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Harel Insurance
March 28, 2010

Leader
Capital Markets Ltd.

Response to the results for 2009

Excellent results that have been affected by the capital market. The growth in the volume of the assets has contributed to the value.

The main points:

Harel has finished an excellent year, which has been influenced by an increase in income from investments, which has led to an improvement in the results in all of the fields of activity. Harel has been outstanding this year in the field of health insurance as well as in the field of life insurance and long-term risk. Where even though it has not been collecting variable management fees on the profit participating policies this year, it has still presented significant profits in this field.

In summary, Harel has profited NIS 483 million in 2009 and NIS 112 million in the fourth quarter of the year. The increase in the capital reserves, to which the unrealized gains on investments have been reflected, has resulted in the company presenting an overall profit of NIS 738 million.

The following is the spread of the pre-tax income:

Components of the pre-tax profit

Finances -23
General insurance 161
Health insurance 222
Long-term risk 351

Long-term risk:

- **Life insurance:** The profit from this field amounted to NIS 243 million, where in the fourth quarter the profit amounted to NIS 47 million. Moreover, during the year the Company collected almost no variable management fees on profit participating policies. The variable management fees were only collected on some of the policies, in which there was a personal yield mechanism, and overall variable management fees of approximately NIS 9 million were collected. The hole in this field stood at approximately NIS 11 million alone this year and this was closed out completely at the start of 2010. And the Company notes that it has started to collect variable management fees as from February this year. This is expected to have a positive impact on the Company's profit in this field in 2010, as well as on the value of the life insurance portfolio.
 - **An increase in premiums.** The premiums on life insurance amounted to approximately NIS 2.7 billion in the reporting period, a decrease of 5.4% as compared with the comparative period in the previous year. The decrease derived from a non-recurring period that was recorded in the previous year in respect of a transaction for people leaving Bezeq. When the impact of the non-recurring premium is eliminated, there was an increase of approximately 4.1%.
 - **The composition of the portfolio:** In the latest reports we saw an increase among the insurance companies in the actuarial provisions deriving from an increase in the number of insured persons who select to draw an annuity and not a capital amount when they retire. We would emphasize that this risk is significant in companies having a high ratio of veteran policies (and this is obviously dependent on actuarial conservatism). Harel's life insurance portfolio is weighted more towards an individual and risk, and so the exposure is lower, and has not been marked this year.
- **Provident funds:** a profit of NIS 90 million, as compared with NIS 70 million in the previous year. The extent of the provident fund assets stood at approximately NIS 21.5 billion, as compared with approximately NIS 17.3 billion at the

Buy NIS 245

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Shares in Phoenix Insurance compared with
the Tel-Aviv 100 Index

Graph

Main data	
Market value (NIS millions)	4.63
Current share price	199
Target share price	245
Range in past 52 weeks	96-207
Floating goods	50.40%
Average turnover (NIS millions)	11.1

The main interested parties	
Jean Consultancy	48.9%

The following are details of the results by sector:

Pre-tax profit (NIS millions)	31.12.2009	31.12.2008
Long-term risk	351.0	-228.0
Rate of change		
Health insurance	222	151
Rate of change	47%	
General insurance	161	60
Rate of change	168%	
Finances	-23	-152
Rate of change	-115%	
Net income for the period	483	-355
Rate of change		

Pre-tax profit (NIS millions)	31.12.2009	31.12.2008
Long-term risk	243.0	-312.9
Rate of change		
Extent of reserves	2.1	
Pensions	19	14
Rate of change	36%	
Extent of assets	8.9	5.7
Provident funds	90	7.0
Rate of change	39%	
Extent of assets	21.5	17.3

beginning of the year, primarily as the result of rises in the capital markets, while the net accumulation was negative and amounted to NIS 260 million from the beginning of the period, as compared with a negative accumulation of NIS 1.4 billion in 2008.

- **Pensions** – a profit of approximately NIS 19 million, as compared with a profit of NIS 14 million in the previous year. The volume of the assets amounted to NIS 8.9 billion, an increase of 55% as compared with 2008. The increase in the years 2007-2009 derived from the acquisition of the Gilad Pension Fund in 2008, as well as from an increase in the yield as the result of the rises in the capital markets.

Leader Capital Markets

Health insurance:

Harel continues to be a sure leader in the health field. With premium amounting to approximately NIS 1.8 billion, a growth of approximately 10%. The profit from the field amounted to approximately NIS 222 million during the year, the highest profit that was achieved in the sector, as compared with a profit of NIS 151 million in 2008, a year in which the capital market led to losses in almost all fields of activity. The improvement in the profit was achieved thanks to the high level of profits from underwriting and also to the income from investments, where in parallel the company acts with considerable conservatism when considering actuarial evaluations in the support care segment (which has similar characteristics to the life insurance field), which is something that has found expression in the high provisions for reserves.

- The Company continues to be a leader in the market, where it would seem that this year many companies have been trying to increase the level of competition and to bite off part of the market, whilst still presenting the field of health insurance as a strategic engine for growth. We are of the opinion that the know-how and the expertise that Harel has constitute a sustainable advantage for the company in this field and that this will assist it to continue to be a leader in this field, which is typified by high levels of profitability and growth.

General insurance:

The overall premiums from general insurance amounted to NIS 2.8 billion, a growth of 5.7% as compared with 2008, with growth being shown in premiums in all fields of activity. The profit from this field amounted to NIS 161 million as compared with NIS 60 million in 2008 (a year in which the insurance companies recorded losses from this field). There was a decrease of approximately 13% in the residual premiums as compared with the previous year, which derived from the implementation of a reinsurance agreement with the Berkshire Hathaway insurance company, within the framework of which 20% of the self-deductible residual was transferred from general insurance to reinsurance.

In NIS millions	2009		2008	
	Gross premium	Pre-tax profit	Gross premium	Pre-tax profit
Compulsory vehicle insurance	604	97	565	11
Motor vehicle – property	865	43	820	25
Other branches of insurance	635	16	590	27
Other branches of liability	732	3	707	-3.3
Total	2,836	159	2,682	59.7

In the field of car insurance growth of 5.5% in the premiums and a decrease of 16.5% in the residual premiums were recorded. The increase in premiums derived from an increase in the number of insured parties and from an increase in Harel's share in a tender for car insurance for civil servants from 60% to 67%. The decrease in the residual premiums derives from the implementation of the reinsurance as aforesaid. The profit from the field amounted to NIS 44 million as the result of profits from investments and lower underwriting costs, as the result of a focusing on selective underwriting, the increasing in the efficiency of the treatment of claims and also as a result of a reduction in thefts.

In the field of compulsory car insurance, the premiums amounted to NIS 604 million, a growth of 6.8% by comparison with 2008, even if a decrease in residual premiums was also recorded in this field, as the result of the initial implementation of the abovementioned agreement in this field. The profit stood at NIS 97 million, as compared with NIS 11 million in the previous year, which grew inter alia, because of the release of surplus income in respect of the 2006 underwriting year, which was higher than the amount released in respect of 2005.

Finances

Harel Finances has finished the year with a loss of NIS 23 million, a significant reduction in the loss as compared with the previous year, in which it amounted to NIS 152 million. The loss relates primarily to the writing off of an amount of NIS 8 in respect of Matrix, which was purchased in 2008, for a consideration of 8 million Dollars and which was sold recently for a consideration of 5 million Dollars, as well as an increase in expenses as the result of the launching of the basket certificate activities as well as financing expenses, which contributed to the creation of the loss, whereas the operating income from this activity was positive. In our opinion in 2010 it is expected that there will be an improvement in the results in this field. The field of mutual funds demonstrated relative strength, in the Company by comparison with the competitors, with a volume of assets of approximately NIS 14.9 billion at the end of 2009 following the net creation of NIS 2.88 million and an increase in the value of the funds.

Shareholders' equity

By 2011 Harel is required to increase its shareholders' equity by approximately NIS 1.1 billion. As of 31.12.09 Harel was already required to meet an increase of 30% out of the overall increase that is required by the end of 2011, so the overall amount of capital that is required is NIS 2.75 billion, whereas the existing equity amounts to NIS 3.11 billion. Accordingly, Harel Insurance has a surplus of shareholders' equity of NIS 363 million.

The Company received an easement from the Supervisor – the reduction of the capital requirements in respect of the purchase of a company that manages provident funds, and thus the increase in equity is expected to amount to approximately NIS 820 million.

Accordingly, the Company has already met the increase that is required by the end of 2010 and it can approach the Supervisor and request the approval for a distribution of a dividend. The Company has not yet received a decision in respect of this.

The bottom line, Harel has presented good results, which have primarily been affected by the capital market, which has affected the growth in the volume of the assets that are managed as well as the profits that are achieved in all fields of activity. Moreover, Harel's good underwriting results have helped it to maintain consistency in the growth in the profit in the general insurance and the health insurance fields.

We believe that Harel is at an excellent starting point for the coming years. It is a sure leader in the health market, which is a market that continues to grow at a high rate, it has recorded a significant growth in the pension field and it has thus strengthened its activities in the field of long-term risk, and the acquisitions that have been made appear to be successful.

Harel is one of our preferred companies in the sector, and also one of the cheapest in our opinion. We are updated the Company's value model and raising the target price to NIS 245 and also raising our recommendation to buy.

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