate that material changes to the aforementioned financial statements are required in order that they may be considered prepared in accordance with generally accepted accounting principles including accounting, reporting and presentation principles prescribed by the Supervision of Financial Services (Insurance) Law, 1981 and the regulations enacted pursuant thereto and in accordance with Chapter D to the Securities Regulations (Periodical and Immediate Financial Statements), 1970, insofar as these regulations are applicable to insurance companies.

We draw attention to Note 8 to the financial statements with regard to the exposure to requests to approve claims as class actions in an insurance subsidiary.

Tel-Aviv, Israel
August 29, 2007

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

CONSOLIDATED BALANCE SHEETS

	June 30		December 31
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in thousands		
INVESTMENTS			
Cash and cash equivalents	205,773	154,879	110,467
Securities	1,284,509	1,194,178	1,332,593
Loans and deposits:			
Loans	20,684	6,896	7,050
Deposits with banks	202,638	237,975	203,107
	223,322	244,871	210,157
Other companies	943	943	943
Total investments	1,714,547	1,594,871	1,654,160
FIXED ASSETS, NET	70,912	38,548 *)	47,807 *)
AMOUNTS RECEIVABLE			
Insurance companies:			
Reinsurers' share in insurance reserves	6,922	5,056	6,456
Reinsurers' share in outstanding claims	129,466	110,662	129,043
Other accounts	47,218	53,915	56,557
	183,606	169,633	192,056
Outstanding premiums	265,439	174,672	241,256
Other debtors and receivables	58,913	40,156	46,837
Total amounts receivable	507,958	384,461	480,149
DEFERRED ACQUISITION COSTS AND OTHER ASSETS			
Deferred acquisition costs:			
In life assurance	52,301	46,161	50,889
In general insurance	79,769	66,182	71,900
In health insurance	2,793	2,224	2,603
Total deferred acquisition costs	134,863	114,567	125,392
Other assets	116,885	90,835 *)	103,836 *)
Deferred taxes	34,673	32,878	36,690
	151,558	123,713	140,526
Total deferred acquisition costs and other assets	286,421	238,280	265,918
	2,579,838	2,256,160	2,448,034

*) Reclassified.

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

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

CONSOLIDATED BALANCE SHEETS

	<u>June 30</u>		<u>December 31</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in thousands</u>		
SHAREHOLDERS' EQUITY	251,741	221,843	237,897
MINORITY'S INTEREST	57,463	44,811	52,012
LONG TERM LIABILITIES			
Deferred taxes	9,769	8,228	9,538
Long term liabilities to banking institutions	137,806	129,268	127,726
Subordinated deeds	204,659	255,495	253,884
Liability to cover an affiliate's losses	4,352	9,467	5,108
Total long term liabilities	356,586	402,458	396,256
INSURANCE RESERVES AND OUTSTANDING CLAIMS			
Life assurance:			
Assurance reserve	203,756	132,666	165,114
Reserve for extraordinary risks	-	19,894	36,665
Outstanding claims	7,995	8,876	7,159
Total life assurance	211,751	161,436	208,938
General insurance:			
Reserve for unexpired risks	451,892	395,329	410,504
Outstanding claims	937,757	891,296	919,374
Total general insurance	1,389,649	1,286,625	1,329,878
Total insurance reserves and outstanding claims	1,601,400	1,448,061	1,538,816
OTHER LIABILITIES			
Insurance companies:			
Deposits by reinsurers	4,601	3,313	3,795
Other accounts	8,636	9,625	13,875
	13,237	12,938	17,670
Short term credit from banking institutions	97,920	5,987	33,163
Current maturities of subordinated deeds	52,636	-	-
Creditors and payables	148,855	120,062	172,220
Total other liabilities	312,648	138,987	223,053
	<u>2,579,838</u>	<u>2,256,160</u>	<u>2,448,034</u>

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

<u>August 29, 2007</u>			
Date of approval of the financial statements	M. (Moki) Schneidman Chairman of the Board of Directors	D. Schneidman Director and Managing Director	Yigal Mor Chief Financial Officer

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands (except for earnings (loss) per share data)				
Transferred from insurance business statements:					
Income from life assurance business statements	7,281	8,935	3,398	5,111	20,203
Income from general insurance business statements	49,176	58,873	25,205	36,705	131,160
	<u>56,457</u>	<u>67,808</u>	<u>28,603</u>	<u>41,816</u>	<u>151,363</u>
Income (expenses) not included in the insurance business statements:					
Expenses in respect of long term liabilities	(14,040)	(13,998)	(9,479)	(8,889)	(21,051)
Investment income	27,748	3,529	12,700	1,163	31,184
Net expenses from asset management and stock exchange services	(6,639)	(7,134)	(149)	(3,301)	(16,673)
Net expenses from grant of consumer credit	(8,453)	-	(5,832)	-	-
Expenses for initiation and establishment of activities	(30,325)	(6,788)	(18,856)	(4,784)	(27,669)
Administrative and general expenses	(12,393)	(11,499)	(5,843)	(6,758)	(28,421) *)
Capital gain, net	441	-	436	-	686
Income before income taxes	12,796	31,918	1,580	19,247	89,419
Provision for income tax and profit tax	26,142	20,194	14,268	13,342	59,254
Income (loss) after income taxes	(13,346)	11,724	(12,688)	5,905	30,165
Company's share in profits (losses) of an affiliate	747	(2,976)	714	(1,108)	147
Minority's share in profits of subsidiaries	(7,490)	(7,397)	(3,291)	(4,149)	(20,321) *)
Net income (loss) for the period before extraordinary item	(20,089)	1,351	(15,265)	648	9,991
Extraordinary item:					
Cancellation of provision (provision) for extraordinary risks reserve in life assurance net of the tax affect (Note 5)	28,231	-	-	-	(7,946) *)
Net income (loss) for the period	<u>8,142</u>	<u>1,351</u>	<u>(15,265)</u>	<u>648</u>	<u>2,045</u>
Earnings per share					
Net earnings (loss) per share (in NIS)					
Net basic earnings (loss):					
Net earning (loss) per share before extraordinary item	0.43	0.03	(0.33)	0.01	0.21 *)
Earning (loss) from extraordinary item	0.60	-	-	-	(0.17) *)
Net earning (loss) per share	<u>0.17</u>	<u>0.03</u>	<u>(0.33)</u>	<u>0.01</u>	<u>0.04</u>
Net diluted earnings:					
Net earning (loss) per share before extraordinary item	(0.42)	-	(0.32)	-	-
Earning from extraordinary item	0.59	-	-	-	-
Net earning (loss) per share	<u>0.17</u>	<u>**)</u>	<u>(0.32)</u>	<u>**)</u>	<u>**)</u>

*) Reclassified.

**) Not applicable this year.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Adjustments resulting from translation of financial statements of autonomous entities held abroad	Retained earnings	Debtors in respect of shares	Less shares held by the Company	Total
	Reported NIS in thousands							
Balance as at January 1, 2006 (Audited)	67,821	83,656	921	497	79,456	(1,926)	(10,163)	220,262
Realization of options into shares	203	1,110	-	-	-	-	-	1,313
Cost of share-based payments	-	-	9,671	-	-	-	-	9,671
Tax benefit in respect of capital instruments for employees	-	-	609	-	-	-	-	609
Adjustments resulting from the translation of financial statements of autonomous entities held	-	-	-	1,693	-	-	-	1,693
Settlement of loan to shareholders for acquisition of Company's shares	-	378	-	-	-	1,926	-	2,304
Net profit for the year	-	-	-	-	2,045	-	-	2,045
Balance as at December 31, 2006 (Audited)	68,024	85,144	11,201	2,190	81,501	-	(10,163)	237,897
Realization of options into shares	33	196	-	-	-	-	-	229
Cost of share-based payments	-	-	3,184	-	-	-	-	3,184
Tax benefit in respect of capital instruments for employees	-	-	126	-	-	-	-	126
Adjustments resulting from the translation of financial statements of autonomous entities held	-	-	-	2,163	-	-	-	2,163
Net profit for the period	-	-	-	-	8,142	-	-	8,142
Balance as at June 30, 2007 (Unaudited)	68,057	85,340	14,511	4,353	89,643	-	(10,163)	251,741
Balance as at January 1, 2006 (Audited)	67,821	83,656	921	497	79,456	(1,926)	-	220,262
Realization of options into shares	77	420	-	-	-	-	-	497
Cost of share based payments	-	-	3,994	-	-	-	-	3,994
Tax benefit in respect of capital instruments for employees	-	-	191	-	-	-	-	191
Adjustments resulting from the translation of financial statements of autonomous entities held	-	-	-	(4,452)	-	-	-	(4,452)
Net profit for the period	-	-	-	-	1,351	-	-	1,351
Balance as at June 30, 2006 (Unaudited)	67,898	84,076	5,106	(3,955)	80,807	(1,926)	-	221,843
Balance as at April 1, 2007 (Unaudited)	68,057	85,340	12,873	1,616	104,908	-	(10,163)	262,631
Cost of share based payments	-	-	1,638	-	-	-	-	1,638
Adjustments resulting from the translation of financial statements of autonomous entities held	-	-	-	2,737	-	-	-	2,737
Loss for the period	-	-	-	-	(15,265)	-	-	(15,265)
Balance as at June 30, 2007 (Unaudited)	68,057	85,340	14,511	4,353	89,643	-	(10,163)	251,741
Balance as at April 1, 2006 (Unaudited)	67,844	83,791	2,959	(676)	80,159	(1,926)	-	221,988
Realization of options into shares	54	285	-	-	-	-	-	339
Cost of share-based payments	-	-	1,997	-	-	-	-	1,997
Tax benefit in respect of capital instruments for employees	-	-	150	-	-	-	-	150
Adjustments resulting from the translation of financial statements of autonomous entities held	-	-	-	(3,279)	-	-	-	(3,279)
Net profit for the period	-	-	-	-	648	-	-	648
Balance as at June 30, 2006 (Unaudited)	67,898	84,076	5,106	(3,955)	80,807	(1,926)	-	221,843

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

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

CONSOLIDATED LIFE ASSURANCE BUSINESS STATEMENTS

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
Premiums	61,306	51,663 *)	31,344	26,448 *)	109,390 *)
Less - reinsurance	8,001	6,509	4,026	3,494	14,413
Premiums on retention	53,305	45,154	27,318	22,954	94,977
Investment income	11,683	2,298	6,698	2,539	10,806
Total revenues for the period	64,988	47,452	34,016	25,493	105,783
Claims paid and outstanding:					
Death and disability	6,674	5,688	3,388	1,897	9,135
Less - reinsurance	1,894	3,242	962	976	4,490
	4,780	2,446	2,426	921	4,645
Surrenders	5,691	4,384	3,318	2,131	9,922
Total claims for the period	10,471	6,830	5,744	3,052	14,567
Increase in assurance reserves net of reinsurance	35,479	21,008 *)	18,608	12,299 *)	50,235 *)
Less - management fees for policies participating in profits	1,312	889	640	497	1,914
Increase in reserves, net	34,167	20,119	17,968	11,802	48,321
Increase in reserve for extraordinary risks	-	1,355	-	825	2,008
	34,167	21,474	17,968	12,627	50,329
Excess of income over claims for the period net of increase in reserves	20,350	19,148	10,304	9,814	40,887
Selling, administrative and general expenses	17,397	15,930	9,122	7,854	33,828
Increase in deferred acquisition costs	1,412	3,534	726	1,633	(8,262)
	15,985	12,396	8,396	6,221	25,566
Reinsurance commissions	2,916	2,183	1,490	1,518	4,882
Total expenses for the period, net	13,069	10,213	6,906	4,703	20,684
Income for the period from life assurance business - transferred to statements of profit and loss	7,281	8,935	3,398	5,111	20,203
Total premium including premiums in respect of investment contracts allocated directly to the reserve	65,823	54,253	33,656	27,913	115,365

*) Reclassified.

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

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

CONSOLIDATED GENERAL INSURANCE BUSINESS STATEMENTS

	Six months ended		Three months ended		Year ended
	June 30		June 30		December
	2007	2006	2007	2006	31
	Unaudited				2006
Reported NIS in thousands					Audited
Premiums	480,192	432,395	239,503	212,363	874,458
Less - reinsurance	19,618	19,475	9,825	9,582	39,759
Insurance premiums on retention	460,574	412,920	229,678	202,781	834,699
Increase in reserve for unexpired risks net of reinsurance	(32,828)	(15,818)	(9,798)	(2,079)	(24,292)
Earned insurance premiums	427,746	397,102	219,880	200,702	810,407
Investment income	40,280	25,376	22,937	15,577	46,676
Total income for the period	468,026	422,478	242,817	216,279	857,083
Claims paid and outstanding	282,174	239,383	143,444	122,596	491,682 *)
Less - reinsurance	4,847	7,345	1,431	6,325	36,004
Total claims for the period	277,327	232,038	142,013	116,271	455,678
Excess of income over claims for the period	190,699	190,440	100,804	100,008	401,405
Selling, administrative and general expenses	149,831	134,123	79,004	62,706	278,913 *)
Reinsurance commissions	(2,013)	(2,076)	(967)	(1,007)	(3,675)
Co-insurance commissions	-	478	-	295	815
	147,818	132,525	78,037	61,994	276,053
Decrease (increase) in deferred acquisition costs	(6,295)	(958)	(2,438)	1,309	(5,808)
Total expenses for the period, net	141,523	131,567	75,599	63,303	270,245
Profit for the period from general insurance business - transferred to the statements of profit and loss	49,176	58,873	25,205	36,705	131,160

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
CASH FLOWS FROM CURRENT ACTIVITIES					
In life assurance business (a)	22,786	10,683	(5,886)	5,589	(15,104)
In general insurance business (b)	108,976	83,742	89,689	84,548	150,083
In other current activities (c)	(26,990)	(45,163)	(41,533)	(33,763)	(97,902)
Net cash provided by current activities	104,772	49,262	42,270	56,374	37,077
CASH FLOWS FROM INVESTMENT ACTIVITIES					
Changes in investment items earmarked to shareholders' equity and non-insurance liabilities:					
Securities	(11,475)	4,055	17,883	(10,002)	(23,150)
Loans	(12,763)	885	(9,801)	443	1,677
	(24,238)	4,940	8,082	(9,559)	(21,473)
Investment in deposits	(2,219)	(52)	(1,666)	2	(89)
Acquisition of subsidiaries' shares from minority shareholders	(1,177)	-	-	-	-
Acquisition of other assets	(7,605)	(56,537)	(7,605)	(16,378)	(56,556)
Acquisition of fixed assets	(42,165)	(13,583)	(25,171)	(8,967)	(46,293)
Proceeds from sale of fixed assets	1,482	203	167	113	4,521
Acquisition of subsidiary proportionally consolidated in the past (d)	-	514	-	514	514
Acquisition of subsidiary consolidated for the first time (e)	-	-	-	-	(4,401)
Net cash used in investment activities	(75,922)	(64,515)	(26,193)	(34,275)	(123,777)
CASH FLOWS FROM FINANCING ACTIVITIES					
Settlement of interested party loans	-	-	-	-	2,304
Credit from banking institutions	66,119	(2,623)	40,317	2,109	24,822
Share issue to a minority in a subsidiary net of issue expenses	1,041	-	755	-	-
Realization of options into shares	229	497	-	339	1,313
Receipt of long term loans from a banking institution	8,000	50,000	8,000	-	50,000
Dividend paid to minority in subsidiaries	(10,352)	(10,433)	(10,352)	(10,433)	(15,070)
Receipt of loan from minority subsidiaries	-	-	-	-	600
Settlement of loans received from minority in subsidiaries	(300)	-	-	-	-
Net cash provided by (used in) financing activities	64,737	37,441	38,720	(7,985)	63,969
Translation differences due to cash balances in autonomous subsidiaries held	1,719	1,142	1,602	(1,503)	1,649
Increase (decrease) in cash and cash equivalents	95,306	23,330	56,399	12,611	(21,082)
Balance of cash and cash equivalents as at the beginning of the period	110,467	131,549	149,374	142,268	131,549
Balance of cash and cash equivalents as at the end of the period	205,773	154,879	205,773	154,879	110,467

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

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
(a) Cash flows from current activities in life assurance business					
Income from life assurance business	7,281	8,935	3,398	5,111	20,203
Items not involving cash flows:					
Increase in assurance reserves net of reinsurance	2,017	24,064	20,277	12,628	72,425
Increase (decrease) in outstanding claims net of reinsurance	584	95	(603)	146	34
Depreciation	605	443	314	198	962
Investment activities, net					
Securities	(23,799)	(20,146)	(30,074)	(9,088)	(73,840)
Deposits with banks	33,884	16	(165)	(79)	(33,956)
Loans	(844)	(246)	(454)	(222)	(1,175)
Changes in other balance sheet items, net:					
Insurance companies, deposits and other accounts	(3,294)	(1,428)	(5,373)	(2,437)	915
Outstanding premiums	(506)	(155)	(294)	65	(666)
Debtors and receivables	(42)	(8)	(33)	(87)	89
Creditors and payables	6,900	(887)	7,122	(646)	(95)
Net cash provided by (used in) current activities in life assurance business	<u>22,786</u>	<u>10,683</u>	<u>(5,885)</u>	<u>5,589</u>	<u>(15,104)</u>

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

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Three months ended		Year ended
	June 30		June 30		December
	2007	2006	2007	2006	31
	Unaudited				2006
Reported NIS in thousands					Audited
(b) Cash flows from current activities in general insurance business					
Income from general insurance business	49,176	58,873	25,205	36,705	131,160
Items not involving cash flows:					
Increase in insurance reserve net of reinsurance	33,917	14,700	10,843	1,031	24,666
Increase in outstanding claims net of reinsurance	14,476	10,369	13,334	10,370	15,763
Decrease (increase) in deferred acquisition costs	(6,321)	138	(2,921)	2,095	(5,578)
Depreciation	4,234	3,015	2,195	1,042	6,583
Investment activities, net:					
Securities	92,158	888	53,951	28,867	(51,105)
Deposits with banks	(31,111)	4,954	(267)	(2,100)	73,907
Changes in other balance sheet items, net:					
Insurance companies	8,200	(6,682)	7,645	1,496	(7,009)
Outstanding premium	(22,483)	2,261	(11,499)	771	(62,701)
Debtors and receivables	(6,078)	604	(2,645)	1,880	3,724
Creditors and payables	(27,192)	(5,378)	(6,152)	2,391	20,673
Net cash provided by current activities in general insurance business	<u>108,976</u>	<u>83,742</u>	<u>89,689</u>	<u>84,548</u>	<u>150,083</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
(c) Cash flows from other current activities					
Net income for the period	8,142	1,351	(15,265)	648	2,045
Income from insurance business	(56,457)	(67,808)	(28,603)	(41,816)	(151,363)
	(48,315)	(66,457)	(43,868)	(41,168)	(149,318)
Items not involving cash flows:					
Erosion of subordinated deeds	3,411	5,984	3,306	4,497	4,373
Deferred taxes	745	3,024	4,424	3,944	3,278
Minority's share in profits of subsidiaries	15,923	7,397	3,290	4,149	17,923
Capital gain	(425)	(224)	(303)	(291)	(1,041)
Erosion of loans received from minority in subsidiaries	10	-	2	-	18
Negative initial difference created upon acquisition	-	(812)	-	(812)	(812)
Depreciation and amortization	9,656	6,045	3,605	6,045	13,430
Company's share in losses (profits) of an affiliate	(747)	2,976	(714)	1,108	(147)
Cost of share based payments	3,915	3,994	1,737	1,997	10,308
Increase in deferred acquisition costs	(1,602)	(4,571)	(452)	(2,367)	(8,558)
Erosion of long term liabilities to banking institutions	-	435	-	435	-
Changes in other balance sheet items, net:					
Decrease (increase) in debtors and receivables	(5,882)	6,228	(6,164)	(1,388)	(280)
Increase (decrease) in creditors and payables, net	(3,679)	(9,182)	(6,396)	(7,272)	12,924
Net cash (used in) other current activities	(26,990)	(45,163)	(41,533)	(31,123)	(97,902)
(d) Acquisition of subsidiary proportionally consolidated in the past					
Working capital (not including cash and cash equivalents)	-	199	-	199	199
Fixed assets, net	-	(1,309)	-	(1,309)	(1,309)
Negative initial difference	-	812	-	812	812
Minority interest	-	812	-	812	812
	-	514	-	514	514
(e) Acquisition of a subsidiary consolidated for the first time					
Working capital (not including cash and cash equivalents)	-	-	-	-	(1,886)
Fixed assets, net	-	-	-	-	(417)
Initial difference created upon acquisition	-	-	-	-	(2,808)
Outstanding premium	-	-	-	-	(5)
Insurance reserves net of reinsurance	-	-	-	-	16
Outstanding claims net of reinsurance insurance companies	-	-	-	-	625
	-	-	-	-	74
	-	-	-	-	(4,401)
(f) Activities not involving cash flows					
Dividend to minority that was declared and not yet paid	-	-	(10,352)	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1:- GENERAL

The interim financial statements have been prepared in accordance with accountings, reporting and presentation principles prescribed by the Supervision of Insurance Business Regulations (Financial Statements Details), 1998, and in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board, in accordance with the Securities Regulations (Periodical and Immediate Financial Statements), 1970, insofar as these regulations are applicable to insurance companies.

These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2006 and for the year then ended (hereunder – the annual financial statements).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The accounting principles have been applied in the interim financial statements consistently with the annual financial statements except as detailed in b below.
- b. Initial adoption of the new Accounting Standards and the Regulator of Insurance's Circulars

1. With respect to the reserve for extraordinary risks in life assurance, see Note 5 below.
2. Accounting Standard No. 16 - Investment Property

From January 1, 2007, the Company implements the provisions of Accounting Standard No. 16, Investment Property (hereunder - the Standard) of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment and the disclosure requirements for investment property.

An investment property is defined as property (land or a building or part of a building or both) held (by the owner or by the lessee under a financial lease) to earn rentals or for capital appreciation (or both) and not for use in manufacture or the supply of goods or services or for administrative purposes or sale during the ordinary course of business.

The initial implementation of the Standard had no affect on the interim financial statements.

3. Accounting Standard No. 23 - Accounting Treatment of Transactions between an Entity and the Controlling Shareholder Therein

From January 1, 2007 the Company implements Accounting Standard No. 23 (hereunder - the Standard) which prescribes the Accounting Treatment of Transactions between an Entity and the Controlling Shareholder Therein". The Standard is applicable, among others, to transactions involving the transfer of assets, the assumption of liabilities, indemnification or waiver and the granting of loans between a company and its controlling shareholder and between companies under common control that occur subsequent to January 1, 2007 as well as to a loan granted or received from the controlling shareholder prior to January 1, 2007.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Initial adoption of the new Accounting Standards and the Regulator of Insurance's Circulars (Cont.)

3. Accounting Standard No. 23 - Accounting Treatment of Transactions between an Entity and the Controlling Shareholder Therein (Cont.)

The Standard is not applicable to business combinations of companies under common control. According to the Securities Authority's decision, as of January 1, 2007, business combinations of entities controlled by the same shareholder will be treated as pooling of interests and not using the fair value model. In cases of transactions that have the characteristics of shareholders' investments, the Standard may also apply to transactions with shareholders in their capacity as shareholders.

The initial adoption of the Standard had no effect on the interim financial statements.

4. Accounting Standards No. 27 - Fixed Assets and No. 28 - Amendment to the Transition Provisions of Accounting Standard No. 27, Fixed Assets

From January 1, 2007, the Company implements the provisions of Accounting Standards No. 27, Fixed Assets and No. 28, Amendment to the Transition Provisions of Accounting Standard No. 27, Fixed Assets of the Israel Accounting Standards Board (hereunder – the Standards) regarding the accounting treatment of fixed assets in the financial statements.

The initial adoption of the Standards had no effect on the interim financial statements.

5. Accounting Standard No. 30 - Intangible Assets

From January 1, 2007, the Company implemented the provisions of Accounting Standard No. 30, Intangible Assets (hereunder – the Standard) of the Israel Accounting Standards Board that prescribes the accounting treatment, recognition, measurement and the disclosure requirements regarding intangible assets that are not dealt with in another standard.

As a result of the initial adoption of the directives of the Standard, the Company and the subsidiaries have reclassified computer software that is not an integral part of the related computer hardware whose depreciated cost as at June 30, 2006 is NIS 13,475 thousand and in the amount of NIS 25,458 thousand as of December 31, 2006, from "fixed assets" to "other assets".

c. Disclosure of the effect of a new Accounting Standard in the period prior to its adoption:

Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS)

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (hereunder - "the Standard").

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- c. Disclosure of the effect of a new Accounting Standard in the period prior to its adoption:

Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS) (Cont.)

International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

- a) International Financial Reporting Standards (IFRS)
- b) International Accounting Standards (IAS)
- c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006. The company will prepare its financial statements in accordance with IFRS Standards beginning from the periods beginning on January 1, 2008.

For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

A company that adopts IFRS commencing from January 1, 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 (hereunder - "Opening IFRS Balance Sheet"). The Opening IFRS Balance Sheet will require the following:

- Recognition of all assets and liabilities whose recognition is required by IFRS.
- De-recognition of assets and liabilities if IFRS do not permit such recognition.
- Classification of assets, liabilities and components of equity according to IFRS.
- Application of IFRS in the measurement of all recognized assets and liabilities.

In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3:- DETAILS OF THE RATES OF CHANGE IN THE CPI AND FOREIGN CURRENCY REPRESENTATIVE EXCHANGE RATES

	Israeli CPI		Representative exchange rate				
	Index for the month	Known	U.S. dollars	Polish Zolty	Euro	Russian ruble	Czech koruna
	%	%	%	%	%	%	%
Six months ended as at:							
June 30, 2007	1.0	0.3	0.6	5.3	2.7	2.8	(1.0)
June 30, 2006	1.5	1.3	(3.5)	(2.2)	3.6	3.6	5.4
Three months ended as at:							
June 30, 2007	1.2	0.7	2.3	6.5	3.2	3.0	0.8
June 30, 2006	1.0	1.2	(4.8)	(4.3)	(0.3)	(1.9)	(0.2)
Year ended as at							
December 31, 2006	(0.1)	(0.3)	(8.2)	3.0	2.2	0.3	7.9

NOTE 4:- INSURANCE SUBSIDIARIES COMPLIANCE WITH CAPITAL REQUIREMENTS

- a. Hereunder is information regarding the equity of the insurance subsidiary, Direct I.D.I. Insurance Company Ltd. as per the Supervision of Financial Services (Insurance) Regulations (Minimum Solvency Margin Required from an Insurer), 1998 as amended in the year 2004 - (hereunder - Capital Regulations):

	<u>June 30, 2007</u>	
	<u>NIS in thousands</u>	
Minimum solvency margin:		
Amount required as per regulations	(1)	211,240
Amount calculated as per regulations	(2)	363,180
Surplus	(3)	151,940
Primary capital:		
Minimum solvency margin as per regulations		74,856
Amount calculated as per regulations		242,120
Surplus		167,264

- (1) The amount required includes unallowable assets in respect of amount at risk on retention in the event of death in life assurance in the amount of NIS 39,510 thousand (see Note 5 below).
- (2) The amount includes subordinated deeds in the amount of NIS 121,060 thousand which constitute subordinated capital in relation to Capital Regulations.
- (3) After the balance sheet date the Board of Directors of the insurance subsidiary decided to distribute a dividend in the amount of NIS 28,000 thousand.
- b. As at June 30, 2007 the insurance subsidiaries operating abroad, comply with the equity requirements prescribed by the Supervision Authorities wherever they are situated.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: CANCELLATION OF EXTRAORDINARY RISKS RESERVE IN LIFE ASSURANCE

In March 2004, the International Accounting Standards Board published an International Accounting Standard regarding "Insurance Contracts" (IFRS 4). The directives of this Standard prescribe that the provision for extraordinary risks does not comply with the Standard's directives and therefore it should be eliminated. Taking this into account and in view of the necessity to classify the reserve for extraordinary risks in life assurance in the financial statements of insurance companies in Israel as shareholders' equity, a Temporary Provision was published in the framework of the States Capital Market Regularization Law (Legislation Amendments to Achieve the Targets of the Budget and Financial Policy for the Year 2007), 2007, which grants a tax exemption with respect to the classification of the reserve for extraordinary risks as shareholders' equity, at the rate of up to 0.17% of the amount at risk that the insurer holds.

In February 2007, the Regulator published a circular whereby commencing from the first quarter of 2007, the provision for the reserve for extraordinary risks in life assurance will be cancelled in the financial statements of insurance companies.

According to the aforementioned circular, the cancellation of the provision will be allocated to the statement of profit and loss as an extraordinary item, net of the effect of income taxes, if any.

At the same time, a capital requirement was defined at the rate of 0.17% of the amount on retention at risk, see Note 4 above. In addition, it was determined that the minimum capital requirement in respect of the amount at risk will not be deducted from the requirement on the date of transfer.

As at December 31, 2006, the consolidated insurance company in Israel has an extraordinary risks reserve in the amount of about NIS 36 million, which constitutes about 0.17% of the amount at risk on retention.

As a result of the above Regularizations, in the first quarter of the year 2007 the subsidiary reported a profit, net of tax in the amount of about NIS 36 million. The Company recorded a profit, net of tax, after deduction of the minority share in the amount of about NIS 28 million.

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - INFORMATION REGARDING GEOGRAPHIC SEGMENTS

Hereunder is information regarding geographic segments

	Six months ended as at June 30, 2007					Total
	Israel	Poland	Czech	Russia	Adjustments	
	Unaudited					
	Reported NIS in thousands					
Income from premiums	385,169	156,033	291	5	-	541,498
Other income	25,828	-	-	-	-	25,828
Intercompany income	1,113	-	-	-	(1,113)	-
Total	412,110	156,033	291	5	(1,113)	567,326
Segment results	<u>56,614</u>	<u>6,525</u>	<u>(21,643)</u>	<u>(10,333)</u>		31,163
Administrative and general expenses and financing expenses, net, not attributed to the geographic segments						(18,808)
Capital gain, net						441
Income before taxes on income						<u>12,796</u>

	Six months ended as at June 30, 2006					Total
	Israel	Poland	Czech	Russia	Adjustments	
	Unaudited					
	Reported NIS in thousands					
Income from premiums	361,865	122,225	-	-	-	484,090
Other income	8,527	-	-	-	-	8,527
Intercompany income	1,115	-	-	-	(1,115)	-
Total	371,507	122,225	-	-	(1,115)	492,617
Segment results	<u>54,910</u>	<u>(4,518)</u>	<u>(2,839)</u>	<u>(2,072)</u>		45,481
Administrative and general expenses and financing expenses, net, not attributed to the geographic segments						(13,563)
Income before taxes on income						<u>31,918</u>

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - INFORMATION REGARDING GEOGRAPHIC SEGMENTS (Cont.)

Hereunder is information regarding geographic segments (Cont.)

	Three months ended as at June 30, 2007					
	Israel	Poland	Czech	Russia	Adjustments	Total
	Unaudited					
	Reported NIS in thousands					
Income from premiums	187,113	83,438	291	5	-	270,847
Other income	17,564	-	-	-	-	17,564
Intercompany income	537	-	-	-	(537)	-
Total	205,214	83,438	291	5	(537)	288,411
Segment results	29,077	3,981	(15,520)	(6,043)		11,495
Administrative and general expenses and financing expenses, net, not attributed to the geographic segments						(10,351)
Capital gain, net						436
Income before taxes on income						1,580

	Three months ended as at June 30, 2006					
	Israel	Poland	Czech	Russia	Adjustments	Total
	Unaudited					
	Reported NIS in thousands					
Income from premiums	173,363	65,448	-	-	-	238,811
Other income	6,282	-	-	-	-	6,282
Intercompany income	508	-	-	-	(508)	-
Total	180,153	65,448	-	-	(508)	245,093
Segment results	32,438	(1,265)	(2,256)	(1,092)		27,825
Administrative and general expenses and financing expenses, net, not attributed to the geographic segments						(8,578)
Income before taxes on income						19,247

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - INFORMATION REGARDING GEOGRAPHIC SEGMENTS (Cont.)

Hereunder is information regarding geographic segments (Cont.)

	Year ended as at December 31, 2006					Total
	Israel	Poland	Czech	Russia	Adjustments	
	Audited					
	Reported NIS in thousands					
Income from premiums	730,183	253,665	-	-	-	983,848
Other income	19,028	-	-	-	-	19,028
Intercompany income	2,280	-	-	-	(2,280)	-
Total	751,491	253,665	-	-	(2,280)	1,002,876
Segment results	143,972	(2,159)	(12,629)	(6,228)		122,956
Administrative and general expenses and financing expenses, net, not attributed to the geographic segments						(34,223)
Capital gain, net						686
Income before taxes on income						89,419

NOTE 7:- REALIZATION AND INCREASE IN THE COMPANY'S CAPITAL

a. Realization of options

During the reporting period 33,000 options were realized into 33,000 shares of NIS 1 nominal value each.

b. Increase in the Company's capital

In March 2007 the Company's recorded capital increased by 10,000 shares of NIS 1 nominal value each. After the change the Company's total registered capital amounts to 75,000 shares of NIS 1 nominal value.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8:- REQUESTS TO APPROVE CLAIMS AS CLASS ACTIONS

- a. On February 27, 2007, a financial claim was filed with the Tel-Aviv-Jaffa District Court together with a request to approve the claim as a class action against an insurance subsidiary in Israel and against other insurance companies, together with a request to approve the claim as a class action. The claimant contends that when there is an insurance event of an auto theft in the motor casco line, the policyholder is not reimbursed for the relative premium charged from him in respect of additional policy coverage. The claimant estimated the amount of the class action at about NIS 6.5 million. The subsidiary filed its response to the claim on May 20, 2007. According to the subsidiary the claim will be dismissed due the claimant's lack of cause and due to the fact that the claim does not comply with the legal provisions with respect to an approval of a claim as a class action. In the opinion of the subsidiary and its legal advisors, the probability that the defense arguments will be approved is higher than the probability that the claimant's arguments will be approved. Therefore, no provision was included in the financial statements in respect of this claim.

- b. On August 7, 2007, a financial claim was filed with the Tel-Aviv-Jaffa District Court against an insurance subsidiary in Israel, together with a request to approve the claim as a class action. The claimant contends that when there is an insurance event in the motor casco line, and since before the insurance agreement was signed the claimant did not receive information regarding the manner of payment of insurance benefits, and according to the claimant the insurance benefits should be calculated differently by the insurance subsidiary and he should receive higher insurance benefits. The class action is submitted on behalf of all the policyholders of the insurance subsidiary as from January 1, 2001 and up to the day of its submission who purchased insurance in the motor casco line and during the period of insurance there was an insurance event whereby the vehicle was declared as a theoretical loss or as a total loss and the insurance subsidiary has an insurance liability towards those policyholders. The claim is in the amount of about NIS 7 thousand and the request to approve the claim as a class action is in the amount of about NIS 110 million.

Due to the preliminary stage of the claim, and based on the opinion of its legal advisors, the insurance subsidiary is not able to estimate the implications of the claim.

NOTE 9 - ISSUE OF SUBSIDIARY SHARES TO A THIRD PARTY

1. On 6 June 2007, after approvals were received from the Company's Audit Committee and its Board of Directors on the aforementioned date, the Company and its wholly owned subsidiary, GDII – Global Direct Insurance Investments B.V. ("GDI"), signed an agreement with Royal & Sun Alliance Insurance Group plc ("R&SA or the "Investor"), a company traded on the London Stock Exchange (hereunder - the "Agreement" or the "Investment Agreement"), according to which, subject to the fulfillment of suspending conditions, R&SA will receive an allotment of GDI shares which, after such issue, will constitute 50% of the GDI shares, so that after the allotment the Company and R&SA will hold GDI shares in equal parts. The purpose of the aforesaid transaction is to turn GDI into a joint entrepreneur between the Company and R&SA to be held by them in equal parts. On August 28, 2007, the agreement was approved by the Company's general meeting of the shareholders and by the general meeting of the shareholders of Zur Shamir Holdings Ltd..

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - ISSUE OF SUBSIDIARY SHARES TO A THIRD PARTY (Cont.)

2. In consideration for the issue of the shares, R&SA will invest the sum of U.S. \$ 170 million in GDI ("the investment amount"), of which U.S. \$ 120 million will be paid at completion of the transaction (which will be performed after the fulfillment of the suspending conditions), whereas the balance will be paid in 4 installments up to June 30, 2010 ("date of final payment"). According to the investment agreement it was agreed that on the date the transaction is completed and/or right before it is completed, GDI will pay back to the Company part of the capital that the Company invested in GDI, as well as all the owners' loans that were granted to GDI by the Company and any other owners' loans, insofar as it receives from the Company up to the date of completion of the transaction (the "owners' loans") (as at June 30, 2007, the relevant capital refund and all the owners' loans that will be returned to the Company amount to about €33 million).
3. The agreement between the parties also includes a number of additional agreements, which any of the Company, GDI or the sub-subsidiary (owned wholly by GDI) Link 4 Towarzystwo Ubezpieczen Spolka Akcyjna (hereunder - "Link4") entered and/or will enter into at the time of completion of the transaction, according to the version that was agreed upon, as follows: (a) a loan agreement between the Company and GDI regarding an interest free loan in a total amount of U.S. dollars 33 million to be provided by GDI to the Company on the date of completion of the transaction, which is to be repaid in 3 installments by the date of final payment; (b) shareholders agreement which settles the relationship between the Company and the Investor, among others, their joint holdings and control in the GDI and the manner in which its activities will be managed, the areas in which it shall work and the territories in which it shall operate; (c) a service agreement regarding services to be provided by the Investor and the Company to GDI, whether general services or by providing officers on behalf of any party ("Services Agreement"), and whereby it was determined, among others, that: (1) in consideration for the general services GDI shall pay amounts that increase annually, up to a sum of U.S. dollars 1,000,000 per annum to each one of the Investor and the Company; (2) part of the services to be provided to GDI shall be through its office holders (including Mr. Doron Schneidman who serves as the Company's Managing Director and Chairman of the Board of Directors); (3) for the services by the officeholders that each one of the Investor and the parent company shall provide to GDI (including services to be provided by the Company through Mr. Doron Schneidman) GDI shall pay directly to the Investor or the Company, as the case may be, additional consideration as follows: for the services of Doron Schneidman GDI will pay the Company a total of U.S. dollars 1,000,000 per annum, and for the services of the other officeholders as aforesaid, GDI will pay the relevant party the cost of their employment by the relevant party plus 10% ("Cost + 10%"); (d) the loan agreements between GDI and the Company's officeholders (excluding Mr. Doron Schneidman) through whom the Company will provide some of the services to GDI; (e) an agreement with Mr. Doron Schneidman regarding his undertaking to serve as CEO of GDI for a period of 18 months from the time of completion of the transaction, at an employment of approximately 80% and not to compete with GDI during the period and under the terms that were set in the said agreement; (f) an agreement regarding the computer program used by GDI and its subsidiaries; (g) a side letter between the parties to the investment agreement, signed concurrently with the investment agreement, relating to the possible further capital investments of up to Euros 1 million that could be made by the Company in GDI; the said monies were invested in GDI on June 28, 2007; and the mechanisms that were prescribed in the investment agreement regarding the refund of part of the capital that was invested by the Company in GDI, will also be applicable regarding this investment. (h) agreements for acquisition of options in Link4 (and/or shares resulting from the realization thereof) which were granted to its employees and officeholders, including Messrs. Moshe Schneidman and Doron Schneidman for consideration in cash, based on a valuation price of 3.84 Polish Zlotys per share of Link4 according to a valuation carried by an independent appraiser. The options (or shares) shall be purchased for the said price after deduction (or in the event of acquisition of the shares after the payment) of the exercise price of the options. In this regard it was agreed to make the necessary amendments in the options plan.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - ISSUE OF SUBSIDIARY SHARES TO A THIRD PARTY (Cont.)

4. The agreement is subject to the fulfillment of suspending conditions as specified in the Investment Agreement by December 31, 2007 ("the Determining Date") (or by a later time for completion of the transaction if and insofar as agreed between the parties), including compliance with statutory requirements, and an agreement with the European Bank for Reconstruction and Development (hereunder - "EBRD") for the amendment of the set of agreements with EBRD regarding EBRD's investment in the Russian sub-subsidiary Joint Stock Insurance Company Energopolis.
5. After the balance sheet date R&SA requested from the Company to allow it to assign all its rights and liabilities to Royal & Sun Alliance Insurance PIC which is wholly owned and controlled by R&SA in accordance with the investment agreement in GDI and R&SA will continue to be the guarantor for all its subsidiary's commitments according to the investment agreement after its assignment, as mentioned above.

The parties exchanged agreement drafts regarding the said assignment and R&SA's guarantee which also includes a reference to necessary changes in the agreements and the documents under the agreement, as required according to the assignment.

6. The Company estimates that subject to the parties signing the said binding agreements, as mentioned above, and subject to the completion of the transaction, the Company will have capital gain in the amount of about NIS 350 million, which will be spread according to the capital flow to GDI so that NIS 250 million will be recognized at the date of payment upon completion of the transaction. This information is future forecasting information and the capital gain that will actually be created may be different, among others, due to accounting aspects and it also depends if the terms of the transaction will change under the binding agreements.

NOTE 10 - AUTO INSURANCE BUSINESS IN THE CZECH REPUBLIC

On April 24, 2007 the Central Bank of the Czech Republic (The Czech National Bank) announced its decision to grant the Czech company Direct Pojistovna, a.s. ("The Czech Company") a subsidiary wholly owned by GDI, a license to be an insurer in the Czech Republic, in the lines of auto insurance, and property loss as well as in additional general insurance lines.

On May 21, 2007, the Czech company launched its insurance activities in Czech Republic and began to sell third party policies to individuals.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - EVENTS AFTER THE BALANCE SHEET DATE

- a. Agreement for the sale of the Company's shares in Idit I.D.I. Technologies Ltd. (hereunder - Idit):

On July 19, 2007 the Company signed an agreement for the sale of its shares in Idit to Formula Vision Technologies Ltd. Up to the date of the sale the Company held 32.6% of Idit shares.

In consideration for the shares all the Company's liabilities towards Idit and towards Formula will be cancelled and thus the Company will be released from the guarantees that it granted to third parties. In addition, the license for use of Idit's software by the Company and companies related to it will be amended and it will be prescribed that it will be granted free of charge. It was also determined that if Formula sells its shares in Idit within 18 months from the date of completion of the transaction, Formula will pay the Company a certain percent of the consideration (above a certain rate that was determined) that will be derived from the said sale, in accordance with the conditions stipulated in the agreement. The agreement also sets limitations regarding confidentiality and non-competition. The agreement was completed on August 7, 2007. Following the sale, the Company is expected to record a capital gain in the amount of about NIS 4 million.

- b. Allotment of options to employees

On June 21, 2007, the Board of Directors of Direct I.D.I. Insurance Company Ltd. (hereunder – the insurance company) approved to allot 1,355,000 options, and from these options it was decided to grant, on July 15, 2007 to 68 employees of the insurance company (including an officeholder in the insurance company who is not a director) 1,330,000 options realizable into 1,330,000 ordinary shares of NIS 1 par value each of the Insurance Company. The options will be allocated to a trustee pursuant to Section 102 of the Income Tax Ordinance (at a capital gain option).

The allotments performed on July 15, 2007 were at no consideration, in the framework of a program for distribution of benefits to employees, consultants, service providers and directors that the Company adopted on November 30, 2004 (hereunder – “the program”). The program includes vesting conditions whereby, the rights to realize the options will be granted to the offerees, in such a manner that 20% will be granted from the date of grant, 20% will be granted after one year, 30% will be granted after two years and an additional 30% after three years, on condition that the relevant offeree will be employed by the Company during the vesting period. The options are realizable for the period of up to the end of 5 years from the date of grant. The realization price of each option will be in the amount of NIS 8.138, linked to the CPI, beginning from the known index as at the date of grant and up to the known index as at the date of the realization.

The estimate of the calculated fair value of the proposed options according to “Black and Scholes” model, as at June 21, 2007, is NIS 0.46 for each proposed option. The options are not listed for trade on the stock exchange. The parameters according to which the fair value is calculated as at June 21, 2007 is as follows: share rate of 820.5 points, realization price of NIS 8.88 per option, annual capitalization rate between 2.32% to 2.62%, the period of the proposed option is 5 years, and the annual standard deviation is between 28.83% to 29.47%.

As a result of the above grant, the Company's share in the insurance company decreased in full dilution from 75.55% to 75.28%.

SCHEDULE A - DETAILS OF ASSETS AND LIABILITIES OF AN INSURANCE SUBSIDIARY REGISTERED IN ISRAEL

Part A - Distribution of Assets Earmarked to Liabilities

	As at June 30, 2007							
	Total assets and receivables	Life assurance			General insurance	Minimum capital	Surplus capital	Other liabilities
		Linked to the CPI	Policies participatin in profits	Total life assurance				
Reported NIS in thousands								
Investments								
Cash and cash equivalents	95,080	127	12,927	13,054	74,154	94	-	7,778
Securities								
Quoted government debentures in Israel	415,139	18,500	112,446	130,946	92,101	37,524	131,118	23,450
Other quoted debentures:								
In Israel	170,549	-	9,665	9,665	884	55,000	-	105,000
Abroad	41,581	-	7,145	7,145	34,436	-	-	-
Other unquoted debentures:								
in Israel	330,382	-	28,408	28,408	300,974	1,000	-	-
Quoted shares:								
In Israel	77,601	-	13,052	13,052	64,549	-	-	-
Abroad	31,285	-	1,495	1,495	9,790	-	20,000	-
Mutual funds	3,409	-	-	-	-	3,409	-	-
Investment funds	17,857	-	2,075	2,075	-	15,782	-	-
Quoted options	883	-	61	61	-	-	822	-
Loans:								
Secured by life assurance policy	3,905	3,905	-	3,905	-	-	-	-
Secured by mortgage	916	-	-	-	-	916	-	-
Secured by other guarantees	15,275	-	-	-	-	15,275	-	-
Deposits with banks	198,805	-	4,700	4,700	194,105	-	-	-
Fixed assets, net	24,927	-	-	-	-	24,927	-	-
Amounts receivable								
Insurance companies:								
Reinsurers' share in insurance reserves	6,922	2,052	-	2,052	4,870	-	-	-
Reinsurers' share in outstanding claims	129,360	2,973	-	2,973	126,387	-	-	-
Other accounts	46,858	-	-	-	46,858	-	-	-
Outstanding premiums	217,327	1,879	-	1,879	215,448	-	-	-
Debtors and receivables	22,358	42	-	42	14,804	2,219	-	5,293
Deferred acquisition costs and other assets								
Deferred acquisition costs in life assurance	52,301	-	-	-	-	52,301	-	-
Deferred acquisition costs in general insurance	44,547	-	-	-	44,547	-	-	-
Deferred acquisition costs in health insurance	2,793	-	-	-	-	2,793	-	-
Other assets	16,267	-	-	-	-	-	-	16,267
Deferred taxes	4,444	-	-	-	-	-	-	4,444
Total assets and receivables	1,970,771	29,478	191,974	221,452	1,223,907	211,240	151,940	162,232
Total capital and liabilities (according to part B)	1,970,771	35,941	191,974	227,915	1,217,444	211,240	151,940	162,232
Surplus	-	(6,463)	-	(6,463)	6,463	-	-	-

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

SCHEDULE A - DETAILS OF ASSETS AND LIABILITIES OF AN INSURANCE SUBSIDIARY REGISTERED IN ISRAEL (CONT.)

Part B - Details of Capital and Liabilities according to type

	As at June 30, 2007							
	Total capital and liabilities	Life assurance			General insurance	Minimum capital	Surplus capital	Other liabilities
		Linked to the CPI	Policies participating in profits	Total life assurance				
Reported NIS in thousands								
Shareholders' equity	242,120	-	-	-	-	211,240	30,880	-
Minority interest	1,515	-	-	-	-	-	-	1,515
Deferred taxes	10,381	-	-	-	-	-	-	10,381
Subordinated deeds	204,659	-	-	-	-	-	121,060	83,599
Insurance reserves	494,885	11,782	191,974	203,756	291,129	-	-	-
Outstanding claims	858,575	7,995	-	7,995	850,580	-	-	-
Other liabilities								
Insurance companies:								
Deposits	4,601	-	-	-	4,601	-	-	-
Other accounts	8,538	6,976	-	6,976	1,562	-	-	-
Current maturities of subordinated deeds	52,636	-	-	-	-	-	-	52,636
Creditors and payables:								
Prepaid premiums	10,532	533	-	533	9,999	-	-	-
Policyholders	19,410	1,636	-	1,636	17,774	-	-	-
Others	62,919	7,019	-	7,019	41,799	-	-	14,101
Total capital and liabilities	<u>1,970,771</u>	<u>35,941</u>	<u>191,974</u>	<u>227,915</u>	<u>1,217,444</u>	<u>211,240</u>	<u>151,940</u>	<u>162,232</u>

Comments

The assets held for coverage and liabilities in life assurance in accordance to item 54 of the Supervision of Financial Services (Insurance), 1981, are included in the details of assets and liabilities based on the separate accounting system managed in accordance with the Supervision of Insurance Business Regulations (Mode of Separation of Accounts and Assets of an Insurer in Life Assurance), 1984.

The assets held to cover liabilities in general insurance, other liabilities and those dependent on the statement are prepared in accordance with the Supervision of Insurance Business Regulations (Ways of Investment of Capital and Reserves of an Insurer and Management of its Liabilities), 2000, and the amendments thereto.

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

Schedule B – Consolidated General Insurance Business Results according to main Insurance Lines of Business

	For the six month period ended June 30, 2007											
	Insurance activities in Israel						Insurance activities abroad					
	Property			Liabilities		Health	Total general insurance business results in Israel	Poland	Czech	Russia	Total insurance business abroad	Total
	Motor Casco	Comprehensive residential	Comprehensive business	Motor act	Others	Illness and hospitalization						
Unaudited												
Reported NIS in thousands												
Premiums	174,163	34,191	1,536	109,047	1,302	3,624	323,863	156,033	291	5	156,329	480,192
Less reinsurance	388	8,499	64	8,213	112	539	17,815	1,787	16	-	1,803	19,618
	173,775	25,692	1,472	100,834	1,190	3,085	306,048	154,246	275	5	154,526	460,574
Change in reserve for unexpired risks net of reinsurance	(8,529)	(513)	(72)	(2,851)	(101)	-	(12,066)	(20,506)	(267)	11	(20,762)	(32,828)
Insurance premiums earned	165,246	25,179	1,400	97,983	1,089	3,085	293,982	133,740	8	16	133,764	427,746
Investment income	8,649	1,353	109	25,367	235	16	35,729	4,531	-	20	4,551	40,280
Total income for the year	173,895	26,532	1,509	123,350	1,324	3,101	329,711	138,271	8	36	138,315	468,026
Claims paid and outstanding	115,301	21,739	1,521	63,189	492	1,062	203,304	78,793	250	(173)	78,870	282,174
Less reinsurance	(53)	4,211	10	406	130	143	4,847	-	-	-	-	4,847
Total claims for the year	115,354	17,528	1,511	62,783	362	919	198,457	78,793	250	(173)	78,870	277,327
Excess of income over claims for the year	58,541	9,004	(2)	60,567	962	2,182	131,254	59,478	(242)	209	59,445	190,699
Selling, administrative and general expenses	44,195	8,471	422	29,879	351	1,485	84,803	58,019	6,383	626	65,028	149,831
Commission from reinsurance	-	(1,983)	(17)	-	-	(13)	(2,013)	-	-	-	-	2,013
	44,195	6,488	405	29,879	351	1,472	82,790	58,019	6,383	626	65,028	147,818
Change in deferred acquisition costs	(1,579)	(95)	(13)	(285)	(19)	(169)	(2,160)	(4,135)	-	-	(4,135)	(6,295)
Total expenses for the year, net	42,616	6,393	392	29,594	332	1,303	80,630	53,884	6,383	626	60,893	141,523
Profit (loss) from general insurance business	15,925	2,611	(394)	30,973	630	879	50,624	5,594	(6,625)	(417)	(1,448)	49,176

Schedule B – Consolidated General Insurance Business Results according to main Insurance Lines of Business (Cont.)

	For the six month period ended June 30, 2006								
	Insurance activities in Israel						Total general insurance business results in Israel	Insurance activities in Poland	Total
	Property		Liabilities		Health				
	Motor Casco	Comprehensive residential	Comprehensive business	Motor act	Others	Illness and hospitalization	Unaudited		
	Reported NIS in thousands								
Premiums	163,715	33,662	1,940	106,714	1,381	2,758	310,170	122,225	432,395
Less reinsurance	417	8,247	106	8,243	103	374	17,490	1,985	19,475
	163,298	25,415	1,834	98,471	1,278	2,384	292,680	120,240	412,920
Change in reserve for unexpired risks net of reinsurance	3,373	(1,726)	(342)	6,967	(205)	-	8,067	(23,885)	(15,818)
Insurance premiums earned	166,671	23,689	1,492	105,438	1,073	2,384	300,747	96,355	397,102
Investment income	5,826	898	92	16,015	124	(3)	22,952	2,424	25,376
Total income for the year	172,497	24,587	1,584	121,453	1,197	2,381	323,699	98,779	422,478
Claims paid and outstanding	107,862	13,058	1,028	59,633	952	784	183,317	56,066	239,383
Less reinsurance	(106)	2,622	138	4,643	-	48	7,345	-	7,345
Total claims for the year	107,968	10,436	890	54,990	952	736	175,972	56,066	232,038
Excess of income over claims for the year	64,529	14,151	694	66,463	245	1,645	147,727	42,713	190,440
Selling, administrative and general expenses	44,467	8,679	527	29,274	386	1,487	84,820	49,303	134,123
Commission from reinsurance	-	(1,832)	(25)	-	-	(219)	(2,076)	-	(2,076)
Commission from co-reinsurance	-	478	-	-	-	-	478	-	478
	44,467	7,325	502	29,274	386	1,268	83,222	49,303	132,525
Change in deferred acquisition costs	622	(319)	(63)	698	(38)	(579)	321	(1,279)	(958)
Total expenses for the year, net	45,089	7,006	439	29,972	348	689	83,543	48,024	131,567
Profit (loss) from general insurance business	19,440	7,145	255	36,491	(103)	956	64,184	(5,311)	58,873

Schedule B – Consolidated General Insurance Business Results according to main Insurance Lines of Business (Cont.)

	For the year ended December 31, 2006								
	Insurance activities in Israel						Total general insurance business results in Israel	Insurance activities in Poland	Total
	Property		Liabilities		Health				
	Motor Casco	Comprehensive residential	Comprehensive business	Motor act	Others	Illness and hospitalization			
Audited									
Reported NIS in thousands									
Premiums	326,374	68,330	3,186	214,463	2,498	5,942	620,793	253,665	874,458
Less reinsurance	804	17,410	159	15,961	205	-	35,490	4,269	39,759
	325,570	50,920	3,027	198,502	2,293	5,942	585,303	249,396	834,699
Change in reserve for unexpired risks net of reinsurance	7,166	(1,779)	1	8,325	(64)	(951)	13,649	(37,941)	(24,292)
Insurance premiums earned	332,736	49,141	3,028	206,827	2,229	4,991	598,952	211,455	810,407
Investment income	10,320	1,637	151	28,138	230	15	40,491	6,185	46,676
Total income for the year	343,056	50,778	3,179	234,965	2,459	5,006	639,443	217,640	857,083
Claims paid and outstanding	210,698	28,924	1,617	127,488	1,786	1,854	372,367 *)	119,315	491,682*)
Less reinsurance	(116)	5,090	101	30,171	638	120	36,004	-	36,004
Total claims for the year	210,814	23,834	1,516	97,317	1,148	1,734	336,363	119,315	455,678
Excess of income over claims for the year	132,242	26,944	1,663	137,648	1,311	3,272	303,080	98,325	401,405
Selling, administrative and general expenses	88,417	17,364	834	60,248	717	2,685	170,265 *)	108,648	278,913*)
Commission from reinsurance	-	(3,167)	(32)	(46)	-	(430)	(3,675)	-	(3,675)
Commission from co-reinsurance	-	815	-	-	-	-	815	-	815
	88,417	15,012	802	60,202	717	2,255	167,405	108,648	276,053
Change in deferred acquisition costs	1,327	(329)	-	832	(12)	(958)	(860)	6,668	5,808
Total expenses for the year, net	89,744	14,683	802	61,034	705	1,297	168,265	101,980	270,245
Profit (loss) from general insurance business	42,498	12,261	861	76,614	606	1,975	134,815	(3,655)	131,160

*) Reclassified.
