

DIRECT INSURANCE - FINANCIAL INVESTMENTS LTD.

INTERIM FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2007

UNAUDITED

DIRECT INSURANCE - FINANCIAL INVESTMENTS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2007

UNAUDITED

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The Board of Directors
Direct Insurance - Financial Investments Ltd.

Dear Sirs,

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

At your request, we have reviewed the interim consolidated balance sheet of Direct Insurance - Financial Investments Ltd. as at September 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 nine 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 4% of total consolidated assets as of September 30, 2007, and whose revenues constitute approximately 0.1% of total consolidated revenues for the nine 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 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 as 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
November 29, 2007

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

CONSOLIDATED BALANCE SHEETS

	<u>September 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>		
INVESTMENTS			
Cash and cash equivalents	355,799	167,489	110,467
Securities	1,088,217	1,271,087	1,332,593
Loans and deposits:			
Loans	54,628	6,717	7,050
Deposits with banks	205,471	213,654	203,107
	260,099	220,371	210,157
Other companies	943	943	943
Total investments	1,705,058	1,659,890	1,654,160
FIXED ASSETS, NET	79,355	40,100 *)	47,807 *)
AMOUNTS RECEIVABLE			
Insurance companies:			
Reinsurers' share in insurance reserves	7,758	6,211	6,456
Reinsurers' share in outstanding claims	131,714	109,708	129,043
Other accounts	51,431	53,639	56,557
	190,903	169,558	192,056
Outstanding premiums	290,363	188,359	241,256
Other debtors and receivables	82,720	34,176	46,837
Total amounts receivable	563,986	392,093	480,149
DEFERRED ACQUISITION COSTS AND OTHER ASSETS			
Deferred acquisition costs:			
In life assurance	53,775	48,094	50,889
In general insurance	83,521	69,369	71,900
In health insurance	2,828	2,391	2,603
Total deferred acquisition costs	140,124	119,854	125,392
Other assets	129,097	91,917 *)	103,836 *)
Deferred taxes	34,162	30,295	36,690
	163,259	122,212	140,526
Total deferred acquisition costs and other assets	303,383	242,066	265,918
	2,651,782	2,334,149	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>September 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	206,463	242,370	237,897
MINORITY INTEREST	48,737	48,020	52,012
LONG TERM LIABILITY			
Deferred taxes	10,184	8,868	9,538
Long term liabilities to banking institutions	138,728	126,733	127,726
Subordinated deeds	210,993	257,311	253,884
Liability to cover an affiliate's losses	-	5,988	5,108
Total long term liabilities	359,905	398,900	396,256
INSURANCE RESERVES AND OUTSTANDING CLAIMS			
Life assurance:			
Assurance reserve	219,120	147,521	165,114
Reserve for extraordinary risks	-	20,275	36,665
Outstanding claims	9,535	7,216	7,159
Total life assurance	228,655	175,012	208,938
General insurance:			
Reserve for unexpired risks	482,915	410,821	410,504
Outstanding claims	955,666	890,391	919,374
Total general insurance	1,438,581	1,301,212	1,329,878
Total insurance reserves and outstanding claims	1,667,236	1,476,224	1,538,816
OTHER LIABILITIES			
Insurance companies:			
Deposits by reinsurers	4,570	3,448	3,795
Other accounts	9,317	10,037	13,875
	13,887	13,485	17,670
Short term credit from banking institutions	133,587	26,099	33,163
Current maturity of subordinated deeds	54,441	-	-
Creditors and payables	167,526	129,051	172,220
Total other liabilities	369,441	168,635	223,053
	<u>2,651,782</u>	<u>2,334,149</u>	<u>2,448,034</u>

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

November 29, 2007			
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

	Nine months ended September 30		Three months ended September 30		Year ended 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	11,140	14,375	3,859	5,440	20,203
Income from general insurance business statements	49,723	107,650	547	48,777	131,160
	60,863	122,025	4,406	54,217	151,363
Income (expenses) not included in the insurance business statements:					
Expenses in respect of long term liabilities	(29,546)	(22,162)	(15,506)	(8,164)	(23,044)
Investment income (loss)	15,880	15,034	(11,868)	11,505	31,184
Net expenses from asset management and stock exchange services	(12,708)	(10,456)	(6,069)	(3,322)	(14,680)
Net expenses from grant of consumer credit	(16,074)	-	(7,621)	-	-
Activity initiation and establishment expenses	(38,893)	(10,008)	(8,568)	(3,220)	(27,669)
Administrative and general expenses	(22,931)	(21,439)	(10,538)	(9,940)	(28,421)
Capital gain (loss), net	4,793	(534)	4,352	(534)	686
Profit (loss) before income taxes	(38,616)	72,460	(51,412)	40,542	89,419
Provision for income tax and profit tax	24,490	42,375	(1,652)	22,181	59,254
Profit (loss) after income taxes	(63,106)	30,085	(49,760)	18,361	30,165
Company's share in profits of an affiliate	747	503	-	3,479	147
Minority's share in results of subsidiaries	(4,907)	(14,706)	2,583	(7,309)	(20,321) *)
Net profit (loss) for the period before extraordinary item	(67,266)	15,882	(47,177)	14,531	9,991
Extraordinary item:					
Cancellation of provision (provision) for extraordinary risks reserve in life assurance net of the tax effect and the minority's share (Note 5)	28,231	-	-	-	(7,946) *)
Net profit (loss) for the period	(39,035)	15,882	(47,177)	14,531	2,045
<u>Earnings per share:</u>					
<u>Earnings (loss) per share (in NIS)</u>					
Net earnings (loss) per share before extraordinary item	(1.43)	0.34	(1.01)	0.34	0.21 *)
Profit (loss) from extraordinary item	0.60	-	-	-	(0.17) *)
Net profit (loss) per share	(0.83)	0.34	(1.01)	0.34	0.04

*) Reclassified.

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	Retained earnings	Debtors in respect of shares	Net of 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 due to 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 the 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	-	-	4,428	-	-	-	-	4,428
Tax benefit due to capital instruments for employees	-	-	126	-	-	-	-	126
Adjustments resulting from the translation of financial statements of autonomous entities held	-	-	-	2,818	-	-	-	2,818
Loss for the period	-	-	-	-	(39,035)	-	-	(39,035)
Balance as at September 30, 2007 (Unaudited)	68,057	85,340	15,755	5,008	42,466	-	(10,163)	206,463
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	77	420	-	-	-	-	-	497
Cost of share based payments	-	-	5,885	-	-	-	-	5,885
Tax benefit due to capital instruments for employees	-	-	191	-	-	-	-	191
Adjustments resulting from the translation of financial statements of autonomous entities held	-	-	-	(2,651)	-	-	-	(2,651)
Settlement of loans to interested parties for acquisition of the Company's shares	-	378	-	-	-	1,926	-	2,304
Net profit for the period	-	-	-	-	15,882	-	-	15,882
Balance as at September 30, 2006 (Unaudited)	67,898	84,454	6,997	(2,154)	95,338	-	(10,163)	242,370

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Capital reserves	Adjustments resulting from translation of financial statements of autonomous entities held	Retained earnings	Debtors in respect of shares	Net of shares held by the Company	Total
	Reported NIS in thousands							
Balance as at July 1, 2007 (Unaudited)	68,057	85,340	14,511	4,353	89,643	-	(10,163)	251,741
Cost of share based payments	-	-	1,244	-	-	-	-	1,244
Adjustments resulting from the translation of financial statements of autonomous entities held	-	-	-	655	-	-	-	655
Loss for the period	-	-	-	-	(47,177)	-	-	(47,177)
Balance as at September 30, 2007 (Unaudited)	<u>68,057</u>	<u>85,340</u>	<u>15,755</u>	<u>5,008</u>	<u>42,466</u>	<u>-</u>	<u>(10,163)</u>	<u>206,463</u>
Balance as at July 1, 2006 (Unaudited)	67,898	84,076	5,106	(3,955)	80,807	(1,926)	(10,163)	221,843
Cost of share based payments	-	-	1,891	-	-	-	-	1,891
Adjustments resulting from the translation of financial statements of autonomous entities held	-	-	-	1,801	-	-	-	1,801
Settlement of loans to interested parties for acquisition of the Company's shares	-	378	-	-	-	1,926	-	2,304
Net profit for the period	-	-	-	-	14,531	-	-	14,531
Balance as at September 30, 2006 (Unaudited)	<u>67,898</u>	<u>84,454</u>	<u>6,997</u>	<u>(2,154)</u>	<u>95,338</u>	<u>-</u>	<u>(10,163)</u>	<u>242,370</u>

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

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

CONSOLIDATED LIFE ASSURANCE BUSINESS STATEMENTS

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
Premiums	94,722	80,306 *)	33,416	28,643 *)	109,390 *)
Less - reinsurance	12,195	10,550	4,194	4,041	14,413
Premiums on retention	82,527	69,756	29,222	24,602	94,977
Investment income (loss)	11,318	5,508	(365)	3,210	10,806
Total revenues for the period	93,845	75,264	28,857	27,812	105,783
Claims paid and outstanding:					
Death and disability	10,952	7,447	4,278	1,759	9,135
Less - reinsurance	4,057	3,738	2,163	496	4,490
	6,895	3,709	2,115	1,263	4,645
Surrenders	9,672	7,317	3,981	2,933	9,922
Total claims for the period	16,567	11,026	6,096	4,196	14,567
Increase in assurance reserves net of reinsurance	48,607	34,112 *)	13,128	13,104 *)	50,235 *)
Less - management fees for policies participating in profits	2,105	1,406	793	517	1,914
Increase in reserves, net	46,502	32,706	12,335	12,587	48,321
Increase in reserve for extraordinary risks	-	1,736	-	381	2,008
	46,502	34,442	12,335	12,968	50,329
Excess of income over claims for the period net of increase in reserves	30,776	29,796	10,426	10,648	40,887
Selling, administrative and general expenses	26,527	24,601	9,130	8,671	33,828
Increase in deferred acquisition costs	(2,886)	(5,467)	(1,474)	(1,933)	(8,262)
	23,641	19,134	7,656	6,738	25,566
Reinsurance commissions	4,005	3,713	1,089	1,530	4,882
Total expenses for the period, net	19,636	15,421	6,567	5,208	20,684
Income for the period from life assurance business - transferred to statements of profit and loss	11,140	14,375	3,859	5,440	20,203
Total premium including premiums in respect of investment contracts directly allocated to reserve	102,274	84,528	36,451	30,275	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

	<u>Nine months ended September 30</u>		<u>Three months ended September 30</u>		<u>Year ended December 31</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Unaudited</u>				<u>Audited</u>
	<u>Reported NIS in thousands</u>				
Insurance premiums	753,641	662,014	273,449	229,619	874,458
Less - reinsurance	29,766	29,445	10,148	9,970	39,759
Insurance premiums on retention	723,875	632,569	263,301	219,649	834,699
Increase in reserve for unexpired risks net of reinsurance	(64,192)	(31,449)	(31,364)	(15,631)	(24,292)
Earned insurance premiums	659,683	601,120	231,937	204,018	810,407
Investment income	56,146	37,652	15,866	12,276	46,676
Total revenues for the period	715,829	638,772	247,803	216,294	857,083
Claims paid and outstanding	440,297	344,344	158,123	104,961	491,682 *)
Less - reinsurance	9,613	9,563	4,766	2,218	36,004
Total claims for the period	430,684	334,781	153,357	102,743	455,678
Excess of income over claims for the period	285,145	303,991	94,446	113,551	401,405
Selling, administrative and general expenses	248,841	203,451	99,010	69,328	278,913 *)
Reinsurance commissions	(3,105)	(3,268)	(1,092)	(1,192)	(3,675)
Co-insurance commissions	-	647	-	169	815
	245,736	200,830	97,918	68,305	276,053
Increase in deferred acquisition costs	(10,314)	(4,489)	(4,019)	(3,531)	(5,808)
Total expenses for the period, net	235,422	196,341	93,899	64,774	270,245
Profit for the period from general insurance business - transferred to the statements of profit and loss	49,723	107,650	547	48,777	131,160

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30		Three months ended September 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)	33,220	15,294	10,434	4,611	(15,104)
In general insurance business (b)	247,767	135,778	138,791	52,036	150,083
In other current activities (c)	(76,411)	(69,524)	(49,421)	(24,361)	(97,902)
Net cash provided by current activities	204,576	81,548	99,804	32,286	37,077
CASH FLOWS FROM INVESTMENT ACTIVITIES					
Changes in investment items earmarked to shareholders' equity and non-insurance liabilities:					
Securities	71,590	(23,895)	83,065	(27,950)	(23,150)
Loans	(46,403)	4,223	(33,640)	3,338	1,677
Deposits	(905)	(73)	1,314	(21)	(89)
	24,282	(19,745)	50,739	(24,633)	(21,562)
Acquisition of subsidiaries' shares from minority shareholders	(1,177)	-	-	-	-
Acquisition of other assets	(7,605)	(56,556)	-	(19)	(56,556)
Acquisition of fixed assets	(72,612)	(22,265)	(30,447)	(8,682)	(46,293)
Proceeds from sale of fixed assets	1,676	637	194	434	4,521
Acquisition of subsidiary proportionally consolidated in the past (d)	-	514	-	-	514
Acquisition of subsidiary consolidated for the first time (e)	-	-	-	-	(4,401)
Net cash provided by (used in) investment activities	(55,436)	(97,415)	20,486	(32,900)	(123,777)
CASH FLOWS FROM FINANCING ACTIVITIES					
Settlement of interested parties' loans	-	-	-	-	2,304
Receipt of credit from banking institutions	102,851	16,977	36,732	19,600	24,822
Share issue to minority in a subsidiary net of issue expenses	1,041	-	-	-	-
Realization of options into shares	229	497	-	-	1,313
Receipt of long term loans from a banking institution	8,000	50,000	-	-	50,000
Dividend paid to minority in subsidiaries	(16,822)	(15,070)	(6,470)	(4,637)	(15,070)
Receipt of loan from minority subsidiaries	-	-	-	-	600
Settlement of loans received from the minority in subsidiaries	(618)	-	(318)	-	-
Net cash provided by financing activities	94,681	52,404	29,944	14,963	63,969
Translation differences due to cash balances in autonomous entities	1,511	(597)	(208)	(1,739)	1,649
Increase (decrease) in cash and cash equivalents	245,332	35,940	150,026	12,610	(21,082)
Balance of cash and cash equivalents as at the beginning of the period	110,467	131,549	205,773	154,879	131,549
Balance of cash and cash equivalents as at the end of the period	355,799	167,489	355,799	167,489	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

	<u>Nine months ended</u> <u>September 30</u>		<u>Three months ended</u> <u>September 30</u>		<u>Year ended</u> <u>December 31</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Unaudited</u>				<u>Audited</u>
	<u>Reported NIS in thousands</u>				
(a) Cash flows from current activities in life assurance business					
Income from life assurance business	11,140	14,375	3,859	5,440	20,203
Items not involving cash flows:					
Increase in assurance reserves net of reinsurance	16,994	38,665	14,977	14,601	72,425
Increase (decreases) in outstanding claims net of reinsurance	2,007	(6)	1,423	(101)	34
Depreciation	948	683	344	240	962
Investment activities, net:					
Securities	(28,141)	(35,826)	(4,344)	(15,680)	(73,840)
Deposits with banks	33,931	(21)	(306)	(37)	(33,956)
Loans	(1,150)	(566)	48	(320)	(1,175)
Changes in other balance sheet items, net:					
Insurance companies, deposits and other accounts	(1,841)	(1,030)	1,453	398	915
Outstanding premium	(708)	(993)	(202)	(838)	(666)
Debtors and receivables	(21)	70	21	78	89
Creditors and payables	61	(57)	(6,839)	830	(95)
Net cash provided by (used in) current activities in life assurance business	<u>33,220</u>	<u>15,294</u>	<u>10,434</u>	<u>4,611</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

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in thousands				
(b) Cash flows from current activities in general insurance business					
Income from general insurance business	49,723	107,650	547	48,777	131,160
Items not involving cash flows:					
Increase in insurance reserve net of reinsurance	65,307	30,026	31,390	15,326	24,666
Increase (decrease) in outstanding claims net of reinsurance	30,218	9,013	15,742	(1,356)	15,763
Increase in deferred acquisition costs	(10,255)	(3,047)	(3,934)	(3,185)	(5,578)
Depreciation	6,642	4,650	2,408	1,635	6,583
Investment activities, net:					
Securities	208,910	(32,812)	116,752	(33,700)	(51,105)
Deposits with banks	(35,315)	29,327	(4,204)	24,373	73,907
Changes in other balance sheet items, net:					
Insurance companies	3,166	(6,257)	(5,034)	425	(7,009)
Outstanding premium	(46,550)	(10,672)	(24,067)	(12,933)	(62,701)
Debtors and receivables	(4,993)	6,510	1,085	5,906	3,724
Creditors and payables	(19,086)	1,390	8,106	6,768	20,673
Net cash provided by current activities in general insurance business	<u>247,767</u>	<u>135,778</u>	<u>138,791</u>	<u>52,036</u>	<u>150,083</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30		Three months ended September 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 (loss) for the period	(39,035)	15,882	(47,177)	14,531	2,045
Income from insurance business	(60,863)	(122,025)	(4,406)	(54,217)	(151,363)
	(99,898)	(106,143)	(51,583)	(39,686)	(149,318)
Items not involving cash flows:					
Erosion of subordinated deeds	11,550	7,800	8,139	1,816	4,373
Deferred taxes	1,470	5,634	725	2,610	3,278
Minority's share in results of subsidiaries	13,341	14,706	(2,582)	7,309	17,923
Capital gain	(4,822)	(268)	(4,397)	(44)	(1,041)
Erosion of loans received from the minority in subsidiaries	-	-	(10)	-	18
Negative initial difference created upon acquisition	-	(812)	-	-	(812)
Depreciation and amortization	16,825	9,777	7,169	3,732	13,430
Company's share in profits of an affiliate	(747)	(503)	-	(3,479)	(147)
Cost of share based payments	5,776	5,885	1,861	1,891	10,308
Increase in deferred acquisition costs	(3,111)	(6,759)	(1,509)	(2,188)	(8,558)
Erosion of long term liabilities to banking institutions	1,249	531	1,249	96	-
Changes in other balance sheet items, net:					
Decrease (increase) in debtors and receivables	(30,469)	6,733	(24,587)	505	(280)
Increase (decrease) in creditors and payables, net	12,425	(6,105)	16,104	3,077	12,924
Net cash used in other current activities	(76,411)	(69,524)	(49,421)	(24,361)	(97,902)
(d) Acquisition of subsidiary proportionally consolidated in the past					
Working capital (not including cash and cash equivalents)	-	199	-	-	199
Fixed assets, net	-	(1,309)	-	-	(1,309)
Negative initial difference	-	812	-	-	812
Minority interest	-	812	-	-	812
	-	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 premiums	-	-	-	-	(5)
Insurance reserves net reinsurance	-	-	-	-	16
Outstanding claims net of reinsurance	-	-	-	-	625
Insurance companies	-	-	-	-	74
	-	-	-	-	(4,401)

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 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 finance 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 effect on the interim financial statements.

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

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 Business's circulars (Cont.)

3. Accounting Standard No. 23 - Accounting Treatment of Transactions between an Entity and its Controlling Shareholder (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 implementation of the Standard 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 provisions 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 September 30, 2006 is NIS 15,269 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 (Cont.)

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

International Financial Reporting Standards (hereunder – IFRS 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 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 ("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. dollar	Polish Zloty	Euro	Russian Ruble	Czech Koruna
	%	%	%	%	%	%	%
For the nine months ended as at:							
September 30, 2007	2.3	2.8	(5.0)	4.6	2.3	0.1	2.9
September 30, 2006	0.8	1.5	(6.6)	(2.5)	5.9	(0.9)	2.8
For the three months ended as at:							
September 30, 2007	1.3	2.5	(5.6)	(0.6)	-	(1.9)	3.9
September 30, 2006	(0.8)	(0.2)	(3.1)	(0.4)	-	2.7	(2.4)
For the 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. Direct I.D.I. Insurance Company Ltd. (“the Insurance Company”) – an insurance subsidiary in Israel

Supervision of Financial Services (Insurance) Regulations (Minimum Solvency Margin Required from an Insurer), 1998 as amended in the year 2004 - (hereunder - Capital Regulations):

	September 30, 2007	
	NIS in thousands	
Minimum solvency margin:		
Amount required as per regulations	(1)(2)	214,608
Amount calculated as per regulations	(3)	303,843
Surplus	(4)	<u>89,235</u>
Primary capital:		
Minimum solvency margin as per regulations		76,739
Amount calculated as per regulations		<u>202,562</u>
Surplus		<u>125,823</u>

- (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 39,660 thousand (see Note 5 below).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4:- INSURANCE SUBSIDIARIES COMPLIANCE WITH CAPITAL REQUIREMENTS (Cont.)

a. Direct I.D.I. Insurance Company Ltd. (“the Insurance Company”) – an insurance subsidiary in Israel (Cont.)

(2) In October 2007, a draft amendment to the Supervision of Financial Services Regulations (Minimum Solvency Margin Required from an Insurer (Revised), 2007, was published.

Under the draft it is proposed to add the following categories to the existing capital requirements: (a) A capital requirement with respect to assets that are held against liabilities that are not yield dependant and with respect to an exposure to the financial immunity of reinsurers (b) A capital requirement with respect to exposure to damage as a result of a single catastrophic event in general insurance business (c) A capital requirement with respect to an exposure to the financial immunity of reinsurers as a result of a single catastrophic event in general insurance business (d) A capital requirement with respect to 1.5% operational risks out of the total assets in the balance sheet.

According to the draft regulations the insurance companies will be required to gradually increase their equity up to the end of the year 2011.

According to the Regulator’s directives, until the approval of the Regulations amendment is completed, the insurance companies are permitted to distribute dividends in an amount that will not be higher than 50% of the net profit for the year 2007. “Profit”, in this case, is the profit net of the profit component that is derived from the transfer of the reserve for extraordinary risks in life assurance, to the shareholders’ equity.

According to a preliminary estimate that was performed by the insurance company, if the draft amendment would have been adopted as a binding rule (and in accordance with the interpretation of the insurance company to the aforementioned draft), then as at September 30, 2007, the minimum solvency margin would have increased by about NIS 150 million. Accordingly, based on the draft amendment and in view of the insurance company’s capital surplus as at September 30, 2007, the insurance company would have been required to increase its equity by about NIS 61 million.

It is expected that there will be discussions with the Insurance Regulator with respect to this draft and there is no certainty that the proposed amendment will enter into effect and/or with respect to the details of the arrangements that will be determined therein.

(3) The amount includes subordinated deeds in the amount of NIS 101,281 thousand which constitute subordinated capital with respect to capital requirements.

(4) The distribution of dividends from surplus capital is subject to liquidity requirements and compliance with the Ways of Investment Regulations.

b. As of September 30, 2007 the insurance subsidiaries operating abroad (in Poland, the Czech Republic and in Russia) comply with the capital requirements prescribed by the Insurance Supervision Authorities in their country of residence.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4:- INSURANCE SUBSIDIARIES COMPLIANCE WITH CAPITAL REQUIREMENTS (Cont.)

- c. On November 5, 2007, a permit which replaced a former permit entered into effect, with respect to the control and holding of controlling means in an insurer in Israel, Direct I.D.I. Insurance Company Ltd. (“the insurer”) and in the management companies of provident funds controlled by subsidiaries. The permit prescribes the following:
1. The Company undertook to supplement, at any given time, the insurers’ shareholders’ equity as prescribed by the Capital Regulations or by any other ruling that will replace them. However, the commitment will not be higher than 50% of the required capital or NIS 105 million, at the lower of the two (linked to the CPI of June 2007).
 2. The Company undertook to supplement, at any given time, the shareholders’ equity of the provident funds management companies up to the amount prescribed by the Supervision of Financial Services (Provident Fund), 2005 Law, or any other rule that will replace it.
 3. In the event that the Company will not report in its financial statements as at March 31, 2008, shareholders’ equity that will be at least 20% higher than the solvency margin required from an insurer, in order to be able to bear the commitment to supplement the aforementioned shareholders’ equity on its own, the responsibility to supplement the equity will also be applicable to the parent company.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5:- CANCELLATION OF THE RESERVE FOR EXTRAORDINARY RISKS 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 eliminated in the financial statements of insurance companies.

According to the aforementioned circular, the elimination of the provision will be imputed 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 insurance subsidiary in Israel has a reserve for extraordinary risks in the amount of about NIS 36 million, which constitutes about 0.17% of the sum 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.

NOTE 6 - INFORMATION REGARDING GEOGRAPHIC SEGMENTS

Information according to geographic segments

	For the nine months ended as at September 30, 2007					
	Israel	Poland	Czech Republic	Russia	Adjustments	Total
	Unaudited					
	Reported NIS in thousands					
Income from premiums	599,101	245,475	3,749	38	-	848,363
Other income	39,178	-	-	-	-	39,178
Other intercompany income	1,605	-	-	-	(1,605)	-
Total	639,884	245,475	3,749	38	(1,605)	887,541
Segment results	41,319	5,964	(43,114)	(19,923)		(15,754)
Administrative and general expenses and financing expenses Net, not attributed to the geographic segments						(27,655)
Capital gain, net						4,793
Loss before income tax						(38,616)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - INFORMATION REGARDING GEOGRAPHIC SEGMENTS (Cont.)

Information according to geographic segments (Cont.)

	For the nine months ended as at September 30, 2006					
	Israel	Poland	Czech		Adjustments	Total
			Republic	Russia		
	Unaudited					
Reported NIS in thousands						
Income from premiums	555,226	187,094	-	-	-	742,320
Other income	15,516	-	-	-	-	15,516
Intercompany income	1,681	-	-	-	(1,681)	-
	<u>572,423</u>	<u>187,094</u>	<u>-</u>	<u>-</u>	<u>(1,681)</u>	<u>757,836</u>
Segment results	<u>105,030</u>	<u>(1,227)</u>	<u>(5,951)</u>	<u>(2,915)</u>		94,937
Administrative and general expenses and financing expenses net, not attributed to the geographic segments						(21,943)
Capital loss, net						(534)
Loss before taxes on income						<u>72,460</u>
	For the three months ended as at September 30, 2007					
	Israel	Poland	Czech		Adjustments	Total
			Republic	Russia		
Unaudited						
Reported NIS in thousands						
Income from premiums	213,932	89,442	3,458	33	-	306,865
Other income	13,333	-	-	-	-	13,333
Intercompany income	492	-	-	-	(492)	-
<u>Total</u>	<u>227,757</u>	<u>89,442</u>	<u>3,458</u>	<u>33</u>	<u>(492)</u>	<u>320,198</u>
Segment results	<u>(15,295)</u>	<u>(561)</u>	<u>(21,471)</u>	<u>(9,590)</u>		(46,917)
Administrative and general expenses and financing expenses Net, not attributed to the geographic segments						(8,847)
Capital gain, net						4,352
Loss before income tax						<u>(51,412)</u>

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - INFORMATION REGARDING GEOGRAPHIC SEGMENTS (Cont.)

Information according to geographic segments (Cont.)

	For the three months ended as at September 30, 2006						
	Israel	Poland	Czech Republic		Russia	Adjustments	Total
			Unaudited	Reported NIS in thousands			
	Unaudited	Reported NIS in thousands	Reported NIS in thousands	Reported NIS in thousands	Reported NIS in thousands	Reported NIS in thousands	
Income from premiums	193,393	64,869	-	-	-	258,262	
Other income	6,989	-	-	-	-	6,989	
Intercompany income	566	-	-	-	(566)	-	
Total	200,948	64,869	-	-	(566)	265,251	
Segment results	50,120	1,919	(3,112)	(843)		48,084	
Administrative and general expenses and financing expenses Net, not attributed to the geographic segments						(7,008)	
Capital loss, net						(534)	
Loss before income tax						40,542	

	For the year ended as at December 31, 2006						
	Israel	Poland	Czech Republic		Russia	Adjustments	Total
			Audited	Reported NIS in thousands			
	Audited	Reported NIS in thousands	Reported NIS in thousands	Reported NIS in thousands	Reported NIS in thousands	Reported NIS in thousands	
Income from premiums	730,183	253,665	-	-	-	983,848	
Other income	23,159	-	-	-	-	23,159	
Intercompany income	2,280	-	-	-	(2,280)	-	
Total	755,622	253,665	-	-	(2,280)	1,007,007	
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	
Profit before taxes on income						89,419	

NOTES TO THE FINANCIAL STATEMENTS

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 registered 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.

NOTE 8 - REQUEST FOR APPROVAL AS A CLASS ACTION

- 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 to 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. The insurance subsidiary and its legal advisors are of the opinion that the probability that the defendants' arguments will be accepted are higher than the probability that the plaintiff's arguments will be accepted. Therefore, no provision for this claim was included in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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..
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 September 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 September 30, 2007, the relevant capital refund and all the owners' loans that will be returned to the Company amount to about €40 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;

NOTES TO THE FINANCIAL STATEMENTS

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

3. (Cont.)

(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.

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. On August 30, 2007 R&SA assigned all its rights and liabilities, according to the investment agreement in GDI, to Royal & Sun Alliance Insurance PIC ("RSAP"), which is a wholly owned and controlled subsidiary of R&SA, and R&SA will continue to be the guarantor for all of IRSI's liabilities according to the investment agreement.
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.

NOTES TO THE FINANCIAL STATEMENTS

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.

NOTE 11 - 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’s shares. On August 7, 2007 the transaction was completed. Following the sale the Company recorded a capital gain in the amount of about NIS 4 million.

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.

NOTE 12 - ALLOTMENT OF OPTIONS TO EMPLOYEES OF A SUBSIDIARY

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - ALLOTMENT OF OPTIONS TO EMPLOYEES (Cont.)

(Cont.)

The estimate of the calculated fair value of the proposed options according to “Black and Scholdes” 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%.

NOTE 13 - EVENTS AFTER THE BALANCE SHEET DATE

a. Acquisition of Provident Funds Activities

On January 7, 2007 Direct Provident Funds Management Ltd. (“Direct Provident”), a wholly owned subsidiary of the subsidiary I.D.I. Insurance Company Ltd. (“the Insurance Company”) signed an agreement with the First International Bank of Israel Ltd., UBank Ltd. and the companies managing the provident funds owned by the banks (“the banks”), for the acquisition of the banks' provident funds. On September 26, 2006 the Company’s Board of Directors approved the agreement. After all the suspending approvals for performing the transaction were received, the transaction was completed on November 13, 2007.

In the framework of the transaction, an agreement was signed between the banks and Direct Provident for rendering operating services for the acquired funds and the banks’ management companies assigned to Direct Provident brokerage agreements that entered into effect when the transaction was concluded. In addition it was agreed to sign distribution agreements, in accordance with the principles that were determined in the agreement for the sale of activities.

The assets that are managed as at the transition date amount to approximately NIS 7.3 million. The consideration in respect of the acquisition of the provident funds activities, their assets, liabilities and goodwill amounted to NIS 206 million, after performing adjustments that was agreed upon by the parties.

In the framework of the completion of the transaction, the insurance company committed to be a guarantor to Direct Provident’s commitment towards the members of some of the acquired provident funds for payment of the nominal value of the members’ deposits, according to the aforementioned provident funds articles of association. Regarding one of the acquired provident funds, which is a provident fund that guarantees yield, the insurance company committed to be a guarantor to Direct Provident towards the members of that provident fund, in accordance with the said provident fund’s regulations.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

b. Acquisition of shares in an insurance subsidiary in Israel

In November 2007, the Company acquired about 7.7% of the issued and paid up capital of Direct I.D.I. Insurance Company Ltd., a subsidiary in Israel, in consideration for about NIS 35 million. After the acquisition the Company holds about 84.6% of Direct I.D.I. (81.4% fully diluted).

As a result of the acquisition an initial difference of about NIS 20 million was created in the Company, which will be allocated according to the acquisition components and each component will be amortized in accordance with the expected life expectancy.

The balance of the initial difference which is not allocated in accordance with the valuation, will be attributed to goodwill which will not be systematically amortized. According to Accounting Standard No. 20 (Amended), the Company will examine the need for impairment of the goodwill each year, unless there will be events or changes in circumstances that will require an earlier examination.

c. Lease of office premises in Poland from a related party

On November 18, 2007 the Company's Board of Directors, after receiving an approval from the Company's audit committee, approved that the insurance subsidiary in Poland enter into a lease agreement for the leasing of office premises on an area of about 6,600 square meters from a related party in Poland.

The agreement will enter into force from September 1, 2008 for the leasing period of seven years which will be extended for an additional period of three years unless the insurance subsidiary in Poland chooses not to extend the lease. The monthly leasing fee is about € 87 thousand (and about €94 thousand beginning from the sixth year).

The agreement is subject to an approval from the Company's shareholders meeting.

d. After the balance sheet date 15,000 options were realized into 15,000 ordinary shares of NIS 1 nominal value.

DIRECT INSURANCE – FINANCIAL INVESTMENTS LTD.

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

Part A - Distribution of Assets Earmarked to Liabilities

	As at September 30, 2007							
	Total assets and receivables	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								
Investments								
Cash and cash equivalents	225,757	21,760	4,896	26,656	187,617	11,484	-	-
Securities:								
Quoted government debentures in Israel	233,019	-	127,467	127,467	270	32,193	70,269	2,820
Other quoted debentures:								
In Israel	211,753	-	20,610	20,610	9,643	-	19,000	162,500
Abroad	51,558	-	7,297	7,297	44,261	-	-	-
Other unquoted debentures:								
in Israel	294,432	-	25,398	25,398	269,034	-	-	-
Quoted shares:								
In Israel	60,726	-	14,300	14,300	46,426	-	-	-
Abroad	17,033	-	870	870	16,163	-	-	-
Mutual funds	2,585	-	-	-	-	2,585	-	-
Investment funds	12,888	-	1,000	1,000	-	11,888	-	-
Quoted options in Israel	213	-	247	247	-	-	(34)	-
Loans:								
Secured by life assurance policies	4,211	4,211	-	4,211	-	-	-	-
Secured by mortgage	503	-	-	-	-	503	-	-
Secured by pledge on vehicles	460	-	-	-	-	460	-	-
Unsecured and to employees	567	-	-	-	-	567	-	-
Deposits with banks	202,952	-	4,653	4,653	198,299	-	-	-
Investments in investees	56,455	-	-	-	-	56,455	-	-
Fixed assets, net	20,375	-	-	-	-	20,375	-	-
Amounts receivable								
Insurance companies:								
Reinsurers' share in insurance reserves	7,758	2,439	-	2,439	5,319	-	-	-
Reinsurers' share in outstanding claims	131,681	3,090	-	3,090	128,591	-	-	-
Other accounts	51,152	-	-	-	51,152	-	-	-
Outstanding premiums	233,041	2,081	-	2,081	230,960	-	-	-
Debtors and receivables	35,201	21	-	21	13,447	21,495	-	238
Deferred acquisition costs and other assets								
Deferred acquisition costs in life assurance	53,775	-	-	-	-	53,775	-	-
Deferred acquisition costs in general insurance	47,448	-	-	-	47,448	-	-	-
Deferred acquisition costs in health insurance	2,828	-	-	-	-	2,828	-	-
Other assets	14,861	-	-	-	-	-	-	14,861
Deferred taxes	4,508	-	-	-	-	-	-	4,508
Total assets and receivables	1,977,740	33,602	206,738	240,340	1,248,630	214,608	89,235	184,927
Total capital and liabilities (according to part B)	1,977,740	32,695	206,738	239,433	1,249,537	214,608	89,235	184,927
Surplus	-	907	-	907	(907)	-	-	-

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 September 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	202,562	-	-	-	-	202,562	-	-
Deferred taxes	10,796	-	-	-	-	-	-	10,796
Subordinated deeds	210,993	-	-	-	-	12,046	89,235	109,712
Insurance reserves	528,552	12,382	206,738	219,120	309,432	-	-	-
Outstanding claims	869,249	9,535	-	9,535	859,714	-	-	-
Other liabilities								
Insurance companies:								
Deposits	4,570	-	-	-	4,570	-	-	-
Other accounts	9,236	8,429	-	8,429	807	-	-	-
Current maturities of subordinate deeds	54,441	-	-	-	-	-	-	54,441
Creditors and payables:								
Prepaid premiums	8,146	463	-	463	7,683	-	-	-
Policyholders	20,265	1,300	-	1,300	18,965	-	-	-
Others	58,930	586	-	586	48,366	-	-	9,978
Total capital and liabilities	<u>1,977,740</u>	<u>32,695</u>	<u>206,738</u>	<u>239,433</u>	<u>1,249,537</u>	<u>214,608</u>	<u>89,235</u>	<u>184,927</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.

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

	For the nine month period ended September 30, 2007											
	Insurance activities in Israel						Insurance activities abroad					
	Property			Liabilities		Health	Total general insurance business results in Israel				Total insurance business abroad	Total
	Motor Casco	Comprehensive residential	Comprehensive business	Motor act	Others	Illness and hospitalization		Poland	Czech Republic	Russia		
Unaudited												
Reported NIS in thousands												
Insurance premiums	270,347	53,997	2,161	170,314	1,922	5,638	504,379	245,475	3,749	38	249,262	753,641
Less reinsurance	570	13,089	93	12,241	165	869	27,027	2,718	21	-	2,739	29,766
	269,777	40,908	2,068	158,073	1,757	4,769	477,352	242,757	3,728	38	246,523	723,875
Change in reserve for unexpired risks net of reinsurance	(19,354)	(2,626)	(4)	(7,825)	(111)	-	(29,920)	(30,984)	(3,276)	(12)	(34,272)	(64,192)
Insurance premiums earned	250,423	38,282	2,064	150,248	1,646	4,769	447,432	211,773	452	26	212,251	659,683
Investment income	13,815	2,295	157	34,157	325	57	50,806	5,328	-	12	5,340	56,146
Total income for the year	264,238	40,577	2,221	184,405	1,971	4,826	498,238	217,101	452	38	217,591	715,829
Claims paid and outstanding	177,180	30,530	1,997	102,560	182	1,763	314,212	124,862	1,308	(85)	126,085	440,297
Less reinsurance	18	5,766	10	3,435	160	190	9,579	-	-	34	34	9,613
Total claims for the year	177,162	24,764	1,987	99,125	22	1,573	304,633	124,862	1,308	(119)	126,051	430,684
Excess (deficit) of income over claims for the year	87,076	15,813	234	85,280	1,949	3,253	193,605	92,239	(856)	157	91,540	285,145
Selling, administrative and general expenses	67,615	13,965	582	46,272	489	2,203	131,126	90,046	26,745	924	117,715	248,841
Commission from reinsurance	-	3,069	22	-	-	14	3,105	-	-	-	-	3,105
	67,615	10,896	560	46,272	489	2,189	128,021	90,046	26,745	924	117,715	245,736
Change in deferred acquisition costs	3,581	486	1	782	21	225	5,096	5,218	-	-	5,218	10,314
Total expenses for the year, net	64,034	10,410	559	45,490	468	1,964	122,925	84,828	26,745	924	112,497	235,422
Profit (loss) from general insurance business	23,042	5,403	(325)	39,790	1,481	1,289	70,680	7,411	(27,601)	(767)	(20,957)	49,723

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

	For the nine month period ended September 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									
Insurance premiums	250,380	50,838	2,633	163,173	3,635	4,261	474,920	187,094	662,014
Less reinsurance	612	11,552	133	12,136	1,405	592	26,430	3,015	29,445
	249,768	39,286	2,500	151,037	2,230	3,669	448,490	184,079	632,569
Change in reserve for unexpired risks net of reinsurance	(520)	(3,282)	(236)	5,710	(189)	-	1,483	(32,932)	(31,449)
Insurance premiums earned	249,248	36,004	2,264	156,747	2,041	3,669	449,973	151,147	601,120
Investment income	8,485	1,329	131	23,497	193	22	33,657	3,995	37,652
Total income for the year	257,733	37,333	2,395	180,244	2,234	3,691	483,630	155,142	638,772
Claims paid and outstanding	150,688	19,601	1,416	82,801	1,761	1,358	257,625	86,719	344,344
Less reinsurance	(130)	2,851	94	5,862	773	113	9,563	-	9,563
Total claims for the year	150,818	16,750	1,322	76,939	988	1,245	248,062	86,719	334,781
Excess of income over claims for the year	106,915	20,583	1,073	103,305	1,246	2,446	235,568	68,423	303,991
Selling, administrative and general expenses	68,243	13,091	698	43,185	565	2,006	127,788	75,663	203,451
Commission from reinsurance	-	(2,530)	(29)	(31)	(334)	(344)	(3,268)	-	(3,268)
Commission from co-reinsurance	-	-	-	-	647	-	647	-	647
	68,243	10,561	669	43,154	878	1,662	125,167	75,663	200,830
Change in deferred acquisition costs	(96)	(607)	(44)	571	(35)	(746)	(957)	(3,532)	(4,489)
Total expenses for the year, net	68,147	9,954	625	43,725	843	916	124,210	72,131	196,341
Profit (loss) from general insurance business	38,768	10,629	448	59,580	403	1,530	111,358	(3,708)	107,650

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	Unaudited		
	Reported NIS in thousands								
Insurance 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	951	35,490	4,269	39,759
	325,570	50,920	3,027	198,502	2,293	4,991	585,303	249,396	834,699
Change in reserve for unexpired risks net of reinsurance	7,166	(1,779)	1	8,325	(64)	-	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 revenues 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.
