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Harel Insurance

Leader Capital Markets Ltd.

May 26, 2011

Leader & Co. Investment House Ltd., Part of the Leader Capital Markets Group Ltd.

Harel Insurance – Response to Q1/2011 Statements	Market Perform – Target Price NIS 218
Good Results for the First Quarter of 2011	Lena Itzkov Schwartz, 03-6845744, lenal@leader.co.il

Main Points:

Harel has published its results for the first quarter of 2011, with the results to date appearing to be relatively strong. We liked the fact that Harel has several sources of income, as well as many activities which are less dependent on capital markets. Harel was also the only company that announced dividends for the quarter, which in our assessment will not be done by the other companies in the sector.

Earnings to shareholders amounted to approx. NIS 110 million, compared to NIS 187 million for the same period last year. Together with losses which were not recognized but were recorded under a capital reserve, total earnings amounted to NIS 79 million, compared to NIS 233 million for the same quarter last year.

- **Life insurance – increase in premiums, decrease in earnings:** Premiums presented a growth of approx. 12.6%, and after neutralization of Bezeq's one-time premiums, growth amounted to 10%. Due to market losses and an index increase, income from investments declined, variable management fees of approx. NIS 5 million were collected (more than was recorded at Migdal and Clal), and a sharp decrease was seen in the financial margin. We would like to emphasize that Harel has a very high proportion of risk policies, and earnings recorded for them were the highest in the sector, while also being nearly independent of the capital markets, which can serve to stabilize the results from the sector in a volatile market.
- **EV Publication:** The operating value of life insurance activities in 2010 amounted to NIS 5.5 billion, an increase of 9% from the previous year. Similar growth rates were reported in equity and portfolio value. While changes in economic and demographic assumptions at Clal and Migdal resulted in practically no increase in portfolio value, these changes at Harel seemed to be quite insignificant in terms of their effect on EV. Value of new business continued to rise, and although the insurance

companies recorded current losses for new policies, their economic value is positive, and continues to increase. Moreover, the value of new business from life insurance and health insurance activities at Harel is the highest we have seen thus far, apparently provided mainly by health insurance activities. The VNB of pension activities also stands out positively.

- **Decrease in premiums and earnings provided by general insurance in Israel:** Total premiums amounted to NIS 933 million, representing a decrease of approx. 5.7%, with losses recorded for all areas of operation, excluding property and mortgage insurance. Earnings also decreased by approx. 38%, mainly due to the influence of capital markets.
 - **EMI activities presented a sharp decrease in earnings,** with a significant increase in the risk of these activities. Due to the limitations on the bank with regards to the provision of loans, the demand for high risk mortgages may decrease. We believe that the risk involved in EMI activities has increased, but also emphasize that equity of approx. NIS 340 million is available with regards to the operations, half of which is capital surplus in excess of the required amount.
 - **General insurance abroad still presenting losses:** Premiums have increased slightly, and losses in the area have been reduced to approx. NIS 2 million. Harel will also be required to transfer NIS 25 million to the equity of the insurer in Turkey.
- **Continued growth in health insurance:** Premiums grew at an impressive rate of 24%, and although earnings decreased, they amounted to NIS 47 million: certainly significant earnings. The decrease in earnings was affected, in addition to the influence from capital markets, also by an increase in nursing insurance claims, and by an increase in provisions resulting from the expansion of the group's nursing insurance plan.
- **Impressive earnings in financial activities:** Harel continues to present impressive growth rates in the financial area, with total managed assets growing by approx. 30%, and amounting to NIS 26.3 billion, mainly as a result of growth in total mutual fund assets. Earnings in the area amounted to approx. NIS 11 million, representing an increase of 22% compared to last year.

Bottom line: Harel presented strong reports in comparison to the rest of the sector, with profitability results that were due, among other factors, to a balanced mix of activities including life insurance, health insurance and general insurance. Moreover, Harel relies in a volatile market on significant activities in risk, health insurance and an increase in pension assets, making this activity more dominant in the company. Our recommendation for the stock is market perform, with a target price of NIS 218.

Bottom Line

In Millions of NIS	Q1/2011	Q1/2010	Difference
Net Earnings	110	187	-41.2%
Total Earnings	78.8	233	-66.2%

Results by Area of Operation

In Millions of NIS		Q1/2011	Q1/2010	Difference
Long Term Savings	Premiums	777	690.0	12.6%
	Earnings	98	147	-33.3%
Health Insurance	Premiums	582	468	24.4%
	Earnings	47	54	-13.0%
General Insurance in Israel	Premiums	933	989	-5.7%
	Earnings	37	60	-38.3%
General Insurance Abroad	Premiums	30	22	36.4%
	Earnings	-2	-9	-77.8%
Finances	Earnings	11	9	22.2%

Results in the Long Term Savings Area

In millions of NIS	Q1/2011	Q1/2010	Difference
Life insurance	69	123	-43.9%
Provident funds	19	18	5.6%
<i>Total assets (billions of NIS)</i>	<i>23.5</i>	<i>22.3</i>	<i>5.4%</i>
Pension	9	5	80.0%
<i>Total assets (billions of NIS)</i>	<i>12.4</i>	<i>9.6</i>	<i>29.2%</i>

Embedded Value

Life and Health Insurance	2011	2010	% Difference
Value of current portfolio	3,712.9	3,405.5	9%
Adjusted equity	1,874.3	1,709.9	10%
Total embedded value in life insurance	5,587.2	5,115.4	9%
Value of new businesses	315.4	294	7%

Pension	2011	2010	% Difference
Value of current portfolio	972.5	682.6	42%
Adjusted equity	20.5	20.4	0%
Total embedded value in pension	993	703	41%
Value of new businesses	110.7	77	44%

Full Disclosure

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Disclosure by the Corporation

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Harel

Methodology: Our valuations of insurance companies are done using the NAV model, which summarizes operating value by neutralizing debt and adding equity.

Risk Factors:

- High dependency on market conditions
- High dependency on capital markets, and on the effects of changes in financial markets in Israel and around the world
- Regulation
- Reforms intended to increase competition in the pension savings market
- Longer life expectancy and exposure to demographic risks
- Preference for defined benefit pension plans

Leader & Co., or an affiliated corporation, held as of the date of publication of the analysis report, and during the 30 days which preceded the date of publication, a significant holding in the securities of this corporation. (“Affiliate” and “Significant Holding” – as defined in the Order published by the Securities Authority on September 18, 2007).

During the preceding year, the companies of the Leader Capital Markets Group provided management and distribution and / or underwriting services for the company’s issuances.

Historical Performance of the Stock, and Changes in Recommendations and Target Prices:

Target Price, NIS			Buy, 245			Share Price, NIS
				Buy, 230		
		Outperform, 217			Market Perform, 218	
	Market Perform					

<u>Date</u>	<u>Recommendation</u>	<u>Target Price</u>	<u>Analyst</u>
January 1, 2009	Market Perform		
September 22, 2009	Outperform	NIS 217	Lena Itzkov
March 28, 2010	Buy	NIS 245	Lena Itzkov
September 15, 2010	Buy	NIS 230	Lena Itzkov
May 11, 2011	Market Perform	NIS 218	Lena Itzkov

Analyst Disclosure and Declaration:

I, Lena Itzkov, holder of license no. 9286, hereby declare that the opinions presented in this analysis report reflect my personal opinions about the analyzed securities, and about the corporation which issued these securities.

Lena Itzkov