

August 20, 2014

Harel Insurance and Finance closes Q2 2014 with a 20% increase in comprehensive profit, amounting to NIS 347 million, despite the extraordinary effect of a decline in interest on insurance obligations in the second quarter

After adjustment for the drop in interest rates in the economy which led to a non-recurring, extraordinary accounting expense, the Group posted profit of NIS 452 million in the first half of the year

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**Q2 profit was NIS 66 million, and after adjustment for the above non-recurring effect, profit for the quarter was NIS 147 million**

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Earned premiums and benefit contributions in the first half of 2014 increased by 9% to NIS 8.3 billion, compared with the corresponding period last year

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**The Group's assets under management increased by 18% compared with the corresponding period last year, and reached a record NIS 173.2 billion**

**Harel Insurance Investments and Financial Services has published its financial statements for the first half and second quarter of 2014:**

**Comprehensive profit for the first half of 2014 increased by 20% to NIS 347 million**, compared with NIS 289 million for the corresponding period last year. The increase in comprehensive profit can be attributed mainly to the impact of the capital market where yields during the Reporting Period were higher than those of the corresponding quarter last year, to the variable management fees collected during the Reporting Period which were higher than those collected during the corresponding period last year, and to the effect of inflation which was a negative 0.19% in the Reporting Period, compared to positive inflation of 0.71% in the corresponding period last year. These effects were partially offset by an increase in the insurance obligations in the amount of NIS 168 million before tax and NIS 105 million after tax. The need to increase the insurance obligations stems mainly from the ongoing decline in yields and a further decline in the risk-free interest rate.

**Comprehensive profit for Q2 2014 was NIS 66 million** compared with NIS 89 million in the corresponding quarter last year. **After adjustment for the extraordinary increase in the insurance reserves, profit in Q2 2014 was NIS 147 million.** The decline in comprehensive profit in the second quarter of 2014 is mainly due to the extraordinary effect of the interest rate on the insurance obligations, and to the capital market yields that were lower than those of the corresponding quarter last year.

**Total earned premiums and benefit contributions in the first half of 2014 increased by 9% to NIS 8.3 billion**, compared with NIS 7.7 billion for the corresponding period last year.

**Equity** attributed to the Company's shareholders at June 30, 2014 was NIS 4.64 billion, compared to shareholders' equity of NIS 4.4 billion at the end of the first half of 2013.

**The total assets under management held by the Group** in insurance, pension funds, provident funds, mutual funds and financial services increased by 18% to an **all-time record of NIS 173.2 billion**, compared with the end of the first half of 2013.

**Michel Siboni, Co-CEO of Harel Insurance and Finance** said that "Harel continues to present fair profitability and business growth in all parameters, thanks to the growth of all core operations. Despite the one-time effect of the lowering of the interest rates, the results are satisfactory. The Group continues to present improvement in all segments, and Harel's performance at the end of the first half of 2014 continues to demonstrate the Group's robustness and on-going growth".

### **Long-term savings**

**Comprehensive profit on long-term savings activity** (life assurance, pensions, provident and education funds) for the first half of 2014 was NIS 88 million compared with NIS 213 million for the corresponding period last year. The decline in comprehensive profit can be attributed mainly to the increase in insurance obligations in the amount of NIS 126 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 which amounted to NIS 101 million, compared with management fees of NIS 68 million in the corresponding period last year; and the effect of inflation which was negative during the Reporting Period, compared to positive inflation in the corresponding period last year.

A loss of NIS 55 million was recorded in the second quarter, compared with profit of NIS 61 million for the corresponding quarter last year. **After adjustment for the non-recurring effect of the lower interest rates, which led to an expense due to the increase in the insurance reserves, Q2 profit amounted to NIS 50 million.** The shift to loss can be attributed mainly to the increase in the insurance obligations amounting to NIS 105 million before tax due to the continuing decline in yields and the decline in the risk-free interest rate. These effects were partially offset by the collection of variable management fees of NIS 18 million in Q2 2014, compared with NIS 5.5 million in the corresponding quarter last year.

### **Pension funds**

**Comprehensive profit from pension fund management for the first half of 2014** was NIS 32 million compared with NIS 27 million for the corresponding period last year. **In Q2 2014, comprehensive profit from pension fund management** was NIS 15 million compared with NIS 16 million for the corresponding quarter last year.

**During the first half of 2014, the Group's pension funds collected benefit contributions that increased by 18%** to NIS 2.3 billion, compared with NIS 1.9 billion in the corresponding period last year. **During Q2 2014, the Group's pension funds collected benefit contributions of NIS 1.17 billion, compared with NIS 1.03 billion in the corresponding period last year - a 14% increase.**

**The Group's assets under management continue to grow and at June 30, 2014 increased by 30% to NIS 28.5 billion, compared with NIS 21.9 billion at June 30, 2013.** The increase over the

previous year can be attributed to an increase in the amounts deposited by members, an increase in the number of members, and the yield achieved during the Reporting Period.

### **Life assurance**

**Comprehensive profit from life assurance for the first half of 2014 totaled NIS 32 million**, compared with NIS 172 million for the corresponding period last year. The decline in comprehensive profit can be attributed mainly to the increase in insurance obligations in the amount of NIS 126 million before tax, largely due to 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 which amounted to NIS 101 million, compared with management fees of NIS 68 million in the corresponding period last year; and the effect of inflation during the Reporting Period which was negative, compared to positive inflation in the corresponding period last year.

**In Q2 2014** there was a comprehensive loss of NIS 83 million in the life assurance segment, compared with comprehensive profit of NIS 38 million for the corresponding quarter last year. This decline can be attributed mainly to a NIS 55 million increase in the reserves and to the revised discounting interest rates in the amount of NIS 50 million, due to the lower interest rates in the economy. These effects were partially offset by the collection of variable management fees of NIS 18 million in the second quarter of 2014, compared with NIS 5.5 million in the corresponding quarter last year.

**Total earned premiums in the first half of 2014** amounted to NIS 1.891 billion, compared with NIS 1.909 billion for the corresponding period last year. Premiums earned during the reporting period accounted for 36% of all premiums earned by the Group during that period. **In Q2 2014**, total earned premiums from life assurance amounted to NIS 934 million, compared with NIS 975 million in the corresponding quarter last year.

### **Provident funds & education funds**

**Comprehensive profit in the provident funds and education funds for the first half of 2014** amounted to NIS 24 million compared with NIS 15 million for the corresponding period last year. **In Q2 2014**, comprehensive profit from pension funds and education funds was NIS 13 million compared with NIS 7 million in the corresponding quarter last year.

**Benefit contributions collected by the provident funds and education funds in the first half of 2014 increased by 12%** to NIS 795 million, compared with NIS 711 million for the corresponding period last year. In Q2 2014, the benefit contributions collected by the provident funds and education funds increased by 8% to NIS 397 million, compared with NIS 367 million for the corresponding quarter last year.

At June 30, 2014, **the provident funds and education funds managed by the Group held assets under management which increased by 12.5%** to NIS 28.4 billion, compared with NIS 25.2 billion at June 30, 2013.

## **Health insurance**

**Comprehensive profit in the health insurance segment in the first half of 2014 was NIS 117 million**, compared with NIS 85 million for the corresponding period last year. The increase in comprehensive profit is due mainly to the effects 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.

**In Q2 2014, comprehensive profit in the health insurance segment** amounted to NIS 58 million, compared with NIS 26 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, as well as to improved underwriting results, despite the continuing erosion of performance by the group health insurance policies, stemming from an increase in the rate of claims.

**Total earned premiums and benefit contributions from the health insurance segment increased by 13%** to NIS 1.7 billion in the **first half of 2014**, compared with NIS 1.5 billion in 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. **In Q2 2014**, earned premiums in the health insurance segment increased by 14% to NIS 879 million, compared with NIS 769 million for the corresponding quarter last year.

## **Non-life insurance**

**Comprehensive profit from non-life assurance for the first half of 2014 increased by 114% to NIS 201 million**, compared with NIS 94 million for the corresponding period last year. The increase in comprehensive profit can be attributed mainly to the effect of the capital market where yields were higher than those of the corresponding period last year, and to the effect of inflation which was negative in the Reporting Period, compared to positive inflation in the corresponding period last year. **In Q2 2014, comprehensive profit in non-life insurance increased by 63% to NIS 54 million**, compared with NIS 33 million in the corresponding quarter last year. The increase is mainly due to improved underwriting performance and an extraordinary claim in the liabilities branch which was recorded in the corresponding quarter last year. These were partially offset by an increase in the insurance obligations, due to a decline in interest rates in the economy, in the amount of NIS 11 million before tax, and to the effect of the capital market, where yields were lower than those in the corresponding quarter last year.

**Gross premiums in the first half of 2014** amounted to NIS 1.78 billion, compared with NIS 1.73 billion for the corresponding period last year. **In Q2 2014, total gross premiums** amounted to NIS 622 million, compared with NIS 647 million in the corresponding quarter last year.

## **Harel Finance**

**Assets under management in the capital market and financial services segment increased by 20%** to NIS 57.9 billion at June 30, 2014, compared with NIS 48 billion at the end of the corresponding period last year. The increase is due mainly to an increase in the assets under management held 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 30%** to NIS 144 million in the **first half of 2014**, compared with NIS 111 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.

Total management fees from the mutual funds and managed portfolios during the Reporting Period were NIS 122 million, compared with NIS 96 million for the corresponding period last year.

Harel Finance posted comprehensive profit of NIS 25 million **in the first half of 2014**, compared with NIS 7 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.