

Harel Insurance and Finance ends the first nine months of 2014 with a 7% increase in comprehensive profit to NIS 462 million, despite the extraordinary effect of lower interest on the insurance obligations during the Reporting Period

Assets under management held by the pension funds continue to grow and crossed the NIS 30 billion mark

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**Overall, the effects of the drop in the interest rate on the insurance obligations amounted to NIS 217 million before tax, and NIS 135 million after tax; after adjustment for these effects, the Group posted profit of NIS 597 million for the Reporting Period**

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Comprehensive profit for Q3 2014 totaled NIS 115 million.

The extraordinary effect on the insurance obligations due to the drop in interest was NIS 49 million before tax and NIS 30 million after tax in the third quarter. After adjustment for this extraordinary effect, profit for the quarter was NIS 145 million

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**Total earned premiums and benefit contributions grew by 10% to NIS 12.8 billion in the first nine months of 2014, compared with the corresponding period last year**

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The Group's assets under management increased by 17% to a record NIS 178.5 billion, compared with the corresponding period last year

Harel Insurance Investments and Financial Services has published its financial statements for the first nine months and third quarter of 2014:

Comprehensive profit after tax for the first nine months of 2014 was NIS 462 million, compared with NIS 434 million for the corresponding period last year. **The increase in comprehensive profit** can be attributed mainly to the effect of the real yields in the capital market and to inflation which was lower than inflation in the corresponding period last year. These effects were largely offset by the extraordinary effect of interest on the insurance obligations, in the amount of NIS 217 million before tax and NIS 135 million after tax.

After adjustment for the effect of the drop in the interest rate on the insurance obligations, the Group posted profit of NIS 597 million for the Reporting Period.

Comprehensive profit for Q3 2014 was NIS 115 million, compared with NIS 144 million for the corresponding quarter last year. The decline in comprehensive income compared with the corresponding quarter last year is mainly due to the extraordinary effect of the interest rate on the insurance obligations, in the amount of NIS 49 million before tax and NIS 30 million after tax. After adjustment for this extraordinary effect, profit for the quarter was NIS 145 million

Total earned premiums and benefit contributions in the first nine months of 2014 increased by 10% to NIS 12.8 billion, compared with NIS 11.7 billion for the corresponding period last year.

Equity attributed to the Company's shareholders at September 30, 2014 totaled NIS 4.75 billion.

The return on equity for the shareholders at September 30, 2014 was 13% in annual terms.

At September 30, 2014, **the Group's assets under management** in insurance, pension funds, provident funds, mutual funds, ETNs and financial services **increased by 17% to a record NIS 178.5 billion**, compared with assets under management of NIS 152.7 billion at the end of the first nine months of 2013.

Michel Siboni, Co-CEO of Harel Insurance and Finance: "Harel's profits have grown since the beginning of the year, despite the extraordinary effects of lower interest rates in the economy on the insurance obligations which amounted to NIS 135 million after tax. Without these extraordinary effects Harel's profit after tax would have been NIS 597 million. All the core operations of Harel continue to grow, with assets under management in the pension funds crossing the NIS 30 billion mark, growth of profitability by Harel Finance, and Harel continuing to lead the health insurance market".

Long-term savings:

Comprehensive profit from long-term savings activity (life assurance, pensions, provident and education funds) in the first nine months of 2014 was NIS 88 million compared with NIS 312 million for the corresponding period last year. The decline in comprehensive profit can be attributed mainly to an increase in the insurance obligations amounting to NIS 175 million before tax, stemming mainly from the ongoing decline in yields and a further decline in the risk-free interest rate. These effects were partially offset by: performance in the capital market where yields during the Reporting Period were higher than those of the corresponding period last year, the volume of variable management fees collected during the Reporting Period, amounting to NIS 138 million, compared with management fees of NIS 115 million collected during the corresponding period last year; and by the effect of inflation which was lower than inflation in the corresponding period last year.

Comprehensive profit from long-term savings activity (life assurance, pensions, provident and education funds) for Q3 2014 was NIS 0.5 million compared with NIS 99 million for the corresponding quarter last year. The decline in comprehensive profit is mainly due to an increase in the insurance obligations amounting to NIS 49 million before tax, to the ongoing decline in yields and a further decline in the risk-free interest rate.

Pension funds

Comprehensive profit from pension fund management in the first nine months of 2014 increased by 24% to NIS 52 million compared with NIS 42 million for the corresponding period last year. Comprehensive profit from pension fund management **for Q3 2014** was NIS 20 million compared with NIS 15 million for the corresponding period last year.

Benefit contributions collected by the Group's pension funds in the **first nine months of 2014 increased by 19%** to NIS 3.55 billion, compared with NIS 3 billion in the corresponding period last year. **In Q3 2014**, benefit contributions collected by the Group's pension funds increased by 30% to NIS 1.3 billion, compared with about one billion NIS for the corresponding quarter last year.

The pension funds continue to increase their assets under management, and at September 30, 2014 they **increased by 28%, crossing the NIS 30 billion mark** so that they now amount to NIS 30.1 billion, compared with NIS 23.5 billion at September 30, 2013. The increase over the previous year can be attributed to the growth of activity and the yield achieved during the Reporting Period.

Life assurance

The comprehensive loss from life assurance for the first nine months of 2014 totaled NIS 5 million, compared with comprehensive profit of NIS 251 million for the corresponding period last year. The shift from profit to loss is mainly due to an increase in the insurance obligations amounting to NIS 175 million before tax, stemming from the ongoing decline in yields and a further decline in the risk-free interest rate. This was partially offset by the volume of variable management fees collected during the Reporting Period, amounting to NIS 138 million, compared with management fees of NIS 115 million collected during the corresponding period last year. **In Q3 2014 there was a comprehensive loss of NIS 37 million in the life assurance segment**, compared with comprehensive profit of NIS 79 million for the corresponding quarter last year. The shift from profit to loss can be attributed mainly to a NIS 49 million increase before tax in the insurance obligations due to the continuing decline in yields and the on-going decline in the risk-free interest rate, and to the variable management fees of NIS 36.5 million collected in Q3 2014, compared with variable management fees of NIS 46.5 million in the corresponding quarter last year.

Total earned premiums and benefit contributions in the first nine months of 2014 were NIS 2.8 billion, similar to the corresponding period last year. **Total earned premiums from life assurance in Q3 2014** increased by 3% to NIS 944 million, compared with NIS 918 million in the corresponding quarter last year.

Provident funds

Harel posted fair profitability in the provident funds and education funds sector. Comprehensive profit for this activity in the first nine months of 2014 increased by 110% to NIS 42 million, compared with NIS 20 million for the corresponding period last year. **In Q3 2014, comprehensive profit from provident funds and education funds** totaled NIS 18 million, compared with NIS 5 million for the corresponding quarter last year. The increase in profit can be attributed to an increase in the management fees collected in the Reporting Period, compared to the corresponding period last year, and this on account of the growth of assets under management.

During the first nine months of 2014, benefit contributions collected by the **pension and education funds increased by 14%** to NIS 1.2 billion, compared with NIS 1.1 billion in the corresponding period last year.

The benefit contributions collected by the provident funds and education funds in Q3 2014 increased by 18% to NIS 438 million, compared with NIS 372 million for the corresponding quarter last year.

At September 30, 2014, **assets under management held by the Group's provident funds increased by 11%** to NIS 29 billion, compared with NIS 26.1 billion at September 30, 2013.

Health insurance

Harel continues to lead the health insurance market and posted comprehensive profit in the health insurance segment for the first nine months of 2014 which increased by 28% to NIS 174 million, compared with NIS 136 million for the corresponding period last year. The increased profit is due mainly to the effect of the capital market, where yields were higher than those in the corresponding period last year. The surplus yields were partially offset by an increase in the insurance obligations of NIS 31 million before tax, due to falling interest rates in the economy. **Comprehensive profit in the health insurance segment** totaled NIS 57 million **in the third quarter**, compared with NIS 51 million for the corresponding quarter last year. The increase is mainly due to the effect of the capital market, where yields were higher than those in the corresponding period last year, despite the continuing erosion in the results of group health insurance policies, stemming from an increase in the rate of claims.

Total earned premiums from the health insurance segment increased by 12% to NIS 2.65 billion in the **first nine months of 2014**, compared with NIS 2.36 billion for the corresponding period last year. **Total premiums earned in the health insurance segment account for 33% of all premiums earned by the Group in the Reporting Period. Total earned premiums in the health insurance segment increased by 12%** to NIS 929 million in Q3 2014, compared with NIS 833 million for the corresponding quarter last year.

Non-life insurance

Comprehensive profit from non-life assurance for the first nine months of 2014 increased by 77% to NIS 244 million, compared with NIS 138 million for the corresponding period last year. The increase in comprehensive profit during the Reporting Period is mainly due to the effect of the capital market where yields were higher than those of the corresponding period last year, to the effect of inflation which was lower in the Reporting Period than inflation in the corresponding period last year, and to improved underwriting performance. **Comprehensive profit from non-life insurance for Q3 2014 was** NIS 43 million compared with NIS 44 million in the corresponding quarter last year.

Gross premiums in the first nine months of 2014 increased by 4% to NIS 2.4 billion, compared with NIS 2.3 billion for the corresponding period last year. This increase is due to the increase in Harel Insurance's share of the insurance of the vehicles of state employees during the Reporting Period compared with the corresponding period last year. **Total gross premiums in the third quarter** were NIS 631 million, compared with NIS 609 million in the corresponding quarter last year.

Harel Finance:

Assets under management in the capital market and financial services segment under Harel Finance Investment House increased by 18% to NIS 59 billion at September 30, 2014, compared with NIS 50 billion at the end of the corresponding period last year. The increase is due mainly to the increase in the assets managed by the mutual funds and to further expansion of ETN and deposit certificate activity.

Revenues from the capital market and financial services segment increased by 23% to NIS 223 million in the **first nine months of 2014**, compared with NIS 181 million for the corresponding period last year. The increase is due mainly to the acquisition of the portfolio management activity and mutual fund company of Clal Finance.

Revenues in the capital market and financial services segment increased by 11% to NIS 78 million in the **third quarter**, compared with NIS 71 million for the corresponding quarter last year. The increase is mainly due to further growth of activity in mutual funds, ETNs and deposit certificates.

Harel Finance posted comprehensive profit of NIS 44 million in the first nine months of 2014, compared with NIS 17 million for the corresponding period last year. This marked increase in profitability can be attributed mainly to the acquisition of the portfolio management activity and mutual fund company of Clal Finance, as well as to further profitable growth of ETN and deposit certificate activity.

Third-quarter profit was NIS 19 million compared with NIS 10 million in the corresponding quarter last year. The increase in comprehensive profit is due to further growth of activity in mutual funds, ETNs and deposit certificates.