

**The original language of this report is Hebrew.
The Hebrew version shall prevail over any translation thereof.**

Harel Insurance

EV Mirror on the Wall – Who’s the Best Earner of Them All?

Answer: Still Harel, with Surface Improvements by Competitors

Embedded value shows that Harel still has the advantage, although the competitors are gradually closing the gap. Analyzing insurance companies is a highly complicated affair. The insurance industry is engaged in business areas with a long average lifetime, meaning that accounting principles don’t always accurately reflect the true rate of insurance companies’ profitability – and certainly not from the perspective of a single quarter, or even a year. For this purpose, European specialists developed the EV (embedded value) method, which is intended to reflect the economic value of an insurance company and its current economic earnings. Traditionally, Harel has been considered a particularly high quality and profitable company, thanks to a smart business mix (including risk insurance in the private sector and health insurance). This status is re-evaluated once per year, upon publication of EV data. In 2010 as well, Harel maintained the highest current economic profitability in the sector (the current value of new business, or VNB, constitutes 77% of total premiums from new business), and also the highest cumulative profitability rate (with the portfolio value constituting approx. 19% of total provisions). Due to the crisis and to the implementation of embedded value, we are aware that most insurance companies are beginning to focus on these sectors (pure risk, private, health), which should result, over time, in a continued decrease in the gap between Harel and its competitors, as was observed in 2010.

Current Profitability – 2010	Harel	Migdal	Phoenix	Clal
VNB Health and Life (Millions of NIS)	404	343	161	338
New Annualized Premium (Millions of NIS)	526	639	371	552
VNB / New Premium	77%	54%	43%	61%
Current Profitability – 2009				
VNB Health and Life (Millions of NIS)	351	230	101	272
New Annualized Premium (Millions of NIS)	485	634	296	497
VNB / New Premium	72%	36%	34%	55%
Cumulative Profitability – 2010				
VIF - Life and Health (Millions of NIS)	4,012	6,877	3,627	5,423
Provisions - Life and Health (Millions of NIS)	21,522	72,259	30,843	51,743
VIF / Provisions	19%	10%	12%	10%

Pricing: According to EV data, Harel should still be traded at premium (in terms of capital ratios) in comparison to the rest of the sector. The stock’s current price does not reflect the company’s economic value, and therefore we remain with the “buy” recommendation and a target price of NIS 245.

[Chart in English]

May 31, 2011

Harel Insurance Holdings Ltd., NIS	
Price (NIS)	185.10
Target Price (NIS)	245.00
Recommendation	Buy

Market Data	
Market Value (Thousands of NIS)	3924.07
Year Low	163.81
Year High	235.12
Daily Volume (Millions of NIS)	7.5

Interested Parties	
Hamburger Family	49.4%

Harel Stock Compared to the Maof Index
[Graph]

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Index of Recommendations

Buy – Forecasted to significantly outperform the market during the coming year.

Outperform – Forecasted to outperform the market during the coming year.

Market perform – Forecasted to perform similarly to the market during the coming year.

Underperform – Forecasted to underperform the market during the coming year.

Sell – Forecasted to significantly underperform the market during the coming year.

Details of the Analysis Report Preparer

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License Number: 9002

Declaration of Independent Judgment: I, Terence Klingman, holder of license number 9002, hereby declare that the opinions presented in this analysis report accurately reflect my personal opinions on the securities surveyed, and on the corporation which issued these securities.

Banks and Insurance

Evaluation Methods:

Banks: A representative returns to capital model used to derive the capital ratio.

Insurance: A sum of the parts model, taking into account the embedded value of life insurance and the DCF of general insurance.

Different risks which may have a significant effect on the target price:

Banks

1. Changes in interest rates – can affect capitalization rates in the model and financial earnings of banks.
2. Macro-economic developments: banks are highly dependent on the solvency of borrowers, which is derived from market strength. A decline in the economic situation is expressed in an increase in expenses, particularly in provisions for doubtful debts.
3. Changes in the regulatory environment – the banking system is supervised, for the most part, by the Bank of Israel and other regulatory bodies. New regulatory requirements may restrict areas of operation and result in significant expenses.
4. Legislation – Intervention by the legislative branch (the Knesset) may restrict the activities of banks.
5. Human resources – Employees in the banking industry (including at the Bank of Israel) are highly unionized, which makes adjusting the level of expenses to the business level difficult, and can also rarely result in employee strikes, which causes harm to the public image and activities of the bank.

Insurance

1. Changes in insurance rates – Affect capitalization rates in embedded value, and also earnings in nostro accounts.
2. Volatility of capital markets – A significant number of insurance provisions are invested in capital markets. Changes to the prices of securities may have a significant effect on the reports of insurance companies.
3. Macro-economic developments – premiums of insurance companies are partially derived from wage levels in the employment market, which is affected by economic conditions.

4. Change in the regulatory environment – The insurance companies are mainly supervised by the Commissioner of Insurance, and other regulatory bodies. New regulatory requirements may restrict its areas of operation, resulting in significant expenses.
5. Competition – Insurance companies are exposed to significant competition from investment houses.