



Harel Insurance Investments & Financial Services Ltd.

**Interim Condensed Consolidated Financial Statements
As at June 30, 2007
(Unaudited)**

To
The Board of Directors
Harel Insurance Investments & Financial Services Ltd.
Ramat-Gan

Dear Sirs,

Review of the Unaudited Condensed Interim Consolidated Financial Statements as at June 30, 2007 and for the periods of six months and three months ended at the same date

At your request, we have reviewed the condensed interim consolidated balance sheet of Harel Insurance Investments & Financial Services Ltd. as at June 30, 2007, the condensed consolidated interim statements of income, the condensed interim statements of changes shareholders' equity, the consolidated interim insurance business statements and the condensed consolidated interim statements of cash flows for the periods of six months and of three months ended at the same date.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel. The procedures included, inter alia, reading the said financial statements, reading the minutes of the General Shareholders' Meetings and of the meetings of the Board of Directors and its committees and making inquiries of persons responsible for financial and accounting matters.

We were furnished the reports of other auditors regarding condensed interim financial statements of condensed companies, whose assets and the turnover of their incomes constitute approximately 7.64% and approximately 10.66% in accordance of the total assets including in the consolidated balance sheet as at June 30, 2007 and from the income turnover include in the condensed interim consolidated statements of income of six months and of three months then ended at the same date. In addition, the data relating to the net asset value of the investment in some of the affiliates and to the equity of the Company and its condensed companies in the results of such companies, which are stated on the equity basis, are based on interim financial statements, which were reviewed by other auditors.

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

In the course of our review, including the reading of the review reports of the other auditors, as stated above, nothing came to our attention which would indicate the necessity of making any material modifications to the financial statements referred to above, in order for them to be in conformity with generally accepted accounting principles including accounting, reporting and editing principles prescribed by the Supervision of Financial Services (Insurance) Law, 1981 and the regulations enacted pursuant thereto and in accordance with the Securities Regulations (Periodical and Immediate Statements), 1970, insofar as these regulations are applicable to insurance companies.

We draw attention to what is stated in Note 5A to the interim consolidated financial statements with regard to exposure to class action suits against subsidiaries.

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

August 29, 2007

Condensed Consolidated Balance Sheets

Reported amounts

	June 30 2007 (Unaudited) NIS thousands	June 30 2006 (Unaudited) NIS thousands	December 31 2006 (Audited) NIS thousands
Investments			
Cash and cash equivalents	1,313,576	1,154,307	952,046
Securities	18,953,576	*16,775,796	17,458,395
Loans and deposits -			
Loans	1,475,633	*779,235	1,357,278
Deposits with banks	2,502,418	2,839,672	2,644,062
	3,978,051	3,618,907	4,001,340
Investees	122,722	45,900	*129,842
Real estate for lease	386,890	335,343	310,584
Total investments	24,754,815	21,930,253	22,852,702
Fixed assets			
Office buildings	202,479	182,878	205,885
Other fixed assets	76,944	*77,130	*82,261
Total fixed assets	279,423	260,008	288,146
Amounts receivable			
Insurance companies -			
Reinsurers' share in insurance reserves	552,847	539,474	638,101
Reinsurers' share in outstanding claims	3,038,947	2,689,948	2,811,714
Deposits in respect of reinsurance	3,093	3,093	3,094
Other accounts	67,800	57,959	62,521
	3,662,687	3,290,474	3,515,430
Outstanding premiums and agent's balances	901,073	716,244	830,148
Other debtors and receivables	413,956	347,965	*292,277
Total amounts receivable	4,977,716	4,354,683	4,637,855
Intangible assets			
Deferred acquisition costs in sickness and hospitalization insurance	65,391	46,717	57,965
Deferred acquisition costs in general insurance	146,511	141,134	116,713
Deferred acquisition costs in life assurance	724,459	725,929	732,559
Deferred taxes	22,263	8517	17,857
Other assets (Note 6)	1,526,514	*423,976	*1,527,521
Total deferred acquisition costs and other assets	2,485,138	1,346,273	2,452,615
	32,497,092	27,891,217	30,230,823

Harel Insurance Investments & Finances Ltd.

	June 30 2007 <u>(Unaudited)</u> <u>NIS thousands</u>	June 30 2006 <u>(Unaudited)</u> <u>NIS thousands</u>	December 31 2006 <u>(Audited)</u> <u>NIS thousands</u>
Shareholders' equity	3,000,818	2,231,822	2,432,617
External shareholders rights	68,364	59,027	66,353
Long-term liabilities	1,184,694	527,913	1,151,031
Insurance reserves and outstanding claims			
Life assurance -			
Assurance reserves	19,528,182	17,103,552	18,058,985
Reserves for extraordinary risks (Note 1 (B) 1)	-	215,650	216,436
Outstanding claims	50,591	50,349	56,352
Total life assurance	19,578,773	17,369,551	18,331,773
General insurance -			
Reserves for unexpired risks	1,142,423	1,074,867	1,040,453
Outstanding claims	5,965,624	5,389,138	5,585,006
Total general insurance	7,108,047	6,464,005	6,625,459
Total insurance reserves and outstanding claims	26,686,820	23,833,556	24,957,232
Other liabilities			
Insurance companies -			
Deposits by reinsurers	305,237	313,921	301,112
Other accounts	427,231	311,397	457,526
	732,468	625,318	758,638
Credit from banking institutions	125,669	103,982	*167,272
Creditors and credit balances	701,259	509,599	697,680
Total other liabilities	1,559,396	1,238,899	1,623,590
	32,497,092	27,891,217	30,230,823

* Reclassified

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

Y. Hamburger
Chairman of the Board, CEO

G. Hamburger
Member of the Board

M. Rozen
Deputy CEO, CFO

Date of approval of the financial statements: August 29, 2007

Harel Insurance Investments & Finances Ltd.

Condensed Consolidated Statements of Income

Reported amounts

	For the six months ended		For the three months ended		For the year ended
	June 30 2007 (Unaudited) NIS thousands	June 30 2006 (Unaudited) NIS thousands	June 30 2007 (Unaudited) NIS thousands	June 30 2006 (Unaudited) NIS thousands	December 31 2006 (Audited) NIS thousands
Transferred from insurance business statements					
Income from life assurance business	298,699	84,593	187,745	2,200	314,162
Income from general insurance business	173,762	167,193	88,090	83,638	373,612
Total income from insurance businesses	472,461	251,786	275,835	85,398	687,774
Income and expenses not included in Insurance business statements					
Income from investments, net	119,920	29,847	51,304	3,240	98,073
Income from financial services, net	40,911	*4,373	26,791	*2,464	*5,653
Income from management of provident funds and pension funds, net	53,340	*-	26,635	*393	*(2,302)
Other income	3,515	*3,978	1,349	*1,584	*13,946
	690,147	289,984	381,914	93,519	803,144
General and administrative expenses	(15,556)	(10,938)	(4,993)	(4,786)	(26,050)
Write-off of discontinued project (see Note 5 (B) 1)	-	-	-	-	(25,744)
Amortization of initial differences	(15,754)	-	(7,826)	-	-
Impairment in value of rental property	-	-	-	-	(1,367)
Financing expenses with respect to long-term liabilities	(24,332)	(12,863)	(14,208)	(7,996)	(19,108)
Income before taxes	634,505	266,183	354,887	80,737	730,875
Income taxes	234,341	101,155	131,314	28,032	286,927
Income after income tax	400,164	165,028	223,573	52,705	443,948
Company's share in earnings of affiliates, net	9,754	2,734	8,043	1,052	5,646
External shareholders rights in net income of subsidiaries	(10,631)	(10,784)	(6,567)	(5,668)	(25,110)
Income before extraordinary item	399,287	156,978	225,049	48,089	424,484
Cancellation of reserve for extraordinary risks in life assurance (Note 1 (B) 1)	206,974	-	-	-	-
Net income for the period	606,261	156,978	225,049	48,089	424,484
	NIS	NIS	NIS	NIS	NIS
Earnings per share before extraordinary item	18.83	7.40	10.61	2.27	20.02
Earnings per share from extraordinary item	9.76	-	-	-	-
Net earnings per share	28.59	7.40	10.61	2.27	20.02

* Reclassified

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

Harel Insurance Investments & Finances Ltd.

Condensed Statements of Changes in Shareholders' Equity

Reported amounts

	For the six months ended June 30, 2007 (Unaudited)			
	Paid-up Share capital and premium on shares	Capital Reserve from translation differences	Surplus	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as at January 1, 2007	140,072	(559)	2,293,104	2,432,617
Effect of the initial implementation of new accounting standards as of January 1, 2007 (Note 1 (B) 2 and 1 (B) 4)	-	-	33,036	33,036
Exchange differences on autonomous overseas unit	-	992	-	992
Net income for the period	-	-	606,261	606,261
Dividend	-	-	(72,088)	(72,088)
Balance as at June 30, 2007	140,072	433	2,860,313	3,000,818

	For the six months ended June 30, 2006 (Unaudited)		
	Paid-up Share capital and premium on shares	Surplus	Total
	NIS thousands	NIS thousands	NIS thousands
Balance as at January 1, 2006	140,072	1,994,986	2,135,058
Net income for the period	-	156,978	156,978
Dividend paid	-	(60,214)	(60,214)
Balance as at June 30, 2006	140,072	2,091,750	2,231,822

	For the three months ended June 30, 2007 (Unaudited)				
	Paid-up Share capital and premium on shares	Capital Reserve from translation differences	Surplus	Dividend declared	Total
	NIS thousands	NIS thousands	NIS thousands		NIS thousands
Balance as at April , 2007	140,072	(801)	2,671,308	36,044	2,846,623
Net income for the period	-	-	225,049	-	225,049
Exchange differences on autonomous overseas unit	-	1,234	-	-	1,234
Dividend	-	-	(36,044)	(36,044)	(72,088)
Balance as at June 30, 2007	140,072	433	2,860,313	-	3,000,818

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

Harel Insurance Investments & Finances Ltd.

Condensed Statements of Changes in Shareholders' Equity (Continued)

Reported amounts

	For the three months ended March 31, 2006 (Unaudited)		
	Paid-up		
	Share capital and premium		
	on shares	Surplus	Total
	NIS thousands	NIS thousands	NIS thousands
Balance as at April 1, 2006	140,072	2,073,768	2,213,840
Net income for the period	-	48,089	48,089
Dividend paid	-	(30,107)	(30,107)
Balance as at June 30, 2006	140,072	2,091,750	2,231,822

	For the year ended December 31, 2006 (audited)			
	Paid-up Share capital and premium on shares	Capital		
		Reserve from translation differences	Surplus	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as at January 1, 2006	140,072	-	1,994,986	2,135,058
Net income for the period	-	-	424,484	424,484
Exchange differences on autonomous overseas unit	-	(559)	-	(559)
Dividend paid	-	-	(126,366)	(126,366)
Balance as at December 31, 2006	140,072	(559)	2,293,104	2,432,617

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

Harel Insurance Investments & Finances Ltd.

Condensed Consolidated Life Assurance Business Statements

Reported amounts

	For the Six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 2006	June 30 2007	June 30 2006	December 31 2006
	(Unaudited) NIS thousands	(Unaudited) NIS thousands	(Unaudited) NIS thousands	(Unaudited) NIS thousands	(Audited) NIS thousands
Premiums	1,346,808	1,396,558	692,368	781,497	*2,697,357
Less reinsurance	55,805	52,718	25,630	26,103	105,459
Premiums on retention	1,291,003	1,343,840	666,738	755,394	2,591,898
Investment Income	1,279,246	4789,933	835,853	112,848	1,308,356
Total revenues for the period	2,570,249	1,823,773	1,502,591	868,242	3,900,254
Claims – paid and outstanding death and disability	322,795	*292,680	157,408	*142,893	603,009
Less reinsurance	35,560	34,523	15,445	17,377	72,000
	287,235	258,273	141,963	125,516	531,009
Surrender of policies	248,283	299,273	121,994	145,446	557,691
Maturity of policies	83,779	82,295	38,310	38,320	164,658
Annuities	33,545	*22,975	18,159	*11,562	47,124
Participation in profits by group life assurance	859	1,795	103	293	2,145
Total claims for the period	653,701	664,495	320,529	321,137	1,302,627
Excess of revenues over claims for the period	1,916,548	1,159,278	1,182,062	547,105	2,597,627
Increase in life assurance reserves, less reinsurance	1,504,023	838,319	950,961	395,325	*1,917,113
Less management fees in respect of profit participating policies	157,052	38,517	91,764	(7,173)	172,641
Increase in life assurance reserves, net	1,346,971	799,802	859,197	402,498	1,744,472
Increase in reserves for extraordinary risks (Note 1 (B) 1)	-	331	-	148	1,117
Total increase in reserves	1,346,971	800,133	859,197	402,646	1,745,589
Excess of revenues for the period	569,577	359,145	322,865	144,459	852,038
Commissions	139,757	140,992	73,812	73,200	277,081
Administrative and general expenses	125,282	120,045	59,401	58,385	247,231
	265,039	261,037	133,213	131,585	524,312
Change in deferred acquisition costs	8,098	12,653	1,752	3,726	6,025
	273,137	273,690	134,965	135,311	530,337
Reinsurance commissions	(13,396)	(10,909)	(5,413)	1,063	(16,001)
Amortization of initial differences of investments in subsidiaries allocated to acquisition of life assurance portfolio	11,137	11,771	5,568	5,885	23,540
Total expenses for the period, net	270,878	274,552	135,120	142,259	537,876
Income for the period from life assurance business, transferred to consolidated statements of income	298,699	84,593	187,745	2,200	314,162
Total premiums including premiums in respect of investment contracts, that have been attributed directly to the reserve	1,477,683	1,396,558	774,785	781,497	2,710,643

*Reclassified

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

Harel Insurance Investments & Finances Ltd.

Condensed Consolidated General Insurance Business Statements

Reported amounts

	For the six months ended		For the three months ended		For the year ended
	June 30 2007	June 30 2006	June 30 2007	June 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Premiums	1,624,765	1,562,956	667,020	661,266	3,068,517
Fees	283,157	261,539	105,358	101,452	455,976
Total insurance fees	1,907,922	1,824,495	772,378	762,718	3,524,493
Less reinsurance	457,718	457,511	196,427	187,270	1,094,403
Insurance fees on retention	1,450,204	1,366,984	575,951	575,448	2,430,090
Changes in reserves for unexpired risks, net of reinsurance	(172,285)	(158,047)	50,902	26,065	(26,785)
Total insurance fees earned	1,277,919	1,208,937	626,853	601,513	2,403,305
Investment income	131,115	110,786	80,069	59,670	195,483
Total revenues for the period	1,409,034	1,319,723	706,922	661,183	2,598,788
Claims – paid and outstanding	1,358,431	1,116,253	735,891	520,797	2,202,127
Less reinsurance	459,472	259,498	298,494	124,562	590,496
Less portfolio claims	-	23,722	-	-	62,099
Total claims for the period	898,959	833,033	437,397	396,235	1,549,532
Excess of revenues over claims for the period	510,075	486,690	269,525	264,948	1,049,256
Commissions	248,454	251,586	115,328	119,468	486,984
Reinsurance commissions	79,455	84,302	36,836	37,981	176,939
	168,999	167,284	78,492	81,487	310,045
Administrative and general expenses	204,819	190,623	102,669	98,113	389,412
	373,818	357,907	181,161	179,600	699,457
Change in deferred acquisition costs	(37,505)	(38,410)	274	1,710	(23,813)
Total expenses for the period, net	336,313	319,497	181,435	181,310	675,644
Income for the period from general insurance business, transferred to consolidated statements of income	173,762	167,193	88,090	83,638	373,612

Details of the general insurance business, according to the insurance branches are presented in Note 4.

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

Harel Insurance Investments & Finances Ltd.

Condensed Consolidated Statements of Cash Flows

Reported amounts

	Appendix	For the six months ended		For the three months ended		For the year ended
		June 30	June 30	June 30	June 30	December 31
		2007	2006	2007	2006	2006
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities						
In life assurance business	1	131,734	67,387	319,130	121,383	(245,379)
In general insurance business	2	513,536	299,665	87,106	12,303	412,410
In other operations	3	44,781	(168,493)	(180,233)	(104,059)	(300,972)
Net cash provided by (used in) operating activities		690,051	198,559	224,003	29,627	(133,941)
Cash flows from investing activities						
Changes in investments earmarked to shareholders' equity and non-insurance liabilities:						
Securities		(302,075)	242,271	28,075	143,682	816,713
Loans and bank deposits		(648)	5,445	1,512	(4,186)	211,701
		(302,723)	247,716	29,587	139,496	1,028,414
Acquisition of fixed assets and real estate for lease		(32,575)	(44,090)	(19,212)	(24,386)	(78,732)
Proceeds from sale of fixed assets		2,292	1,173	1,176	561	4,718
Proceeds from sale of an affiliate		51,506	-	40,552	-	8,778
Provision of loans to investee company		(1,105)	-	(1,105)	-	-
Dividends from affiliated companies		774	14,842	228	13,584	19,769
Investment in mutual fund management and provident fund management activities	4	-	-	-	-	(1,136,783)
Proceeds from sale of non-marketable shares (Note 7)		73,884	-	-	-	-
Additional investment in investee companies, net		(33,064)	-	(32,624)	-	(90,188)
Net cash provided by (used in) investing activities		(241,011)	219,641	18,602	129,525	(244,024)
Cash flows from financing activities						
Issue of subordinated notes		-	-	-	-	645,486
Change in short-term credit from banks		(39,145)	15,887	(58,355)	15,786	69,808
Dividend paid to Company's shareholders		(36,044)	(60,214)	(36,044)	(60,214)	(126,366)
Dividend paid to external shareholders in subsidiaries		(8,750)	(8,750)	-	(8,750)	(15,750)
Repayment of long-term liabilities		(3,721)	(28,682)	555	(7,431)	(60,474)
Net cash provided by (used in) financing activities		(87,660)	(81,759)	(93,844)	(60,609)	512,704
Translation differences in respect of cash balances of a subsidiary abroad						
		150	-	122	-	(559)
Increase in cash and cash equivalents		361,530	336,441	148,883	98,543	134,180
Cash and cash equivalents at the beginning of the period		952,046	817,866	1,164,693	1,055,764	817,866
Cash and cash equivalents at the end of the period		1,313,576	1,154,307	1,313,576	1,154,307	952,046

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

Harel Insurance Investments & Finances Ltd.

Condensed Consolidated Statements of Cash Flows (cont'd)

Reported amounts

Appendix 1 – Cash flows from operating activities in life assurance business

	For the six months ended		For the three months ended		For the year ended
	June 30	June 30	June 30	June 30	December 31
	2007	2006	2007	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Income from life assurance business	298,699	84,593	187,745	2,200	314,162
Items not involving cash flows:					
Change in assurance reserves, net	1,335,347	800,133	1,014,160	402,646	1,758,873
Change in deferred acquisition costs	9,654	27,811	4,381	13,516	106,540
Change in outstanding claims, net	(232,994)	8	(242,587)	(12,986)	4,045
Depreciation and amortization	6,652	20,186	3,348	9,722	16,672
Write-off of discontinued project	-	-	-	-	23,540
Changes in other balance sheet items, net:					
Securities	(1,191,311)	*(913,067)	(575,791)	*(316,323)	(1,941,060)
Loans	(132,483)	(28,678)	(57,303)	*(8,936)	(264,209)
Deposits with banks	67,403	83,987	15,224	29,661	(301,529)
Real estate for lease	(29,897)	8,327	(26,188)	4,329	10,500
Insurance companies – deposits and other accounts, net	10,537	12,389	4,150	10,086	28,639
Outstanding premiums and agents' balances	(5,281)	(19,442)	(6,409)	(8,359)	14,127
Debtors and receivables and creditors and payables, net	(4,592)	(8,860)	(1,600)	(4,173)	(15,679)
Net cash flows provided by (used in) operating activities in life assurance business	131,734	67,387	319,130	121,383	(245,379)

Appendix 2 - Cash flows from operating activities in general insurance business

Income from general insurance business	173,762	167,193	88,090	83,638	373,612
Items not involving cash flows:					
Change in insurance reserves, net	104,550	158,047	(121,606)	(26,065)	22,485
Change in deferred acquisition costs	(30,384)	(26,189)	2,983	6,464	(1,737)
Change in outstanding claims, net	380,618	155,845	323,130	73,279	231,913
Depreciation and amortization	10,292	12,074	5,184	5,863	24,277
Changes in other balance sheet items, net:					
Securities	(28,997)	*17,089	(312,847)	*(83,028)	(211,959)
Loans	14,780	*6,406	25,559	*1,361	(51,159)
Deposits with banks	74,237	69,604	23,632	18,990	159,527
Insurance companies – deposits and other accounts, net	(41,780)	(97,849)	(26,265)	(79,013)	14,658
Outstanding premiums and agents' balances	(65,644)	(10,940)	51,173	58,865	(158,413)
Debtors and receivables and creditors and payables, net	(77,898)	(151,615)	28,073	(48,051)	9,206
Net cash flows provided by (used in) operating activities in general insurance business	513,536	299,665	87,106	12,303	412,410

* Reclassified

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

Harel Insurance Investments & Finances Ltd.

Consolidated Statements of Cash Flows (cont'd)

Reported amounts

Appendix 3 - Cash flows from other operating activities

	For the six months ended		For the three months ended		For the year ended
	June 30	June 30	June 30	June 30	December 31
	2007	2006	2007	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Net income	606,261	156,978	225,049	48,089	424,484
Income from insurance business	(472,461)	(251,786)	(275,835)	(85,838)	(687,774)
	133,800	(94,808)	(50,786)	(37,749)	(263,290)
Items not involving cash flows:					
Depreciation and amortization	20,971	3,812	3,744	1,849	30,674
Change in deferred acquisition costs	(8,357)	(27,377)	(5,296)	(14,544)	(124,015)
Gain on sale of fixed assets and investments	(580)	(272)	(127)	(138)	3,516
Change in deferred taxes, net	19,198	(9,384)	7,914	(8,979)	(24,758)
Change in debtors and receivables and creditors and payables, net	(75,649)	(49,014)	(137,021)	(49,253)	57,356
Erosion of long-term loans and subordinated notes	1,876	500	3,027	139	81
Company's share in earnings of affiliates, net	(9,754)	(2,734)	(8,043)	(1,052)	(5,646)
External shareholders share in net income of subsidiaries	10,631	10,784	6,567	5,668	25,110
Capital gain (See Note 7)	(47,355)	-	(2,212)	-	-
	44,781	(168,493)	(182,233)	(104,059)	(300,972)

Appendix 4 - Investment in mutual fund management and provident fund management activities

Mutual funds

Goodwill	-	-	-	-	(493,298)
Right to receive management fees	-	-	-	-	(57,250)
Trade name	-	-	-	-	(6,836)
Creditors and credit balances	-	-	-	-	8,999
Debtors and debit balances	-	-	-	-	(3,216)
Provision for jubilee grant	-	-	-	-	1,007
Surplus of the provision over the deposit for severance pay	-	-	-	-	120
Provision for holiday pay	-	-	-	-	849
Fixed assets	-	-	-	-	(12,453)
Deferred taxes	-	-	-	-	295
	-	-	-	-	(561,783)
Investment in provident fund activities (See Note 6)	-	-	-	-	(575,000)
Total investment in mutual fund management and investment fund management activities	-	-	-	-	(1,136,783)

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

Notes to the Financial Statements as at June 30, 2007

Note 1 - Reporting Principles and Accounting Policies

A. General

1. These consolidated financial statements as at June 30, 2007 and for the periods of six months and of three months then ended should be read in conjunction with the audited annual consolidated financial statements of the Company and its subsidiaries as at December 31, 2006 and for the year then ended and the notes accompanying them (hereinafter "annual financial statements").
2. The Company is a holding company, whose main holdings are in its consolidated companies, which are insurance companies. The insurance companies prepare their financial statements in accordance with the Supervision of Financial Services (Insurance) Law, 1981 and the regulations that were legislated thereunder, and including the accounting, reporting and presentation principles prescribed by the Supervision of Insurance Business Regulations (Financial Statement Details), 1998 and in accordance with the directives issued by the Commissioner of Insurance. The interim consolidated financial statements as at June 30, 2007 mainly reflect the assets, liabilities and activities of the consolidated insurance companies and accordingly they have been prepared in a similar format.
The interim financial statements as at June 30, 2007 have also been prepared in accordance with generally accepted accounting principles for the preparations of interim financial statements as laid down in Accounting Standard No. 14 of the Israel Accounting Standards Board, and in accordance with Chapter 4 of the Securities Regulations (Periodic and Immediate Reports), 1970, to the extent these regulations apply to insurance companies.
3. The principal accounting policies applied in the preparation of the interim financial statements are consistent with those applied in the annual financial statements, except as described in B below.

B. Changes in reporting principles and accounting policies

1. Cancellation of the reserve for extraordinary risk in life assurance

In accordance with a circular issued by the Commissioner in February 2007, the balance of the reserve for extraordinary risks in life assurance as of December 31, 2006 (hereinafter: "the reserve") has been classified under shareholders' equity, via the statement of income, where it has been recorded as an extraordinary item. In parallel, the minimal capital requirement with which Harel Insurance is required to comply, was increased by an amount equivalent to 0.17% of the assured amount of risk on retention (hereinafter: "the capital requirement"), see Note 3 below. It has also been determined in the Income Tax Ordinance that the classification of the reserve under shareholders' equity up to the amount of the capital requirement will not be chargeable to taxation.

As of December 31, 2006 the subsidiary Harel insurance had accumulated reserves for extraordinary risks in an amount of approximately NIS 216 million, (approximately 0.19% of the assured amount of risk retention), which exceeds the additional capital requirement by an amount of approximately NIS 26 million.

The cancellation of the reserve, in the amount of approximately NIS 207 million after taxation, has been recorded in the statement of income for the period of six months ended June 30, 2007 as an extraordinary item.

Note 1 - Reporting Principles and Accounting Policies (cont'd)

B. Changes in reporting principles and accounting policies (cont'd)

2. Accounting Standard Number 16 – Investment Real estate

As from January 1, 2007 the Company implements Accounting Standard 16 on the subject of Investment Real Estate (hereinafter – the standard). The standard determines principles for the recognition, measurement and removal of investment real estate and the disclosure that is required in respect of it. The standard determines, inter alia, that investment real estate is to be measured for the first time at cost with the addition of the transaction costs. Similarly, the standard determines that in the following periods, the entity is to choose between the measurement of all of its investment real estates at cost less accumulated depreciation and less losses on impairment in value and between measurement in accordance with fair value, where the updating of the fair value is to be reflected in the statement of income.

Investment real estate is a real estate asset (land or a building - or part thereof – or both of them), which are held (by the company as the owner or under finance leasing) for the purpose of the production of rental income or for the purpose of a capital gain or both of them, and not for the purpose of use in production, or in supply of goods or services for administrative purposes, or for sale during the ordinary course of business.

Real estate that is in the process of construction for future use as investment real estate, and which will be measured in accordance with its fair value, is treated as a fixed asset until the completion of the construction or the development and at that time it is to be revalued in accordance with its fair value and classified under investment real estate. Any profit or loss that is created on the revaluation is to be reflected in the statement of income.

Where the use of a real estate changes from use by the owners to investment real estate, which is to be measured in accordance with its fair value, the asset is revalued in accordance with fair value and it is classified under investment real estate. Any profit that is created on the revaluation is to be reflected directly under shareholders' equity. Any loss that is created is to be reflected directly in the statement of income. On a transition from investment real estate which is measured at fair value, to fixed assets (real estate used by the owners) or to inventory, the fair value is to be remained as the cost of the fixed asset or inventory, for the purpose of the accounting treatment to follow. On a transition from inventory to investment real estate, which is to be measured at fair value, the difference between the fair value of the property at that time and its previous carrying value in the accounting records is to be reflected directly in the statement of income.

The Group's investment real estates are presented under real estate for lease.

The Group has chosen to implement the fair value model. As a result of this, and in accordance with the transition provisions in the standard, the Group recognized, as of January 1, 2007, an increase in the balance of investment real estates in an amount of approximately NIS 41,274 thousand, and an increase in the opening balance of retained earnings as of that date in an amount of approximately NIS 31,799 thousand (after setting off tax effects in an amount of approximately NIS 9,475 thousand). The comparative figures have not been restated.

3. Accounting Standard No. 23 – The Accounting Treatment of Transactions Between an Entity and the Controlling Interest Therein

As from January 1, 2007 the Company implements Accounting Standard No. 23, "The Accounting Treatment of Transactions Between an Entity and the Controlling Interest Therein" (hereinafter – "The standard"), issued by the Israeli Accounting Standards Board.

Note 1 - Reporting Principles and Accounting Policies (cont'd)

B. Changes in reporting principles and accounting policies (cont'd)

3. Accounting Standard No. 23 – The Accounting Treatment of Transactions Between an Entity and the Controlling Interest Therein (cont'd)

The standard replaces the Securities Regulations (Presentation of activity between an entity and a controlling interest therein in financial statements) – 1996 and determines that assets and liabilities in respect of which a transaction was carried out between the entity and a controlling interest therein are to be measured at the time of the transaction in accordance with fair value and the difference between the fair value and the consideration that was reflected for the transaction is to be reflected under shareholders' equity. A debit difference constitutes a dividend and it therefore reduces the balance of surplus. A credit difference constitutes an investment by the owners and it is therefore to be presented as a separate item under shareholders' equity, which is to be called "capital reserve on transaction between the entity and a controlling interest therein".

The standard deals with three matters that are related to transactions between an entity and a controlling interest therein, as follows: The transfer of an asset to an entity from a controlling interest, or alternatively, the transfer of an asset from an entity to a controlling interest therein; the taking up of a liability of the entity vis-à-vis a third party, in whole or in part, by the controlling interest, the indemnification of the entity by a controlling interest therein in respect of an expense and the waiver of a debt due to them from the entity, in whole or in part; and loans given to the controlling interest or loans received from the controlling interest. Similarly, the standard determines the disclosure that is to be given in the financial statements in respect of transactions between the entity and the controlling interest therein during the course of the period.

In accordance with the transition provisions in the standard, the Company implements the standard for transactions with a controlling interest therein, which were executed after January 1, 2007 as well as for loans that were given to or that were received from the controlling interest prior to the time that this standard entered into force, as from the time that it entered into force. The initial implementation of the standard did not have a material effect on the results of the Company's operations or on its financial position.

4. Accounting Standard No. 27- Fixed Assets and Accounting Standard No.28 – Amendment to the transition provisions of Standard 27 – Fixed Assets

As from January 1, 2007 the Company implements Accounting Standard No. 27 on the subject of Fixed Assets (hereinafter – "the standard"), issued by the Israeli Accounting Standards Board. The standard determines principles for the recognition, the measurement and the removal of fixed asset items and the disclosure that is required in respect of them.

The main changes that were determined in the standard in relation to the principles that were implemented in the past are: the inclusion as part of the cost of a fixed asset item of an estimate of the costs that will be incurred in respect of a commitment to dismantle and remove the item and to rehabilitate the site where it is located, already on the initial recognition of the time; the provision of an alternative to the measurement of a group of similar fixed asset items at a revalued amount less accumulated depreciation, where an increase in the value of an asset as the result of the revaluation, over and above the original cost is to be reflected directly under shareholders' equity and reflected in a capital reserve on revaluation; the separate depreciation of each element of fixed assets with a cost that is significant in relation to the overall cost of the item, including the costs of significant periodic tests; the determination that a fixed asset item that was acquired in consideration for a non-monetary item within the framework of a transaction having commercial significance, is to be measured at fair value; a requirement that

Notes to the Financial Statements as at June 30, 2007

Note 1 - Reporting Principles and Accounting Policies (cont'd)

B. Changes in reporting principles and accounting policies (cont'd)

4. Accounting Standard No. 27- Fixed Assets and Accounting Standard No.28 – Amendment to the transition provisions of Standard 27 – Fixed Assets (cont'd)

the residual value, the useful life and the method of depreciating an asset are to be reviewed at least once every financial year and where expectations are different from previous estimates the change(s) is (are) to be treated as a change in accounting estimate.

The companies in the Group have implemented the fair value method as the considered cost in respect of fixed asset items, in accordance with Accounting Standard No. 28 – on the subject of "The Amendment of the Transition Provisions in Accounting Standard No. 27 – Fixed Assets", issued by the Israeli Accounting Standards Board.

As the result of the implementation of the standard, an increase in the value of fixed assets as of January 1, 2007 in an amount of approximately NIS 2,395 thousand has been reflected, where this increase, net of deferred taxes in the amount of NIS 1,237 thousand had been reflected under surplus. The comparative figures have not been restated.

5. Accounting Standard No. 30 – Intangible Assets regarding Financial Instruments: Disclosure and Presentation

As from January 1, 2007 the Company implements Accounting Standard No. 30 on the subject of intangible assets (hereinafter – "the standard"), issued by the Israeli Accounting Standards Board. The standard explains the accounting treatment of intangible assets and defines how the book value of those assets is to be measured, while giving details of the disclosures that are required.

In accordance with the transition provisions of the standard, the adoption of the standard is to be carried out by way of retrospective implementation, except as detailed below. On the matter of business combinations, the standard is to be implemented in respect of business combinations that occurred on January 1, 2007 or thereafter, whereas in respect of a research and development project in progress, which was acquired within the framework of a business combination, which occurred before January 1, 2007 and which meets the definition of an intangible asset at the time of the acquisition and is reflected as an expense at the time of the acquisition, the Company is to recognize, as of January 1, 2007 as a research and development project in progress asset, whilst attributing taxes.

A research and development asset is to be recognized in accordance with the amount that was evaluated as of the time of acquisition less amortization that had been accumulated on it from the time of acquisition and until December 31, 2006 in accordance with the useful life of the asset and less losses on impairment in value that have accumulated. The amount of the adjustment is to be reflected under the balance of retained earnings as of January 1, 2007.

As a result of the initial implementation of the provisions of the standard, the Company has reclassified software that do not constitute an integral part of attributed hardware, at a net book value of NIS 93,788 thousand as of June 30, 2007 and in an amount of NIS 73,600 thousand as of December 31, 2006 from the item "fixed assets" to the item "other assets".

Harel Insurance Investments & Finances Ltd.

Notes to the Financial Statements as at June 30, 2007

Note 1 - Reporting Principles and Accounting Policies (cont'd)

C. Effect of new accounting pronouncements in the period prior to their implementation

In July 2006, the Israeli Accounting Standards Board published Accounting Standard No. 29 "The adoption of International Financial Reporting Standards (IFRS)", (hereinafter – The Standard).

The standard determines that companies that are subject to the Securities Law – 1968 and which are required to report in accordance with the Regulations under that law, are to prepare their financial statements in accordance with the IFRS Standards as from periods commencing on January 1, 2008. The standard permits earlier adoption as from the financial statements that are published after July 31, 2006.

The initial adoption of the International Financial Reporting Standards is to be carried out using the provisions of IFRS 1 "The adoption of IFRS Standards for the first time" for the purpose of the transition.

In May 2007 the Commissioner issued a circular, which applies the IFRS standards to institutional bodies, including the insurance companies.

In accordance with the standard, the Company is to include a note, in its annual financial statements as at December 31, 2007, which contains the figures in the balance sheet as at December 31, 2007 and the figures in the statement of income for the year ended on that date, after the principles for the recognition, measurement and presentation of the International Financial Reporting Standards have been implemented in respect of them.

The Company intends to implement the IFRS standard as from the financial statements for the period commencing on January 1, 2008.

Note 2 - Rates of Change in the Consumer Price Index (CPI) and Foreign Currency Exchange Rates

Changes in the CPI and the Representative Exchange Rate of the U.S. Dollar are presented below:

	CPI		Representative exchange rate of the U.S. dollar
	Index of the month	Latest known index	
	%	%	%
For the six-month period ended:			
June 30, 2007	0.97	0.27	0.57
June 30, 2006	1.55	1.26	(3.54)
For the three-month period ended:			
June 30, 2007	1.20	0.71	2.26
June 30, 2006	0.97	1.16	(4.82)
For the year ended December 31, 2006	(0.09)	(0.29)	(8.21)

Harel Insurance Investments & Finances Ltd.

Notes to the Financial Statements as at June 30, 2007

Note 3 - Equity Requirements in Subsidiaries Which Are Insurance Companies

1. Details in accordance with the Insurance Business Supervision Regulations (Minimum Capital Requirements of an Insurer), 1998, as amended (hereinafter - Equity Regulations):

	Harel Insurance Company Ltd. NIS thousands	Dikla Insurance Company Ltd. NIS thousands
Shareholders' equity –		
Amount required under the regulations *	1,912,092	129,570
Amount existing under the regulations:		
Primary capital	1,652,997	131,748
Secondary capital	826,499	-
Total	2,479,496	131,748
Surplus	567,404	2,178
Additional surplus not included in the shareholders' equity calculation	-	61,672
Primary capital		
Minimal amount required under the regulations	74,845	74,845
Amount existing under the regulations	1,652,997	193,420
Surplus	1,578,152	118,575
 * The required amount includes, inter alia, capital requirements in respect of:		
Deferred acquisition costs	704,894	6,963
Extraordinary risk in life assurance (see Note 1 (B) 1 above)	190,820	-
Non-recognized assets, as defined in the capital regulations	11,638	78
	907,352	7,041

2. The distribution of a dividend by the consolidated companies, which are insurance companies, are subject, not only to the general requirement in the Companies Law, but also to the liquidity requirements and compliance with the Ways of Investment Regulations.
3. Within the framework of the approval of the Commissioner for the acquisition of the provident fund activities (see Note 6), it was determined that the provident funds activities will be presented in the statement of assets and liabilities against shareholders' equity. Harel Insurance received a reduction in the rate of the liquid assets required in accordance with the Ways of Investment Regulations, effective up to January 1, 2008

Notes to the Financial Statements as at June 30, 2007

Note 4 - Results of general insurance business by principal lines of business

A. For the six months ended June 30, 2007:

	Property				Liability					Health		Overseas Business (1)	Other	Total
	Loss of property	Vehicle property	Residential property	Other property	Employers' liability	Professional liability	Third party	Compulsory Motor	Other liability	Personal accident	Sickness and hospitalization			
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands			
Premiums	166,913	346,925	78,995	20,312	24,730	136,885	44,310	294,635	40,047	33,132	419,489	11,024	7,368	1,624,765
Registration and other fees	16,385	151,057	37,294	3,245	4,989	2,866	9,673	46,106	986	1,482	6,281	2,792	1	283,157
Total insurance fees	183,298	497,982	116,289	23,557	29,719	139,751	53,983	340,741	41,033	34,614	425,770	13,816	7,369	1,907,922
Less reinsurance	156,818	1,718	55,567	18,703	1,631	125,048	27,192	2,489	32,622	10,202	22,269	3,459	-	457,718
Insurance fees on retention	26,480	496,264	60,722	4,854	28,088	14,703	26,791	338,252	8,411	24,412	403,501	10,357	7,369	1,450,204
Change in reserve for unexpired risks, net of reinsurance	(4,191)	(103,621)	625	(103)	(4,484)	6,818	(4,089)	(51,004)	(1,881)	(1,386)	(8,852)	(138)	21	(172,285)
Insurance fees earned	22,289	392,643	61,347	4,751	23,604	21,521	22,702	287,248	6,530	23,026	394,649	10,219	7,390	1,277,919
Investment income	1,034	16,451	1,396	157	7,061	8,709	5,845	72,048	1,032	1,646	14,098	804	834	131,115
Total revenues for the period	23,323	409,094	62,743	4,908	30,665	30,230	28,547	359,296	7,562	24,672	408,747	11,023	8,224	1,409,034
Claims paid and outstanding	51,630	296,403	49,421	10,998	20,522	355,473	45,506	263,565	2,962	17,025	229,793	11,228	3,905	1,358,431
Less reinsurance	45,397	254	28,900	9,275	28	329,606	27,938	79	4,752	6,086	6,761	901	(505)	459,472
Total claims for the period	6,223	296,149	20,521	1,723	20,494	25,867	17,568	263,486	(1,790)	10,939	223,032	10,327	4,410	898,959
Excess of revenues over claims for the period	17,090	112,945	42,222	3,185	10,171	4,363	10,979	95,810	9,352	13,733	185,715	696	3,814	510,075
Commissions paid	18,007	62,397	32,472	3,939	4,638	24,303	9,532	13,055	1,438	2,711	71,027	3,660	1,213	248,454
Less reinsurance commissions	23,504	62	9,531	4,614	110	23,093	2,239	-	2,036	1,295	12,241	740	-	79,455
Administrative and general expenses	(5,497)	62,397	22,941	(675)	4,528	1,220	7,293	13,055	(598)	1,416	58,786	2,920	1,213	168,999
	14,676	47,582	11,087	2,508	2,975	3,762	5,272	35,634	2,715	6,347	64,850	6,689	722	204,819
	9,179	109,979	34,028	1,833	7,503	4,982	12,565	48,689	2,117	7,763	123,636	9,609	1,935	373,818
Changes in deferred acquisition costs	(1,226)	(19,312)	189	(17)	(1,345)	1,198	(1,227)	(5,100)	(564)	(499)	(8,986)	(622)	6	(37,505)
Total expenses for the period, net	7,953	90,667	34,217	1,816	6,158	6,180	11,338	43,589	1,553	7,264	114,650	8,987	1,941	336,313
Income for the period from general insurance business transferred to the income statements	9,137	22,278	8,005	1,369	4,013	(1,817)	(359)	52,221	7,799	6,469	71,065	(8,291)	1,873	173,762

(1) Including incoming business

Harel Insurance Investments & Finances Ltd.

Notes to the Financial Statements as at June 30, 2007

Note 4 - Results of general insurance business by principal lines of business (cont'd)

B. For the six months ended June 30, 2006:

	Property				Liability					Health		Incoming business	Other	Total
	Loss of property	Vehicle property	Residential property	Other property	Employers' liability	Professional liability	Third party	Compulsory Motor	Other liability	Personal accident	Sickness and hospitalization			
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands			
Premiums	184,469	321,712	80,113	19,661	24,603	134,375	44,054	293,163	22,182	34,053	382,574	13,529	8,468	1,562,956
Registration and other fees	16,104	137,266	37,731	3,529	4,815	2,607	9,140	42,551	807	1,575	5,412	-	2	261,539
Total insurance fees	200,573	458,978	117,844	23,190	29,418	136,982	53,194	335,714	22,989	35,628	387,986	13,529	8,470	1,824,495
Less reinsurance	175,227	1,501	57,588	18,331	1,683	122,634	28,352	3,700	16,270	10,398	19,957	1,870	-	457,511
Insurance fees on retention	25,346	457,477	60,256	4,859	27,735	14,348	24,842	332,014	6,719	25,230	368,029	11,659	8,470	1,366,984
Change in reserve for unexpired risks, net of reinsurance	(2,502)	(81,243)	1,074	(409)	(11,709)	4,385	(4,859)	(49,920)	(1,720)	(74)	(7,403)	(4,869)	1,202	(158,047)
Insurance fees earned	22,844	376,234	61,330	4,450	16,026	18,733	19,983	282,094	4,999	25,156	360,626	6,790	9,672	1,208,937
Investment income	950	14,297	1,148	118	5,684	6,873	5,209	62,845	811	665	11,259	103	824	110,786
Total revenues for the period	23,794	390,531	62,478	4,568	21,710	25,606	25,192	344,939	5,810	25,821	371,885	6,893	10,496	1,319,723
Claims paid and outstanding	69,505	274,901	55,481	11,641	22,177	162,768	28,958	248,269	2,340	20,061	210,692	4,812	4,648	1,116,253
Less reinsurance	62,473	(1,706)	34,604	10,468	5,205	129,012	13,373	(1,257)	(2,185)	9,109	(187)	551	38	259,498
Less portfolio claims	604	-	187	-	76	15,427	7,071	-	344	13	-	-	-	23,722
Total claims for the period	6,428	276,607	20,690	1,173	16,896	18,329	8,514	249,526	4,181	10,939	210,879	4,261	4,610	833,033
Excess of revenues over claims for the period	17,366	113,924	41,788	3,395	4,814	7,277	16,678	95,413	1,629	14,882	161,006	2,632	5,886	486,690
Commissions paid	17,793	65,211	34,239	4,010	4,772	26,557	9,636	11,229	1,250	2,794	67,259	4,917	1,919	215,586
Less reinsurance commissions	26,244	40	10,586	4,522	146	24,215	3,895	-	1,760	1,061	11,644	188	1	84,302
Administrative and general expenses	(8,451)	65,171	23,653	(512)	4,626	2,342	5,741	11,229	(510)	1,733	55,615	4,729	1,918	167,284
Changes in deferred acquisition costs	501	(17,261)	812	(69)	(3,513)	1,855	(1,458)	(5,100)	(516)	(134)	(13,838)	-	311	(38,410)
Total expenses for the period, net	8,216	96,169	35,086	1,938	4,324	6,833	9,770	42,294	1,061	7,105	98,406	5,080	3,215	319,497
Income for the period from general insurance business transferred to the income statements	9,150	17,755	6,702	1,457	490	444	6,908	53,119	568	7,777	62,600	(2,448)	2,671	167,193

Notes to the Financial Statements as at June 30, 2007

Note 4 - Results of general insurance business by principal lines of business (cont'd)

C. For the year ended December 31, 2006:

	Property				Liability				Health				Total NIS thousands
	Loss of property NIS thousands	Vehicle property NIS thousands	Residential property NIS thousands	Other property NIS thousands	Employers' liability NIS thousands	Third party NIS thousands	Compulsory Motor NIS thousands	Other Liability (1) NIS thousands	Personal accident NIS thousands	Sickness and Hospitalization NIS thousands	Overseas Business (2) NIS thousands	Other NIS thousands	
Premiums	281,626	534,923	164,591	35,489	42,538	85,598	443,004	589,579	66,697	786,230	24,560	13,662	3,068,517
Registration and other fees	26,110	230,969	77,551	6,502	8,138	16,614	66,322	8,332	2,454	11,753	1,230	1	455,976
Total insurance fees	307,736	765,912	242,142	41,991	50,676	102,212	509,326	597,911	69,151	797,983	25,790	13,663	3,524,493
Less reinsurance	266,258	2,040	116,525	32,751	3,377	58,980	7,268	542,753	19,122	40,400	4,928	1	1,094,403
Insurance fees on retention Change in reserve for unexpired risks, net of reinsurance	41,478 (480)	763,872 (445)	125,617 (1,348)	9,240 (224)	47,299 (8,319)	43,232 (1,233)	502,058 (9,592)	55,158 (1,016)	50,029 (412)	757,583 3,278	20,862 (8,000)	13,662 1,006	2,430,090 (26,785)
Insurance fees earned	40,998	763,427	124,269	9,016	38,980	41,999	492,466	54,142	49,617	760,861	12,862	14,668	2,403,305
Investment income	1,557	23,710	2,218	272	10,270	9,330	108,857	13,995	1,814	21,786	309	1,365	195,483
Total revenues for the period	42,555	787,137	126,487	9,288	49,250	51,329	601,323	68,137	51,431	782,647	13,171	16,033	2,598,788
Claims paid and outstanding	126,947	532,607	110,898	23,570	37,822	61,720	421,274	438,378	31,618	394,284	13,093	9,916	2,202,127
Less reinsurance	109,818	(4,611)	68,611	20,908	(5,686)	26,558	(5,830)	374,933	14,642	(10,120)	1,275	(2)	590,496
Less portfolio claims	1,585	2,507	551	1,229	10,801	16,178	8,531	20,358	359	-	-	-	62,099
Total claims for the period	15,544	534,711	41,736	1,433	32,707	18,984	418,573	43,087	16,617	404,404	11,818	9,918	1,549,532
Excess of revenues over claims for the period	27,011	252,426	84,751	7,855	16,543	32,345	182,750	25,050	34,814	378,243	1,353	6,115	1,049,256
Commissions paid	28,887	115,469	70,443	7,152	8,029	16,468	20,176	64,871	5,496	139,791	6,998	3,204	486,984
Less reinsurance commissions	42,302 (13,415)	115 115,354	21,532 48,911	8,029 (877)	226 7,803	7,814 8,654	- 20,176	63,596 1,275	2,926 2,570	30,001 109,790	398 6,600	- 3,204	176,939 310,045
Administrative and general expenses	31,065 17,650	94,280 209,634	24,054 72,965	5,031 4,154	6,024 13,827	10,794 19,448	65,356 85,532	12,757 14,032	10,650 13,220	123,997 233,787	3,681 10,281	1,723 4,927	389,412 699,457
Changes in deferred acquisition costs	(52)	(111)	(404)	20	(1,726)	(370)	(1,095)	3,131	(94)	(23,817)	445	260	(23,813)
Total expenses for the period, net	17,598	209,523	72,561	4,174	12,101	19,078	84,437	17,163	13,126	209,970	10,726	5,187	675,644
Income for the period from general insurance business transferred to the income statements	9,413	42,903	12,190	3,681	4,442	13,267	98,313	7,887	21,688	168,273	(9,373)	928	373,612

(2) Mainly professional liability

(3) Including incoming business

Note 5 - Contingent Liabilities and Commitments

A. Exposure to class actions

1. In September 2001 a claim was filed against the subsidiary, Harel Insurance, together with a request to certify the claim as a class action. The cause of the claim is that Harel Insurance collects insurance fees stated in dollars in foreign travel insurance policies according to an exchange rate that is higher than the exchange rate by which it pays insurance benefits when insurance events occur. The amount of the damages personally claimed by the claimant is NIS 1.64. The claimant estimates the overall amount of the damages with respect to the request to certify the claim as a class action at NIS 5 million.
On November 20, 2003, the District Court certified the claim as a class action. The Management of Harel Insurance filed for leave to appeal this decision. The Supreme Court held that a response to the leave to appeal must be submitted. On May 4, 2004, a response to the leave to appeal was submitted. A hearing on the request for leave to appeal took place on May 16, 2007.
The ruling that was made at the hearing determines that in the light of the legislation of the new Class Actions Law, the matter will be returned to the District Court, in order that it can hear the case and make a decision on the claim in accordance with the new law. Following the hearing in the Supreme Court, negotiations were held with the applicant, and in the end an agreement was formulated, according to which the plaintiff will remove themselves from the claim in its entirety and against this, they will be paid, as partial coverage of the expenses that have been caused, an amount of NIS 200 thousand. The application for the removal was presented to the court on July 16, 2007, however no decision has been handed down yet. In the light of the aforesaid, the management of the Company and Harel Insurance, in reliance upon Harel Insurance's legal counsel, is of the opinion that the chances of the application for removal are high and a provision has been recorded in the financial statements accordingly.
2. In April 2003 a claim was filed against the subsidiary Harel Insurance with the Tel Aviv District Court to which a request to certify the claim as a class action was attached.
In the claim it is alleged that for years Harel Insurance has unlawfully charged its customers for stamp tax on insurance agreements, in accordance with the Stamp Tax on Documents Law - 1961. The claimant contends that in charging him stamp tax, Harel Insurance has been unlawfully enriching itself at his expense, and therefore is required to refund the amounts collected. The overall amount of the claim as denoted by the plaintiff in the statement of claim is approximately NIS 166 million.
A response on behalf of Harel Insurance (which is supported by an opinion of Mr. Meir Shavit, the former Commissionaire) was submitted on September 15, 2003. On December 2, 2004, the claimant submitted his reply to this response. Concurrently with submission of the response of Harel Insurance, a request was filed to require the claimant to deposit a guarantee and the claimant submitted a reply to this matter as well. A decision with respect to deposit of a guarantee has not yet been rendered.
The hearing on the request to handle the case as a class action has been stayed until a judgment is rendered with respect to other requests to approve class actions against other respondents in civil suits, wherein the same issues have been raised as have been raised in the action against Harel Insurance.
Nevertheless, on May 1, 2006, a joint announcement was issued by parties in the other suits dealing in the same issues, that they have agreed that there is a need for examination of affidavits, therefore in their opinion there is no point in the separation of the hearings of the four claims and the Court was requested to schedule a single hearing. The Court decided on May 4, 2007 that the claims (including the claim relating to Harel Insurance) be brought before it for determination on July 12, 2007.

Note 5 - Contingent Liabilities and Commitments (cont'd)

A. Exposure to class actions (cont'd)

On July 23, 2007, a preliminary hearing was held and in accordance with the Court's decision, the plaintiffs gave notice of their intention to interrogate Mr. Meir Shavit. Moreover, it was determined that the representatives of the parties are to present a joint announcement, which is to include an estimate of the time that is needed for the questioning of the witnesses (attesters and experts), their names and the times that have been coordinated for the conducting of the questioning (hereinafter: "the joint announcement), within 14 days. On August 1, 2007, an application was filed on Harel Insurance's behalf for an extension of the deadline by a short period (of 14 days) for the presentation of the joint announcement. This application was accepted "as requested" on that same day.

In the opinion of the legal advisors of Harel Insurance, in light of the Court's decision on class action suits submitted against other respondents, as mentioned, the defense arguments of Harel Insurance have a good chance to repel the claim and the request to approve it as a class action and accordingly, the chances of the class action being accepted are lower than the chances of it being dismissed. Accordingly no provision has been included in the financial statements in respect of the claim.

3. In October 2004, a claim was filed in the Tel Aviv District Court against the subsidiary Harel Insurance and other insurance companies together with a request to certify the claim as a class action.

According to the claim, Harel Insurance - which had insured the policyholder when he was a minor and until the end of his military service as part of the health insurance of his father - should have stopped the insurance coverage of the policyholder from the date he was drafted, because from that date on the aforementioned health insurance was completely ineffective. Therefore, according to the claim, the policyholder and his father (who is also a plaintiff in the claim) are entitled to a refund of the insurance fees that were paid in respect of the policyholder during his military service.

The plaintiffs request that the claim, which also relates to other plaintiffs and insurance companies, be certified as a class action and they estimate its overall amount at NIS 70 million. The response of Harel Insurance was submitted on April 10, 2005.

In a decision on July 21, 2006, the Attorney General was requested to announce whether it is his intention to take a part in the court proceedings. In a decision given on October 23, 2006 the Attorney General was requested to submit his position within 30 days. Up to this time no position has been presented on behalf of the Attorney General. In a preliminary hearing that took place on January 22, 2006, it was determined that the decision of the Court on the application for the approval will be made in reliance on the legal documents that have been presented with their attachments.

During the course of June 2007 the plaintiffs made an approach and requested to attach additional documents, in support of their claim. Accordingly, the Court instructed the insurance companies that are being sued to respond to this application to attach, and this until the middle of September 2007. After a decision is handed down on this matter – the parties will present their summarizations in respect of the application for approval in its entirety.

In the opinion of the managements of Harel Insurance and the Company, based on the opinion of the legal counsel of Harel Insurance, the chances of Harel Insurance's claims against the approval of the claim as a class action being accepted are higher than the chances that they will be rejected. Accordingly no provision has been included in the financial statements in respect of the claim.

Note 5 - Contingent Liabilities and Commitments (cont'd)

A. Exposure to class actions (cont'd)

4. In April 2006 a claim was filed against the subsidiary Harel Insurance in the Tel Aviv District Court together with an application to approve the claim as a class action. The claim was filed against five insurance companies, including the subsidiary company Harel Insurance, and this by five claimants who were insured with different companies for work disability insurance.

The claimants allege that they paid a premium for work disability insurance (P.H.I.) until the end of the insurance period, including for the last three months of the insurance period under the policy. The claimants allege in the claim that during the last three months of the insurance period, the respondents collected premiums, despite the fact that in respect of this period the claimants were not entitled to receive insurance compensation even if they suffered a work disability (due to the waiting period prescribed in the policy). The claimants allege that the respondents failed to provide them with any information concerning their intention to collect premiums for the last three months of the policy period under the policy.

The relief requested is the issue of an order requiring all the respondents to suspend the collection of premiums for the aforementioned period and to oblige all the respondents to refund the premiums collected from the group members, who the claimants seek to represent within the framework of the class action, for the last three months of the policy period, plus linkage differentials and interest as laid down in Section 28(C) of the Insurance Contracts Law, as from the date of collecting the payments as aforementioned and up to the actual refund.

The claimants allege that the loss incurred by all the claimants from all the respondents is estimated by them, in accordance with an expert opinion, to be in the amount of NIS 47.61 million. The loss alleged against Harel Insurance is estimated by them at NIS 1.54 million.

Harel Insurance submitted its response to the request to represent in a class action on October 3, 2006.

In accordance with a decision of the Court, the plaintiffs have been given the possibility of presenting an application for the revelation of documents, after which – and in accordance with the decision that is handed down on that matter, they are to consider whether they wish to present a response to the response of the defendants to the application for approval as a class action. The plaintiffs presented an application for the revelation of documents and this was rejected.

Based on the opinion of Harel Insurance's legal advisors, the Company and Harel Insurance's managements are of the opinion that the chances of the claim and the request to represent in a class action being rejected are higher than the chances of their being accepted. Consequently, no provision has been made in respect of this claim in the financial statements.

5. On April 30 2006 a claim was filed against Dikla in the Tel Aviv District Court together with a request to approve it as a class action. The claim was filed in connection with a group long-term care policy, whereby Dikla insures Clalit Health Services (hereinafter: "Clalit") customers who have purchased the policy and this in accordance with an agreement between Clalit and Dikla. The claim is based on the claimant's allegation, whereby his claim for compensation due to a long-term care condition from which he suffers was rejected unlawfully. In the claim, the claimant alleges that Dikla was not entitled to reject the claim to receive the full insurance compensation on account of the fact that he failed to disclose an illness from which he suffered when he enrolled in the policy, despite the fact that the illness was registered as one of the ailments which prevents enrollment in the policy, and this due to the fact that Clalit or Dikla were supposedly aware of the illness from which he suffered. The claim was also filed against Clalit but for all intentions and purposes the claim is with respect to the insurance coverage under the long term care policy, wherein Dikla is the insurer and the claim is directed at Dikla's refusal to pay full insurance compensation to the claimant.

The claimant estimates the sum of the claim for all members of the group he seeks to represent within the framework of the class action to be NIS 1.7 billion

Note 5 - Contingent Liabilities and Commitments (cont'd)

A. Exposure to class actions (cont'd)

Dikla filed its response to the request for the approval of the claim as a class action. On November 20, 2006 a preliminary hearing was held on the request to approve the claim as a class action. In the hearing the Court suggested that the claimants consider whether they wish to persist in their claim. A hearing has not yet been held on the body of the application for recognition as a class action and various interim applications that have been filed by the parties are still outstanding.

Based on the opinion of Dikla's legal advisors, The Company and Dikla's management is of the opinion that the rejection of the claimant's claim for full insurance compensation, while approving partial compensation, was done lawfully and was even beyond Dikla's legal obligation. Moreover, in the opinion of the Company and Dikla's management, based on the opinion of Dikla's legal advisors, Dikla has strong defense arguments against the claim, which in their opinion is based on unsubstantiated factual and legal allegations. Furthermore, the calculation of the loss made by the claimant is unfounded, resulting in the inflation of the amount of the claim beyond all proportion. In the opinion of management of the Company and Dikla, which is based on the opinion of Dikla's legal counsel, the chances of the claim being rejected are higher than the chances of it being accepted.

Accordingly, no provision has been recorded in respect of this claim in the financial statements.

6. In May 2006, an application was filed at the Tel Aviv-Jaffa District Court to approve a class action against the subsidiary company Harel Insurance.

The subject of the application is insurance compensation for motor vehicles with a diminished value. The allegation is that Harel Insurance failed to comply with the procedure established in Insurance Circular 12/00, mandating full disclosure regarding the method of calculating impairment for vehicles with a diminished value, and it is therefore obliged to calculate the compensation without impairment.

The sum claimed in the name of the entire group is NIS 77 million, alleged to be the difference between compensation without impairment and the payment actually made (with impairments based on the Yitzhak Levy price list) for all the Group's members over the last seven years.

It should be noted that the application was filed after the Attorney General expressed an opinion on a different proceeding being conducted by the applicants in a similar case against another insurance company, except that Harel Insurance case differs from the case filed against the other insurance company, as the other insurance company (as emerges from the Attorney General's position) rejects the validity of the insurance circular and refuses to operate accordingly. The Company acts to provide fair disclosure with regard to the calculation of the impairment both in the policy and in the insurance details schedule as well as in its standard insurance proposal.

It should be further noted that the claimants' policies had been renewed rather than new policies issued, and the claimants had in the past accepted reduced compensation and therefore there is no doubt as to their awareness of the impairments.

In the opinion of the management of Harel Insurance and the Company, based on Harel Insurance's legal advisors, the chances that the application for recognition as a class action will be accepted are lower than 50% and consequently, no provision was made in respect this claim in the financial statements. It should be noted that contacts are being held between the parties on an arrangement, within the framework of which the financial claim against Harel Insurance will be deferred.

7. In June 2007, a claim was filed in the Tel Aviv District Court against the State of Israel (Judicial System – Judgments Execution Division), banks, provident fund management companies, and insurance companies – including Harel Insurance, together with a request to approve the claim as a class action.

Note 5 - Contingent Liabilities and Commitments (cont'd)

A. Exposure to class actions (cont'd)

The principal allegation in this claim is that the respondents allegedly mislead parties turning to them for service in connection with the execution of court judgments they received, by providing them with partial or misleading information, or by refusing to provide them with information in their possession regarding the money or rights of debtors, all of this while collecting fees under the Execution Office Regulations (Fees and Expenses), 1968. The grounds for the claim are, inter alia, unlawful misleading in violation of the Consumer Protection Law, action contrary to the supervision of Financial Services (Insurance) Law, 1981, a breach of trust and good faith as well as unjust enrichment. The group on whose behalf the application to approve the class action was filed consists of all those seeking to execute their legal collection right who have paid for third-party attachment via magnetic media during the period from July 11, 2002 until the claim was filed. Inter alia, the relief requested by the claimants is to oblige the respondents to refund the fees paid to them during the period between July 11, 2002 and June 1, 2007. The claimants estimate the amount of the claim for all members of the group against all the respondents at NIS 233 million (including interest and linkage differentials). In addition the Court was asked to require the defendants to make immediate preparations to provide correct answers on time in respect of the applications for attachments.

On October 18, 2006, Harel Insurance, together with the other insurers, presented a preliminary application for the dismissal of the claim even before a response had been filed, and in parallel an application for an extension for the presentation of a response to the application for recognition until after a decision has been given on the preliminary application, and in so far as the need arises for the presentation of response as aforesaid. On October 31, 2006 the Court granted the application for an extension and determined that the response to the application for recognition is to be presented 30 days after the handing down of a decision on the preliminary application.

On February 6, 2007 the applicants presented their response to the court. On April 1, 2007 the companies presented their response to the response by the applicants. A hearing on the preliminary application has been set for October 8, 2007.

In the opinion of the managements of the Company and of Harel Insurance, in reliance upon its legal advisors, at this initial and preliminary stage, at which the proceedings are to be found and in the light of the fact that the plaintiffs have not denoted a specific amount that is being claimed from the defendant companies, it is not possible to estimate the chances of the claims and the applications for recognition, or the monetary amount that Harel Insurance might be charged with if the application for the recognition of the action were to be accepted. At the same time, in reliance on the fact that Harel Insurance has good claims, both in the matter of the preliminary application and also as to the body of the claims, the management of the Company and of Harel Insurance, in reliance on the legal advisors of Harel Insurance, are of the opinion that the chances of the application for the recognition of the claim as a class action being accepted are lower than the chances of its being dismissed. Accordingly, no provision has been recorded in respect of this claim in the financial statements.

8. In January 2007 an application was presented in the Tel-Aviv district Court for the recognition of a claim as a class action against the subsidiary company Harel Insurance, the Union of Teachers in Israel and Ashmoret – Welfare and Cultural Services.

The subject matter of the application is the long-term care insurance fees that Harel Insurance collected from the policy holders and the arrangements in the matter of the collective long-term care insurance between Harel Insurance and the additional respondents.

Note 5 - Contingent Liabilities and Commitments (cont'd)

A. Exposure to class actions (cont'd)

The applicant is making two separate claims against two different groups: Firstly, that Harel Insurance raised the rate of insurance fees and renewed the insurance contract during the period of the policy, and this in contradiction to what was written in the policy and without the agreement of the insure. Secondly, that the company Ashmoret – Welfare and Cultural Services unlawfully collected an amount of 4% of the insurance fees that the insured parties paid for collective long-term care insurance.

The applicant estimates that the amount of damage is approximately NIS 38 million for the company and NIS 9 million for the second group. From an examination of the facts it arises that the applicant was not even charged with that same 4% collection fee and that this was not an increase in the insurance fees within the framework of that same long term care agreement, that of, on the replacement of the insurance agreement following a tender that was held by the Teachers' Union. Harel Insurance has handed over its response to the application for recognition as a class action to the other side, however the plaintiff's reaction to Harel's response has not yet been presented.

In the opinion of the managements of the Company and of Harel Insurance, in reliance on Harel Insurance's legal advisors, the chances of the application for the recognition as a class action being dismissed are higher than the chances of its being accepted. Accordingly, no provision has been recorded in respect of this claim in the financial statements.

9. In February 2007, a claim was presented in the Tel-Aviv District Court against the subsidiary Dikla and against Clalit Health Services (hereinafter: "Clalit") together with an application for recognition as a class action (hereinafter: the claim and the application for approval, respectively)

In brief, the claim made by the plaintiff is that since the year 2001 monthly payments were collected from them both in respect of a supplementary insurance policy (hereinafter: Clalit Supplementary) and also in respect of the additional health services plan (hereinafter: Clalit Perfect"). The plaintiff claims that these are overlapping insurance policies, which constitute double insurance, and that joining both of them did not offer any advantage. On the basis of the aforesaid, the plaintiff claims, inter alia, that there was a breach of the contract governing the relationship between him and Clalit when he joined the Additional Health Services Plan – Clalit Perfect, a breach of a legal duty; that he was misled, that there was a breach of the duty of disclosure under the Consumer Protection Law and under the Supervision of Financial Services (Insurance) Law, 1981 and illegal enrichment on the part of Dikla and Clalit.

The plaintiff seeks to represent everyone who purchased a supplementary insurance policy from Dikla and who was insured by the Clalit Health Fund, in parallel, under Clalit's Perfect Medical Insurance during any insurance period whatsoever. In the plaintiff's opinion, the class numbers at least 50,000 insured persons, and he estimates the average damages that were caused to each of them at an amount of NIS 1,500 (the plaintiff claims that his personal damages amount to NIS 2,714). Accordingly, the plaintiff estimates the amount of the claim in its entirety at an amount of NIS 75 million.

On August 7, 2007, Dikla and Clalit's response to the application for approval as a class action was filed. At the plaintiff's request, agreement was given to the deferral of the presentation of the reply to the response until the end of September 2007, No time has yet been set for the hearing on the application for approval or on the claim,

In the opinion of the management of the Company and Dikla, based on the opinion of Dikla's legal advisors, Dikla has good defense claims against the claim and the application for approval and the chances of claim being dismissed are higher than the chances of its being accepted. Accordingly, no provision has been recorded in respect of this claim in the financial statements.

Note 5 - Contingent Liabilities and Commitments (cont'd)

A. Exposure to class actions (cont'd)

10. A claim and an application for recognition as a class action were presented against the subsidiary company Harel Insurance and against additional insurance companies in the Tel-Aviv District Court in March 2007. The subject matter of the suit is the claim that the respondent insurance companies should have ceased to collect life assurance premiums (risk) on management insurance policies from policyholders who have reached the age of 65. The suit is based in the claim that the respondent insurance companies mislead the policy holders by publishing sample tables in which there is no collection of premiums for life assurance after the age of 65 and also on the claim that the policy itself required the insurance company to stop collecting for life assurance and required it to transfer the entire insurance to a savings channel. The amount of the personal claim against Harel Insurance is NIS 18,975. The amount of the claims of all of the generality of plaintiffs, including the plaintiffs that the plaintiff is seeking to represent within the framework of the class action against all of the respondents, is estimated by the plaintiffs at an initial amount of approximately NIS 900 million. Harel Insurance has not yet presented its response to the application. At the same time an initial investigation has shown that Harel Insurance did not even present any table whatsoever to its policy holders, and in any event, it did not mislead them in this way, and that the policy does not even include a provision that required the transfer of all of the insurance fees to a savings channel. In the opinion of the managements of Harel Insurance and the Company, based on the opinion of Harel Insurance's legal advisors, Harel Insurance has good defense claims against the claim. Moreover, the chances of the claim and the application for the recognition as a class action being dismissed are higher than the chances of their being accepted. Accordingly, no provision has been recorded in respect of this claim in the financial statements.
11. In May 2007 a claim and an application for recognition as a class action was presented against the Company and Harel Insurance in the Tel-Aviv District, the suit was presented by two policy holders, one on a loss of ability to work policy and the second on a life insurance policy. The plaintiffs claim that purportedly, insurance fees were collected from them from the beginning of the month in which they took up the insurance and not from the time that the policies entered force. The plaintiffs claim that the collection of insurance fees from the beginning of the month in which they took up the insurance and not from the time at which the policies entered into force was done, purportedly, unlawfully. The plaintiffs are asking to represent everyone who purchased a life insurance policy from the companies and from whom insurance fees were collected for the period from the beginning of the month in which they took up the insurance and not from the time of the acquisition of the policy, The plaintiffs estimate that their personal damages amount to approximately NIS 500 and that the damages for the generality of the members of the group that they are asking to represent amounts to approximately NIS 23 million. At present Harel Insurance is examining the factual circumstances at the basis of the application. In the opinion of the management of the Company and of Harel Insurance, based on Harel Insurance's legal advisors, they are unable, at this stage, to estimate the chances of the application for recognition as a class action. Accordingly, no provision has been recorded in respect of this claim in the financial statements.

Note 5 - Contingent Liabilities and Commitments (cont'd)

A. Exposure to class actions (cont'd)

12. In May 2007 a claim and an application for recognition as a class action was presented against the subsidiary companies Harel Insurance, Dikla and another insurance company, who are the insurers on a supplementary retirement policy, in the Tel-Aviv District Court. The suit was presented by a policyholder under a "supplementary retirement policy", which is a collective insurance policy in the long-term care field. The plaintiff claims that insurance fees were also collected from him after the occurrence of an insurance event, that is to say after he became a case needing long-term care and began to receive insurance payments in accordance with the policy. The plaintiff claims that the collection of the insurance fees was done, purportedly, illegally, since there is no provision in the policy that determines the continuation of the collection of fees after the occurrence of an insurance event and that it even, purportedly, contradicts the circular that was issued by the Supervisor of Insurance on the matter of the release from payment of premiums on a long-term care policy where the policy holder is in a state where they need care. The plaintiff is asking to represent in a class action all of the policyholders under "supplementary retirement policies" and/or under other long-term care policies with similar terms to those of the respondents in the claim.
The amount of the personal claim is NIS 8,202. In the plaintiff's opinion, the amount of the claim against the respondents in respect of the generality of the members of the group that he is asking to represent amounts to approximately NIS 166 million.
The response to the application for recognition as a class action will be presented by September 1, 2007.
In the opinion of the managements of the Company, Harel Insurance and Dikla in reliance upon their legal advisors, the companies have good defense claims against the said application for the recognition as a class action, such that the chances of the application for recognition being dismissed are higher than the chances of its being accepted. Accordingly, no provision has been recorded in respect of this claim in the financial statements.
13. On June 6, 2007, a claim and an application for recognition as a class action was presented against the subsidiary company Dikla. The claim was presented by two holders of "Supplementary retiree" policies, which are collective insurance policies in the long-term care field. The plaintiffs claim that the raising of the premiums that was carried out on the retiree policies and also the changes that were made in the insurance cover at the time of the renewal of the collective insurance agreement was purportedly done illegally. The plaintiff has asked to represent in the claim all of the policyholders who were insured under "Supplementary retiree" policies as from the year 1995.
The combined amount of the personal claims of the plaintiff amount to NIS 1,962. The plaintiff estimate that the amount of the claim in respect of all of the members of the class, which they are asking to represent, amounts to somewhere between NIS 58 million and NIS 115 million.
Dikla's response to the application for recognition as a class action will be presented by September 15, 2007.
At this preliminary stage, and after an initial review of the claim, in the opinion of the managements of the Company and Dikla in reliance upon Dikla's legal advisors, the chances of the claim are weak such that the chances of the claim and similarly of the application for recognition being dismissed are higher than the chances of their being accepted. Accordingly, no provision has been recorded in respect of this claim in the financial statements.

Note 5 - Contingent Liabilities and Commitments (cont'd)

A. Exposure to class actions (cont'd)

14. In August 2007 a claim and an application for recognition as a class action was presented against the subsidiary company Harel Investments House. The claim was presented by a couple who are customers of Harel Investments House. The plaintiffs claim that Harel Investments House collected a transfer free from them in an amount of NIS 15 as well as a securities transfer charge of NIS 19, both of them unlawfully. The plaintiffs are requesting to represent in the class action all of the customers from whom fees were collected for monetary transfers from the account or fees for transferring securities or any similar fee.
The combined amount of the plaintiffs' personal claim is NIS 305. The plaintiffs estimate that the amount of the claim in respect of all of the members of the group, which they are seeking to represent, amounts to approximately NIS 5 million.
In the opinion of the management of Harel Investments House, after an initial study of the claim, Harel Investments House had good defense claims against the claim, in respect of the fees and the payment that Harel Investments House collects lawfully, Moreover, the amount of the damage that is claimed for the generality of the members of the group is exaggerated in respect of the fees that are the subject of the claim, which are not collected from all of the customers of Harel Investments House, but rather, only from a customers who carry out a transfer of securities and/or monies from their account, however the calculation of the purported damage, has been made on the basis of the overall number of the customers of Harel Investments House.
15. In April 2007 a claim and an application for recognition as a class action were presented in the Tel-Aviv District Court against Harel Investments House. The claim was presented against Bank Hapoalim Ltd., Bank Leumi Le'Israel Ltd., Bank Discount Le'Israel Ltd., The First International Bank For Israel Ltd. (hereinafter – the banks), Clal Finances Betucha Investments Management Ltd., Migdal Stock-Exchange Services (Securities) Ltd. and Harel Investments House Ltd. (hereinafter the three latter will be called – the fund managers).
The grounding for the claim is the refund of brokerage commissions that were, purportedly, paid by the plaintiffs, from the beginning of the year 2004, in connection with their holdings in units in various mutual investment funds, as detailed in the statement of claim, and this in respect of the charge of brokerage fees and fees that are connected with trade in foreign currencies, at a higher rate than what the defendants should, purportedly, have collected. The plaintiff claims that as from the year 2004 the defendants collected fees from private bodies at rates that were lower than the rates that were collected in respect of the mutual funds that were controlled by the banks. Moreover, it is claimed that within the framework of the sale of control in the mutual funds by the banks to the mutual fund managers, it was determined that the banks would, purportedly, continue to provide the fund managers with trading services on the Tel-Aviv Stock Exchange and/or banking services (the purchase/ sale of foreign currency) and to collect the same high fees that they collected up to the time of the sale, where this found expression, purportedly, in the reduced price that was paid in consideration for the acquisition of control in the mutual funds by the fund managers at the expense of preventing profits for the fund managers from the collection of brokerage fees.
The claim was presented under the Class Actions Law – 2006, the claims made by the plaintiff are, inter alia, the purported breach of the provisions of section 69 of the Joint Investments in Trust Law, the purported breach of the duty of trust that the fund managers owed to the holders of the mutual trust units, the purported breach of the Banking Law (Services to Customers) – 1981 and the purported breach of the directives issued by the Supervisor of Banks – Proper Conduct of Banking Business Regulation 7 (1/01) "Activities of the banking system in the capital market", the purported misleading of the holders of the units in the mutual funds, purportedly unlawful enrichment and purportedly making wealth in an illegal manner.

Note 5 - Contingent Liabilities and Commitments (cont'd)

A. Exposure to class actions (cont'd)

The overall amount of the claim for all of the plaintiffs, including the plaintiffs that the plaintiffs seek to represent within the framework of the class action, against all of the defendants is, initially, estimated by the plaintiffs at an amount of NIS 386 million. The group which the plaintiffs seek to represent is made up of every person who purchased, holds and/or held units in mutual funds, which were managed by the fund managers who were and/or are controlled by the plaintiffs or any of them, at the times that are relevant to this claim. The amount of the claim of all of the plaintiffs, including the plaintiffs whom the plaintiffs seek to represent within the framework of the class action against Harel Investments House is estimated by the plaintiffs at an amount of NIS 5,676 thousand.

The remedy which is being sought in the claim is to charge the defendants to return the commissions that were, purportedly, collected, in excess, from the members of the group, from the beginning of the year 2004. In addition, the plaintiffs have asked for an order which instructs the defendants to change the way in which they behave in all that is connected to the collection of commissions.

In the opinion of the management of the Company and Harel Investments House, inter alia, in reliance on the position of the legal advisers of Harel Investments House, the chances of the claim against Harel Investments house are very low, since the facts that are described in the statement of claim are not correct in respect of it.

16. In August 2007 a claim and an application for recognition as a class action were presented in the Tel-Aviv District Court against the subsidiary Harel Insurance and against 4 additional insurance companies.

The subject matter of the claim is a demand to return premiums that were paid in respect of the first three months of insurance on health policies in which a period of eligibility of three months has been set. The plaintiffs claim that since in accordance with the terms of the policies an insurance event that occurs during the course of the eligibility period of three months is not recognized as an event to which the insurance cover is applicable in accordance with the policy, so the insured party, purportedly, pays insurance fees for a product or a service that is not provided to them during the course of the eligibility period and accordingly the collection of the payment is, purportedly, made unlawfully.

The plaintiffs seek to represent within the claim all of the customers from whom premiums were collected for an eligibility period on a health policy or on another policy.

The amount of the personal claim by the plaintiff, who is insured by Harel Insurance is NIS 267. The plaintiffs estimate the amount of the claim in respect of all of the members of the Group, which they seek to represent against all of the plaintiffs at an amount of approximately NIS 730 million, of which an amount of NIS 170 million is against Harel Insurance.

In the opinion of the management of the Company and Harel Insurance, after an initial study of the claim, Harel Insurance has good defenses against the claim, inter alia, because the collection of an eligibility period is done lawfully, under the power of the policies, which were lawfully approved and in respect of which full disclosure was given to the customers.

B. Claims that came to a conclusion during the reporting period

1. In January 2003 a request to certify a claim as a class action was filed in the Tel-Aviv-Jaffa District Court against a subsidiary whose activities were merged with those of the subsidiary Harel Insurance. The claim relates to the non payment of compensation for decline in value of motor vehicles made on behalf of all the policy holders whose motor vehicles at the time the insurance incident occurred was more than nine years old or five years for a commercial motor vehicle, and for a refund of premiums paid in respect of a decline in value, on behalf of all policy holders whose motor vehicles have not been damaged and whose motor vehicle's age was over the ages detailed above. The amount of the claim was not specified in the claim.

Note 5 - Contingent Liabilities and Commitments (cont'd)

B. Claims that came to a conclusion during the reporting period (Cont'd)

On March 13, 2006, the District Court handed down its ruling as to the right to represent policyholders in a class action. The Court denied the claimant's request to recognize the claim as a class action with respect to the monetary relief being claimed on behalf of the group represented. The District Court recognized the claim as a class action only with respect to the declaratory relief requested regarding the subsidiary company's obligation to disclose the fact that it does not pay compensation for decline in value of private motor vehicles over nine years old and commercial motor vehicles over five years old.

The declaratory relief that was approved is in respect of all policyholders with whom the Company entered into an insurance contract subsequent to January 19, 2000, and whose motor vehicles at the time the contract was signed were over nine years old for private motor vehicles and over five years old for commercial motor vehicles. The claim, as approved, does not have direct monetary significance to the Company.

If the claimant succeeds in his request for declaratory relief, the judgment could be used by policyholders, in individual claims they may file, if any, for decline in value of the motor vehicles referred to above.

Harel insurance and the claimant filed for leave to appeal this decision.

The hearings on the application for leave to appeal and the appeal were consolidated and the hearing was held on May 30, 2007.

At the time of the hearing the Court made a recommendation to the application – the appellant, to take back his appeal, and that happened. In parallel, and in the light of the declaration by Harel Insurance that after the handing down of the judgment in the District Court it has changed the practice that it has followed such that every car that is insured is checked by Harel Insurance on an individual basis, for impairment of value, and the application for leave to appeal that has been presented by Harel was accepted and the ruling by the District Court was annulled. Accordingly, the case reached its conclusion.

2. In December 2006 a claim was presented against the subsidiary company Harel Insurance, together with an application for recognition as a class action. The subject matter of the claim is the claim that Harel Insurance collected, so it is claimed, an additional payment of 20% of the amount of the insurance on maritime insurance policies, which are marketed by Bank Discount and accordingly the premium is, so it is claimed, 20% higher than the premium that was supposed to have been collected. The claimant, who purchased the policy via Bank Discount, claims that the collection of the surplus premium was done, so it is claimed, unlawfully and without the knowledge of the insured parties. The claimant has estimated the amount of the claim for all members of the group covered by the class action that she is requesting to represent at an amount of NIS 150 million. Harel Insurance presented its response to the application for recognition as a class action on March 4, 2007.

On May 28, 2007 the Tel-Aviv District Court dismissed the claim and the application for recognition as a class action with no order as to expenses, and this in accordance with an agreement between the parties. With this the case reached its conclusion.

Note 5 - Contingent Liabilities and Commitments (cont'd)

C. Other contingent liabilities

1. On September 21, 2006 a subsidiary company, which operates the Group's computer system announced the cessation of an arrangement under an agreement with a program development company, in connection with a project to develop a computer system for the production of life insurance, health and pension policies for Harel Insurance.
In accordance with the agreement between the subsidiary company and software development company, disputes between the parties are too cleared up under an arbitration process. The parties have appointed the honorable retired judge Shalom Brenner as arbitrator. On January 26, 2007 Harel Insurance and the subsidiary company presented the arbitrator with a claim against the software development company for the return of the amounts that were paid to the software development company, for indemnification in respect of the expenses incurred by Harel Insurance and the subsidiary company in connection with the project and for the refund of the damages that were caused to them, as a result of the omissions and the negligence of the software development company, the false representations that were made to them in connection with the project and on additional grounds. The amount of the claim against the software development company is NIS 99.7 million (less a guarantee that was exercised in the amount of approximately NIS 8.7 million).
The software development company for its part presented the arbitrator with a claim in the amount of approximately NIS 50.2 million, alternatively, it is claiming compensation in amounts of between NIS 69 million and NIS 30.3 million on contractual, unlawful enrichment and damages grounds.
In the opinion of the managements of the Company, Harel Insurance and the subsidiary company, based, inter alia, on the position of their legal advisors, the subsidiary has well based grounds for requiring the software development company to repay all of the amounts that were expended by it and also to receive compensation for damages. Similarly, in the opinion of the management of the Company, Harel Insurance and the subsidiary company, inter alia, based on the opinion of their legal advisors, that in so far as related to the monies that were invested by them, in the amount of approximately NIS 59.7 million, it is probable that they will be successful in the claim and that accordingly, at the end of the processes, Harel Insurance will not bear significant monetary damages. Similarly, the managements of the Company and Harel Insurance, based on their legal advisors, are of the opinion that the claim by the software development company will be dismissed and therefore no provision has been made in connection with that claim.
Harel Insurance has examined development alternatives, for the inclusion of the functions, which the system was supposed to provide, within the framework of Harel Insurance's existing software as well as within the framework of the software which is in the development stage. In February 2007 the subsidiary company began the implementation of the alternative that had been selected by the company within the framework of which the computer systems of the companies in the Group will be enhanced. The write off was recorded in the financial statements within the framework of the item "write off in respect of the cessation of a project".
2. The subsidiary company Harel Insurance has received tax assessments for the years 2000 -2001 on the subject of the non-recognition of financing expenses in respect of the loans that it took upon itself in proximity to the distribution of a dividend. The additional tax in accordance with the assessments that relate top this subject amount of approximately NIS 4.5 million. Harel Insurance has lodged an appeal against these assessments, and this has been disallowed by the assessing officer. In June 2005, Harel Insurance received orders in respect of those years. Harel Insurance has presented submitted a notice of appeal to the District Court.
In December 2006 Harel Insurance received tax assessments for the years 2002-2004. The additional tax, in accordance with those assessments, which relates to the non-recognition of the abovementioned financing expenses is approximately NIS 16.5 million.

Note 5 - Contingent Liabilities and Commitments (cont'd)

C. Other contingent liabilities (cont'd)

Harel Insurance has lodged an appeal against these assessments, but no hearing has yet been held on the matter.

In a judgment handed down by the Supreme Court in November 2006 the Court was required to discuss a similar matter, although the circumstances of that case are different. In that case the Supreme Court did not allow the deduction of financing expenses deriving from loans taken in order to distribute a dividend. Under the severe assumption that the position of the assessing officer as reflected in the aforementioned assessments is accepted, the exposure amounts to NIS 39 million in respect of the tax years included in the assessment and subsequent years.

In the opinion of the managements of the Company and Harel Insurance, which is based on the opinion of Harel Insurance's legal counsel, Harel Insurance has good arguments in the pending appeal, despite the ruling of the Supreme Court, and the chances of the appeal being accepted are higher than the chances of the assessing officer's position being accepted. Harel Insurance plans to continue the legal proceedings on this matter. Therefore no provision was included in respect of the aforementioned tax exposure in the financial statements.

3. On December 24, 2006 a subsidiary company was issued with assessments for the years 1996 to 1998 as well as for the years 2002 to 2004. The Value Added Tax Authorities, who determine the classification of the companies, classified the subsidiary company as a non-profit organization from its incorporation and until the year 1998. The subsidiary company updated the tax authorities of this classification and it acted like a non-profit organization in respect of the manner of its reporting and its tax payments. In the year 1998 the VAT authorities changed the classification of the subsidiary company from being a non-profit organization to being a financial institution, by agreement and the change was not applied retrospectively. The assessing officer decided to issue the subsidiary company with assessments in respect of the years in which it acted as a non-profit organization and the subsidiary company appealed those assessments – both because that do not accord with its position as of that time and also because the statute of limitations applies to those years. The tax demands in respect of those years amount to NIS 4,634 thousand.

The assessments for the years 2002 to 2004 touch upon the dispute in respect of the timing of the recording of income from management fees in respect of services that subsidiary company has not yet provided, and the subsidiary company has also lodged an appeal against this assessment. The tax demands in respect of those assessment amount to NIS 1,409 thousand. No provisions have been made for tax in respect of the abovementioned assessments.

D. Commitments

1. In March 2007 an agreement was signed between Harel Insurance and Dikla and an entrepreneur who is building a mall in Givat Shmuel, according to which Harel Insurance and Dikla have made a commitment to acquire the mall and this subject to certain conditions being met, including the rental of 80% of the floor space that is available for rental in the mall, on rental agreements that comply with conditions that have been detailed in the agreement, the opening of the mall to the public and the commencement of the receipt of rental fees from the tenants. The consideration for the acquisition will be calculated in accordance with an annual yield of 8.4% on the investment, based on the overall total rental fees from the floor space that is leased in the mall as of the time of the opening of the mall. The acquisition will be carried out mainly out of the reserves against yield depended liabilities. The cost that is expected in respect of the acquisition of the mall is approximately NIS 120 million.

Notes to the Financial Statements as at March 31, 2007

Note 5 - Contingent Liabilities and Commitments (cont'd)

D. Commitments (cont'd)

2. In May 2007 Harel Insurance (primarily for reserves against yield dependent policies), Dikla, Harel Pension Funds Management Ltd. and Harel Provident Ltd. (hereinafter – the investee companies) entered into an agreement with Gamla Millennium (Europe) Ltd. (hereinafter: Gamla), for the setting up of a joint entity, which will be engaged in the initiation of and investment in real estate projects in Eastern Europe, as may be approved by the parties from time to time (hereinafter: the agreement).
The parties share of the issued share capital of the entity will be as follows: Gamla – 60%, the investee companies, cumulatively – 40%.
It was determined in the agreement that the parties will make shareholders equity in an amount of 10 million Euros available to the joint entity, in part as an investment in the issued share capital and in part as shareholders' loans, and that this is to be divided in accordance with the holding rate if each of the parties in the issued share capital of the joint entity. It was further determined that the investee companies will make financing in the amount of up to 30 million Euros available to the joint entity. The agreement contains provisions in respect of the management of the joint entity, a mechanism of right of first refusal on the transfer of shares in the joint entity to a third party, the financing of the activities of the joint entity and other provisions.
The agreement is not expected to have significant impact on the activities of the Company, since the financing has been provided, primarily, from reserves in respect of yield dependent liabilities, the assets of provident funds and the assets of pension funds.
3. In May 2007, the subsidiary company Harel Insurance entered in to a commitment with an insurance agent for the acquisition of their entire goodwill and business connections, including their insurance portfolio, in an amount of NIS 15 million.
4. See Note 8 (3) on the subject of the signature of agreements with Gilad Retirement For Religious Workers Ltd. after the balance sheet date.
5. See Note 8 (5) on the subject of the commitment by Harel Insurance with Assif Provident Fund Management Company Ltd.

Note 6 – Other assets

On December 27, 2006 a transaction was completed, within the framework of which Harel Insurance acquired the provident fund activities, the main ones being Otzma and Taoz from Bank Leumi Le'Israel Ltd and from Leumi Provident Ltd., for a consideration of NIS 575 million. The activity that was acquired includes, inter alia, the goodwill, the management rights, the list of customers and the brand of the provident funds. Within the framework of the agreement Harel Insurance undertook that the management of the provident funds, in accordance with the Provident Funds Law, will be transferred, in parallel to the completion of the transaction, to a management company, within the meaning of that term in the Provident Funds Law, and that the management company, which will carry out the management of the provident funds immediately on the completion of the transaction, on behalf of Harel Insurance, will be Harel Provident Ltd. (hereinafter: Harel Provident). The Company is entitled to transfer the management of the provident funds at any time to another management company, subject to receipt of the approval of the Commissioner of Insurance and the giving of notice in advance of 45 days.

Note 6 – Other assets (cont'd)

In accordance with the conditions that were determined by the Commissioner of Insurance for the approval of the transaction, the company is to transfer its holdings in Harel Provident so that that company will be a subsidiary of Harel Insurance instead of being a subsidiary of Harel Investments house Ltd. (a fully owned subsidiary company). The Company is acting to receive the approvals for the carrying out of the structural change as aforesaid.

The management of Harel Insurance, in reliance on the opinion of a qualified external valuator has allocated the acquisition costs as follows: An amount of approximately NIS 199,830 thousand has been attributed to the right to receive management fees in respect of the reservoir of existing customers in the provident funds on the day of the acquisition and this will be amortized over a period of 10 to 14 years. An amount of approximately NIS 4,513 thousand was attributed to the brand name and this will be amortized over a period of 10 years. The balance in the amount of approximately NIS 370,657 thousand constitutes goodwill, in respect of which an examination of impairment in value will be conducted once a year, or at more frequent intervals, if events or changes in the circumstances occur, which indicate that it is possible that an impairment in value has occurred, in accordance with Accounting Standard Number 20 (Amended).

Note 7 – Significant events in the reported period

1. On April 15, 2007 it was discovered that during a period beginning in the year 2003 and continuing up to the time that it was uncovered, the deputy CEO of the subsidiary company Harel Investments House Ltd. (hereinafter: "Investments House") defrauded the monies of Investments House by an overall amount that is estimated, as of the time of the approval of the financial statements as of June 30, 2007, at approximately NIS 123 million (of which approximately NIS 85 million as from January 1, 2007). Out of this amount Investments House has recovered balances of monies that were taken from it, recorded in the accounts through which the fraud was conducted and as of the time of uncovering of those accounts an amount of approximately NIS 12 million was found in the accounts and accordingly, the amount of the damage from the fraud is estimated at this stage, is approximately NIS 111 million.
Harel Investments house is insured in the subsidiary company Harel Insurance Company Ltd. (hereinafter: "Harel Insurance") under a professional liability policy (hereinafter: "the policy"), where Harel Insurance has insured itself in respect of the policy under a reinsurance policy. According to a legal opinion that has been received by Harel Insurance, it is virtually certain that the re-insurers on the policy (hereinafter: "the insurance companies") will bear the damages from the insurance pay out that Harel insurance will pay to Harel Investments house, less the Harel Insurance retention in accordance with the reinsurance agreements, within the limits of the responsibility under the policies and less the self participation of the Investments House in the amount of 50,000 Dollars.
In the light of the aforesaid, the Company recorded a net loss in the amount of approximately NIS 8.4 million in its financial statements as of June 30, 2007. The loss, as aforesaid, is recorded under the item net income from financial services. This amount is the damages from the fraud less the insurance payouts that are expected to be received from the reinsurance companies and less the tax effects of approximately NIS 4 million.
2. On March 1, 2007, the Company entered into an agreement with Israel Discount Bank Ltd. and with the First international Bank of Israel Ltd. for the sale of the Company's entire holdings in Israel Credit Cards Ltd. (C.A.L.). The Company held 5% of the issued share capital of C.A.L. The overall consideration that was paid to the Company within the framework of the transaction amounted to approximately NIS 74 million. The sum of profit before tax, that the Company recorded in respect of this transaction, in the amount of NIS 46 million, was recorded under income from investments.

Note 7 – Significant events in the reporting period (cont'd)

3. On May 14, 2007, the Company entered into an agreement with CAL, for the setting up of a joint company that will be engaged in the extension of credit to customers, based on the platform of a unique credit card, which will be issued for that purpose by CAL, on behalf of the joint company.

The founders' agreement contains provisions in respect of the activities of the joint company, the composition of the board of directors of the joint company, the right of first refusal in the event of a sale of shares in the joint company and the right to tag along in the event of the sale of shares in the joint company, a mechanism for separation in connection with the holdings in the joint company as well as other provisions.

In parallel to the signing of the founders' agreement, the Company and CAL signed an agreement on behalf of the joint company, within the framework of which the business plan of the joint company was fixed, the activities of the joint company in respect of the credit cards that will be marketed by the joint company were organized, the services that will be provided to the joint company by CAL and by the Group were determined as well as other provisions.

In addition, an agreement was signed between the parties, which organize the joint activity until the receipt of the regulatory approvals that are necessary in order to found the joint company, and this includes the approval of the Bank of Israel since the joint company is an "ancillary banking entity".

As of the time of this report, the joint venture has not yet began its activities because the approval of the Anti Trust Authority has not yet been received for the cooperation between the parties in the venture.
4. On May 30, 2007, a transaction was completed, within the framework of which the Company sold a parcel of shares in ICIC - Israel Credit Insurance Company Ltd. (hereinafter: ICIC), constituting 33.33% of ICIC's issued share capital, for a consideration of approximately NIS 41.5 million.

Following the sale, the Company, Agricultural Insurance and Hermes each own one third of the issued share capital of ICIC.

At the time of the completion of the transactions the ICIC shareholders agreement, which organizes the management of ICIC, the appointment of directors, the mechanism of right of first refusal and the right to tag along, an option that is awarded to Hermes to increase the rate of its holding in ICIC and etcetera, entered into force. The profit that the Company recorded in respect of the sale of its holdings in ICIC in the quarter amounted to approximately NIS 2.2 million.
5. On June 7, 2007, a transaction was completed within the framework of which, the Group invested an amount of 8 million Dollars in Matrix Capital Market Ltd. (Matrix), in consideration for the allocation of 30% of the issued share capital of Matrix. Similarly, shareholders agreement in Matrix was signed, which includes provisions, inter alia, on the matter of the management of Matrix, restrictions on the transferring of shares in Matrix, including the determination of a mechanism of right of first refusal and the right to tag along in the event of a sale of shares. The investment is held through Harel Investments House

Matrix is engaged primarily in the trade in futures contracts in international markets, for the short-term, and this by means of unique trading and data analysis methods. Matrix carries out its trading activities from its own independent sources (it does not manage investments for others). In accordance with the agreements that have been signed, the parties intend to carry out co-operations in additional fields which interface with the activities of the Group in the financial field and Matrix's activities, in order to leverage the unique knowledge, expertise and distribution possibilities of the parties

Note 8 – Post balance sheet date events

1. On July 26, 2007, a transaction was completed, within the framework of which Harel Investments House acquired the control in Recanati – Inbar Financial Management Ltd. (“the acquired company”). The acquired company is engaged in portfolio management in accordance with the Law for the Arrangement of Engagement in Investment Consultancy – 1995. The acquired company holds 100% of the share capital of Lenny Recanati – Inbar (Mutual Funds Management) Ltd. (“the funds management company”), which is a funds manager, within the meaning of that term in the Mutual Funds Investments Law – 1994. The acquired company was incorporated in September 2003 and began its portfolio management activities in November 2003. The funds management company was incorporated at the end of the year 2005 and began its portfolio management activities in June 2006.

An agreement was signed between the remaining shareholders in the acquired company in connection with the management of the acquired company, the appoint of directors in the acquired company, a mechanism of a right of first refusal on the sale of shares in the acquired company, a mechanism of a right to tag along in the event of the sale of shares in the acquired company, a put option for the Recanati Group, according to which during the course of a period of 27 months from the time of the completion of the transaction they will be entitled to sell their entire holdings in the acquired company to Harel Investments House, a mechanism for separation and other provisions.

With the completion of the transaction, Harel Investments House holds 60% of the of the issued share capital of the acquired company and the Recanati Group holds the remaining 40% through a joint company that is controlled by Mr. Lenny Recanati.

The overall consideration that was paid by Harel Investments House in respect of the transaction (the acquisition of the shares and the investment in the company’s capital against the issuance of shares) amounted to approximately NIS 16.7 million. Harel Investments House has financed the acquisition by means of a loan, which the Company made available to it.

2. On July 31, 2007, the subsidiary company Harel Insurance entered into an arrangement with Assif Provident Fund Management Company Ltd. (“Assif”), which is part of the Bank Hapoalim Group, for the acquisition of the Niv provident fund. The Niv provident fund was set up in the year 2003, the volume of its assets is approximately NIS 179 million and it has approximately 36,500 members. The consideration that was paid to Assif by the company amounted to NIS 1.5 million.

The completion of the transaction is subject to the fulfillment of a number of critical terms, which include: the approval of the Commissiner of the Capital Market, Insurance and Savings in the Ministry of Finance, the Anti-Trust Authority and the signature on an operating agreement with Bank Hapoalim Ltd. in connection with the operation of the Niv provident fund after the completion of the transaction. In accordance with the purchase agreement, in parallel to the completion of the transaction, Harel Insurance will transfer the management of the Niv provident fund and the compliance with all of the legal provisions that apply to a company that manages provident funds to Harel Provident.

Notes to the Financial Statements as at June 30, 2007

Note 8 – Post balance sheet date events (cont'd)

3. On August 3, 2007, agreements were signed with Gilad Retirement for Religious Workers Ltd. (“Veteran Gilad” or “the seller”) as detailed below:

The acquisition of Gilad Comprehensive Pension Fund Ltd.

The Company entered into an agreement with Veteran Gilad, in trust for a fully controlled company, according to which the company that is fully controlled by the Company will acquire from Veteran Gilad the full control (100%) of the issued share capital in Gilad Comprehensive Pension Fund Ltd. (“the management company” or “Gilad”), which is a company that manages the new pension funds “Gilad Complementary” and “Gilad Profitable” (hereinafter, together: “The pension funds”) for consideration in the amount of NIS 92 million. What is being sold and acquired is, inter alia, the entire issued share capital of Gilad and also: (A) the ownership of the name Gilad (whilst granting authorization to Veteran Gilad to continue to make use of the name Gilad but only for the purpose of the management of the veteran pension fund that it owns; (B) the entire goodwill of the seller in connection with the management of pension funds and provident funds; (C) All of the management and operational rights in connection with the pension funds that are managed and/or which are operated by the seller at the time of the signing on the agreement; (D) the rights to the data-base of the pension funds; (E) a commitment by the seller not to compete. The seller will extend operating services to the pension funds up to December 31, 2008, however, the Company will be entitled to bring the operational services agreement to a conclusion at any time, while giving advance notice of 90 days. The completion of the transaction is conditional upon the fulfillment of a number of critical conditions, and these include: (1) the receipt of the approval of the Anti-Trust Director; (2) the approval of the commissioner of the Capital Market and Insurance in the Ministry of Finance, including the receipt of a license for control and a license for holding the means of control in the management company.

In accordance with the financial statements of Gilad and of the funds as of December 31, 2006, the sums of the assets that are managed by Gilad are as follows:

The sums of the assets that are managed in the “Profitable Gilad” pension fund: approximately NIS 1,526 million.

The sums of the assets that are managed in the “Gilad Complementary” pension fund: approximately NIS 3 million.

The Company intends to integrate the pension funds that are being acquired within the framework of the activities of the long-term savings division of Harel Insurance, in such manner as will enable it to make a significant increase in its market share in the pension funds sector, and with the objective of achieving a saving in the average cost of the management of the pension funds that it manages, while exploiting the advantage of size.

The acquisition of the provident fund activities:

Harel Insurance has entered into an agreement with Veteran Gilad for the acquisition of the activities of the provident funds, as detailed below, for consideration in the amount of NIS 8 million:

- (A) Gilad Provident Fund for Emoluments and Severance Pay Ltd. – a provident fund for emoluments and severance pay (“provident fund”), which is a provident fund for emoluments. The sums of the assets in the provident fund, as of December 31, 2006, was approximately NIS 132 million and the number members (salaried and self-employed) in the fund is approximately 12,000.

Note 8 – Post balance sheet date events (cont'd)

- (B) Gilad Central Severance Pay Fund Ltd. – a central severance pay fund. The sums of the assets in the fund, as of December 31, 2006, was approximately NIS 5.2 million and the number of members is approximately 25 employers.
- (C) Further Training Fund For Employees at Gilad Ltd. – (“further training fund”). The sums of the assets in the further training fund, as of December 31, 2006, was approximately NIS 131 million and the number of members (salaried and self-employed) in the fund is approximately 7,600.

The provident fund, the central severance pay fund and the further training fund will be called, together, hereinafter: “the provident funds that are being acquired”.

What is being sold and acquired is, inter alia, the entire goodwill and activities of the seller in connection with the provident funds that are being acquired, including the management rights in the provident funds that are being acquired, the investment activities, research and development, the list of customers and etcetera. In accordance with the agreement, Harel Insurance will acquire the provident funds that are being acquired, and at the time of the completion of the transaction, it will transfer the management of the provident funds that are being acquired to a provident fund management company that is fully controlled by the Company. The completion of the transaction is conditional upon the fulfillment of a number of critical conditions, and these include:

- (1) the receipt of the approval of the Anti-Trust Director;
 - (2) the approval of the Commissioner of the Capital Market and Insurance in the Ministry of Finance for the transaction.
- 4. On August 20, 2007, a transaction was completed within the framework of which the Company acquired from Discount Bank Le'Israel Ltd. and Discount Trust Ltd. ("the sellers"), the shares in Discount Insurance Agencies Ltd. (hereinafter: Discount Agencies) that were held by the sellers (20% of the issued share capital of Discount Agencies) for a consideration of NIS 900 thousand. The balance of the shares in Discount Agencies are held by the Company
 - 5. See Note 5 A (14) and Note 5 A (16) on the subject of class actions that were presented after the date of the financial statements against Harel Investments House and Harel Insurance.

Harel Insurance Investments & Finances Ltd.

**Appendices to the
Financial Statements
As at June 30, 2007**

APPENDIX 1. Harel Insurance Company Ltd. – Details of assets and liabilities as at June 30, 2007

Reported amounts

Part A - Classification of assets earmarked to liabilities

	Total assets and debit balances	Linked to the consumer price index	Life Assurance	Profit participating policies	General insurance	Minimum capital	Capital surplus	Other liabilities
			Unlinked					
NIS thousands reported amounts								
A. Investments								
1. Cash and cash equivalents	987,621	-	147,148	199,751	420,419	91,916	128,387	-
2. Securities								
a. Marketable government bonds:								
1. Marketable in Israel	3,327,456	128,538	90,024	1,642,864	1,016,887	193,951	228,519	26,673
2. Designated bonds – “Hetz” agreements	3,403,423	3,320,028	-	83,395	-	-	-	-
3. Marketable abroad	49,848	-	2,068	44,099	2,962	-	719	-
4. Non-marketable – abroad	228,733	-	21,482	185,865	21,386	-	-	-
b. Non-marketable commercial paper – in Israel	109,402	-	-	45,863	63,539	-	-	-
c. Other bonds – non-government:								
1. Marketable in Israel	1,848,322	399,999	11,081	1,095,394	341,848	-	-	-
2. Marketable abroad	675,781	27,313	59,303	445,435	143,730	-	-	-
3. Non-marketable - in Israel	3,108,463	621,774	236,404	1,901,728	348,557	-	-	-
4. Non-marketable – abroad	5,244	-	-	5,244	-	-	-	-
d. Shares –								
1. Marketable in Israel	2,669,260	-	141,527	2,337,145	19,095	6,853	35,956	128,684
2. Marketable abroad	317,364	-	14,760	285,603	617	941	15,443	-
3. Non-marketable in Israel	79,527	-	225	62,385	2,775	9,534	4,608	-
4. Non-marketable abroad	46,604	-	2,712	41,522	237	39	2,094	-
e. Non-marketable commercial paper								
1. In Israel	2,024	-	-	2,024	-	-	-	-
2. Abroad	463,897	-	29,504	391,459	23,741	-	19,193	-
f. Participation units in mutual funds –								
1. In Israel	-	-	-	-	-	-	-	-
2. Abroad	691,527	-	46,724	579,958	6,485	-	58,360	-
g. Share warrants	70,422	23	20,450	46,716	323	-	2,910	-
h. Options	(387)	297	-	(233)	(45)	(406)	-	-
i. Futures	63,705	(33)	11,315	52,996	(57)	(516)	-	-
j. Investment funds	672,253	31,765	38,381	506,884	9,522	-	40,746	44,955
3. Loans (excluding to investee companies)								
a. Against life assurance policies	279,154	109,791	-	169,363	-	-	-	-
b. Secured by mortgages	104,964	98,741	-	851	5,372	-	-	-
c. Secured by bank guarantees	50	-	-	-	50	-	-	-
d. Secured by lien on motor vehicles	344,362	655	-	200,380	143,327	-	-	-
e. Primarily to rated companies	798,195	137,376	-	324,299	108,275	228,245	-	-
f. Secured by credit card issuing companies	103,686	-	-	-	103,686	-	-	-
g. Secured by other collateral and unsecured	23,368	16,983	-	-	6,385	-	-	-
h. Abroad	3,687	15	-	1,899	1,773	-	-	-
4. Bank deposits	2,376,022	965,619	-	993,043	417,360	-	-	-
5. Investments in investees	58,064	-	-	-	-	58,064	-	-
6. Real estates for leasing	257,230	99,541	-	91,160	-	66,529	-	-

APPENDIX 1. Harel Insurance Company Ltd. – Details of assets and liabilities as at June 30, 2007 (cont'd)

Reported amounts

Part A - Classification of assets earmarked to liabilities (cont'd)

	Total assets and debit balances	Life Assurance		Profit participating policies	General insurance	Minimum Capital	Capital surplus	Other liabilities
		Linked to the consumer price index	Unlinked					
NIS thousands reported amounts								
B. Fixed assets								
1. Office buildings	147,687	127,215	-	-	-	20,472	-	-
2. Other fixed assets	49,062	-	-	-	-	49,062	-	-
C. Amounts receivables								
1. Insurance companies and brokers:								
a. Reinsurers' share in insurance reserves	551,864	31,680	40,022	109,815	370,347	-	-	-
b. Reinsurers' share in outstanding claims	3,024,486	1,703	16,703	2,412	3,003,668	-	-	-
c. Reinsurers' deposits	3,093	-	-	-	3,093	-	-	-
d. Other accounts	62,676	31,895	-	-	30,781	-	-	-
2. Outstanding premiums and agents' balances	869,451	4,513	13,797	102,533	748,608	-	-	-
3. Other debtors and debit balances	168,289	9,371	-	52	91,551	-	-	67,315
D. Deferred acquisition costs and other assets								
1. In general insurance	145,191	-	-	-	145,191	-	-	-
2. In life assurance	721,322	28,053	1,891	23,047	-	501,262	1,892	165,177
3. In illness and hospitalization insurance	60,624	-	-	-	3,006	31,953	25,665	-
4. Other assets	651,923	-	-	-	-	636,908	2,912	12,103
5. Deferred taxes	14,225	-	-	-	-	-	-	14,225
Total of assets and debit balances	29,639,164	6,192,855	945,521	11,974,951	7,604,494	1,894,807	567,404	459,132
Total shareholders' equity and liabilities (Part B)	29,639,164	6,121,245	945,521	11,951,162	7,699,893	1,894,807	567,404	459,132
Surplus (deficit)	-	71,610	-	23,789	(95,399)	-	-	-

APPENDIX 1. Harel Insurance Company Ltd. – Details of assets and liabilities as at June 30, 2007 (cont'd)

Reported amounts

Part B - Breakdown of Shareholders' equity and liabilities according to type

	Total capital and liabilities	Life Assurance		Profit participating policies	General insurance	Minimum capital	Capital surplus	Other liabilities
		Linked to the consumer price index	Unlinked					
NIS thousands reported amounts								
A. Shareholders' equity	1,652,997	-	-	-	-	1,085,593	567,404	-
B. Long-term liabilities								
1. Bank loans and subordinated notes	918,429	-	-	-	-	809,214	-	109,215
2. Deferred taxes	197,916	-	-	-	-	-	-	197,916
3. Capital note of a subsidiary	10,107	-	-	-	-	-	-	10,107
4. Liabilities in respect of employee severance benefits	12,906	-	-	-	-	-	-	12,906
C. Reserves								
1. Insurance reserves	19,680,119	5,879,185	853,422	11,826,298	1,121,214	-	-	-
2. Reserve for extraordinary risks	-	-	-	-	-	-	-	-
D. Outstanding claims	5,912,511	6,425	35,374	12,417	5,858,295	-	-	-
E. Insurance companies and brokers								
1. Reinsurers' deposits	274,728	24,025	56,725	112,227	81,751	-	-	-
2. Other accounts	426,555	50,827	-	-	375,728	-	-	-
F. Other payables and credits	552,896	160,783	-	220	262,905	-	-	128,988
Total shareholders' equity and liabilities	<u>29,639,164</u>	<u>6,121,245</u>	<u>945,521</u>	<u>11,951,162</u>	<u>7,699,893</u>	<u>1,894,807</u>	<u>567,404</u>	<u>459,132</u>

Note:

According to the Supervision Law and the Regulation for the Supervision of Insurance Business (The manner of the separation of accounts and assets of a life insurance insurer – 1984 (hereinafter – The provisions of the law) an insurer is to hold the assets and liabilities for life assurance separately and to maintain a separate accounting system.

Despite this, an insurer is not required to hold assets that are concurrent to their liabilities for general insurance separately from those that are concurrent to its shareholders' equity and its other liabilities.

APPENDIX 2. Dikla Insurance Investments Ltd. – Details of assets and liabilities as at June 30, 2007

Reported amounts

Part A - Classification of assets earmarked to liabilities

	Total Assets	Nursing care insurance	General insurance	Minimum capital	Surplus capital	Other Liabilities
	NIS thousands reported amounts					
Investments						
Cash and cash equivalents	125,920	85,415	28,835	11,670	-	-
Securities						
Government bonds						
Marketable in Israel	398,680	293,553	-	105,127	-	-
Marketable abroad	1,953	298	1,655	-	-	-
Other bonds – non-government:						
Marketable in Israel	211,710	187,147	24,527	-	36	-
Marketable abroad	58,561	25,667	-	-	32,894	-
Non-marketable	157,613	126,693	-	-	30,920	-
Shares and options:						
Marketable in Israel	72,634	54,044	18,590	-	-	-
Marketable abroad	9,907	5,853	4,054	-	-	-
Non-marketable	2,438	1,865	573	-	-	-
Commercial papers abroad	26,154	24,065	2,089	-	-	-
Participation units in						
Mutual funds-						
Marketable abroad	20,616	10,775	9,841	-	-	-
Non-marketable investment funds						
In Israel	3,602	2,220	1,382	-	-	-
Abroad	15,909	8,887	7,022	-	-	-
Loans						
Secured by mortgages	2,564	-	-	2,564	-	-
Secured by other collateral	23,531	17,049	6,482	-	-	-
Secured by liens on motor vehicles	17,815	9,352	8,463	-	-	-
For employees	1,109	-	-	1,109	-	-
Bank deposits	126,151	126,151	-	-	-	-
Land for rental	1,587	1,149	438	-	-	-
Fixed assets, net	8,866	-	-	8,866	-	-
Amounts receivable						
Insurance companies and brokers:						
Reinsurers' share in insurance reserves	20,523	18,329	2,194	-	-	-
Reinsurers' share in outstanding claims	30,241	-	30,241	-	-	-
Other accounts	1,660	-	1,660	-	-	-
Outstanding premium balances	31,048	19,741	11,307	-	-	-
Other debtors and debit balances	35,285	-	12,019	-	-	23,266
Deferred acquisition costs and other assets						
Deferred acquisition costs						
Life assurance (LTC)	3,137	-	-	-	-	3,137
General insurance - illness and hospitalization	4,767	-	941	-	-	3,826
Deferred taxes	2,777	-	-	-	-	2,777
Other assets	234	-	-	234	-	-
Total assets	1,416,992	1,018,253	172,313	129,570	63,850	33,006
Total shareholders' equity and liabilities (Appendix 2.1)	1,416,992	1,018,253	172,313	129,570	63,850	33,006
Surplus (deficit)	-	-	-	-	-	-

APPENDIX 2. Dikla Insurance Investments Ltd. – Details of assets and liabilities as at June 30, 2007

Reported amounts

Part B - Classification of assets earmarked to liabilities

	<u>Total assets</u>	<u>Nursing care insurance</u>	<u>General insurance</u>	<u>Minimum capital</u>	<u>Surplus capital</u>	<u>Other liabilities</u>
	NIS thousands reported amounts					
Shareholders' equity	193,420	-	-	129,570	63,850	-
Long term liabilities						
Subordinated note to bank	1,650	-	-	-	-	1,650
Liabilities in respect of employee severance pay	1,930	-	-	-	-	1,930
Insurance reserves and outstanding claims						
Reserve	1,002,010	990,137	11,873	-	-	-
Outstanding claims	114,182	-	114,182	-	-	-
Other liabilities						
Insurance companies and brokers:						
Reinsurers' deposits	30,509	13,912	16,597	-	-	-
Other accounts	10,232	-	10,232	-	-	-
Other payables and creditors	<u>63,059</u>	<u>14,204</u>	<u>19,429</u>	<u>-</u>	<u>-</u>	<u>29,426</u>
Total shareholders' equity and liabilities	<u><u>1,416,992</u></u>	<u><u>1,018,253</u></u>	<u><u>172,313</u></u>	<u><u>129,570</u></u>	<u><u>63,850</u></u>	<u><u>33,006</u></u>

Note:

The assets that are held as cover for liabilities in life assurance (Long-term care), in general insurance, other liabilities and capital, rely upon the report that was prepared in accordance with the Supervision of Insurance Business (Ways of investing the capital and the reserves of an insurer and the management of its liabilities) -2000.