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Harel – Response to Q4 Report

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Impressively high yields but mixed results

- ⇒ **Harel has recorded a total profit of 210 m NIS in the 4th quarter of 2012, which reflects a return of equity on about 22%.** The total profit for the year 2012 was recorded at 702 m NIS and reflects an average of 18.3% return on equity. The 4th quarter profit is indeed high and impressive, however, considering the increase in the capital market, the collection of variable management fees and the decline in the Consumer Price Index, these are only mixed results.

- ⇒ **In Life Insurance, the results were moderate, with earnings of 121 m NIS.** The company has collected variable management fees of about 62 m NIS. On top of that, the company has increased its provisions attributed to the increase in life expectancy, with an additional 45 m NIS in addition to the 24 m NIS already provisioned in the 2nd quarter of 2012.. After neutralizing the two mentioned effects, the profit in the 4th quarter was similar to the previous quarter, amounting to about 105 m NIS. These profits are despite the fact that the Consumer Price Index fell during the 4th quarter in 0.7% compared to the 0.9% rise of the Consumer Price Index in the third quarter, and the capital market has delivered the goods to a similar extent.

- ⇒ **In Pensions, income totaling 14.9 m NIS was recorded. The profit level of this sector continues to grow consistently** and is already at about 15 m NIS per quarter in comparison with about 11 m NIS per quarter in 2011. **The contributions have also increased by 27% in 2012**, also due to the commencement of the contributions by the professional army personnel.

- ⇒ **Provident funds results continue to be stable yielding** this quarter a profit of 13.7 m NIS, slightly lower than average profit in comparison with the previous quarters (14 m NIS). In the next quarter, a reduction in management fees will take effect, resulting a further decline in profits.

- ⇒ **In Health Insurance, the recorded results have demonstrated somewhat weak results**, with a total profit of only 31 m NIS, in comparison with an average of 60 m

NIS in the previous four quarters. Throughout the year, a decline in profitability of private nursing policies was noted. A high growth of 15% was recorded in the premiums in 2012.

- ⇒ **In Non-life Insurance, in the Israeli market the company has enjoyed fair returns primarily resulting from the decline in the Consumer Price Index, and recorded yet again a high quarterly profit of about 100 m NIS.** All in all, Harel completed an excellent year in general insurance with a profit of 316 m NIS.
- ⇒ **The overseas insurance companies continue to register losses, however, in this quarter the losses were relatively high at 13.5 m NIS.** On the other hand, on an annual level there was a significant improvement, as the loss on this activity falling by about 46% of the previous losses, in comparison with the losses recorded for 2011.
- ⇒ **The financial activity that declined in the previous quarter continued to yield weak results in the current quarter.** The weakness is the outcome of the decrease in the level of management fees in the funds and the decrease of income from brokerage.
- ⇒ **The capital surplus** at the end of the current quarter is running at 961 m NIS before distribution of dividends, which represents about 22% surplus over the company's regulatory capital requirements. The company has declared 53 m NIS dividend, reflecting a dividend yield of about 1.3%.

The company can afford to distribute a large additional dividend of a significantly higher sum, however, at the moment has chosen to maintain a higher level of liquidity which helps it, to perform various transactions such as the acquisition of the activity of Clal Finance and the Eliahu's life insurance activity. **Harel was traded this morning at an equity multiplier of 0.93.**

Summary and recommendations

The Harel results in the 4th quarter were mixed. However, the results of only one quarter cannot give any indication of an ongoing trend. The results total for the year 2012 were excellent, and the company has recorded return on equity of about 18%, alongside ongoing growth in premiums and in benefits contributions.

Harel continues to be our preferred investment in its sector. The company is a major player in all the activity branches of the sector, and its activity in the health insurance provides it with a stable and profitable source of income for the years to come. We continue with the outperformance recommendation and raise the target price to 210 NIS.

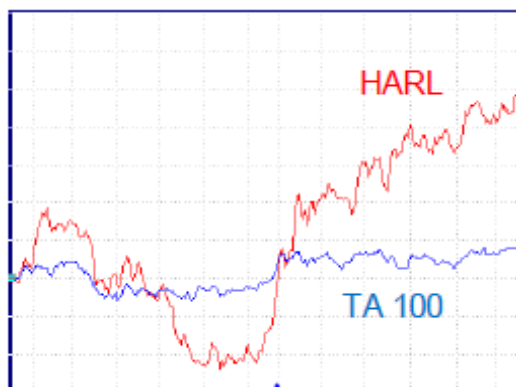
Income Before Taxes	Q4 / 12	Q3 / 12	Q4 / 11
Life	121.3	104.6	89.3
Pension and Provident Funds	28.5	29.2	(1.1)
Health	30.9	98.8	57.4
Non-Life Insurance	86.3	96.7	23.5
Financial Services	2.8	3.6	5.3
Other	41.3	92.1	72.3
Net Comprehensive Income	209.7	262.2	114.6

Side Bar

March 19, 2013

Recommendation	Outperformance
Target price	210 NIS
Change of recommendation	
Change in price	✓
Change in forecast	
Current price	182 NIS
Previous recommendation	Outperformance
Previous target price	180 NIS
Market value (m NIS)	3,850
12-month high	182 NIS
12-month low	92.7 NIS
Average daily volume (thousands of NIS)	5,500
Floating quantity	49.8%
Weight in Tel Aviv 100 Stock index	0.8%

Last year Harel stock performance



We would like to draw the attention of the readers to the disclosure clause at the end of this document

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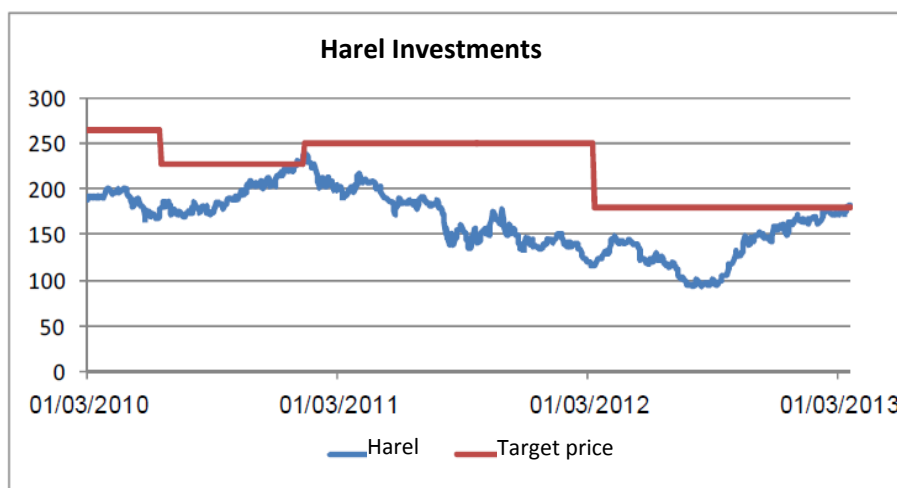


Warning and disclosure clause in regards to Analysis

Comments for the Analysis

1. The recommendation scale
 - **Buy** – the stock is expected to outperform the Tel Aviv 100 Stock index by over 20% in the following 12 months.
 - **Outperformance** - the stock is expected to outperform the Tel Aviv 100 Stock index by between 10 and 20% in the following 12 months.
 - **Market performance** - the stock is expected to yield between outperformance of 10% to under- performance of 10% of the Tel Aviv 100 Stock index in the following 12 months.
 - **Underperformance** - the stock is expected to yield between 10 to 20% of short performance of the Tel Aviv 100 Stock index in the following 12 months.
 - **Sell** - the stock is expected to underperform by over 20% relative to the Tel Aviv 100 Stock index in the next 12 months.
2. The approach taken for the calculation of company valuation of insurance companies, and the setting of a target price was performed using two models concurrently, the future Discounted Dividend Model (DDM) and the Net Asset Value model (NAV), by combining the assessment of the income multipliers and the equity multipliers and performance of a comparison between the stock prices of other players in this sector.
3. Major risks that might significantly influence the target price of insurance companies stocks are:
 - Declining capital markets both in Israel and worldwide.
 - Deterioration of the local market economy.
 - Deterioration in the health status of individuals in the local economy.
 - Deterioration in the economic situation of the individuals in the local economy.
 - Increase in life expectancy.
 - Further worsening of the global economic crisis.
 - Financial risks - changes in exchange rates, changes in interest rates, inflation.
 - Legislative and regulatory changes that could adversely affect the business of insurance companies.
4. The following is a table of Harel stock price performance and changes in the recommendations made in the last 3 years. The target prices for the stocks are in reference to the period of 12 months forward from the date of recommendation.

Stock	Target price	Recommendation	Recommendation date	Stock price on Recommendation date
Harel	210	Outperformance	March 19, 2013	182.0
Harel	180	Outperformance	March 11, 2012	114.9
Harel	250	Outperformance	May 29, 2011	177.6
Harel	250	Market performance	January 12, 2011	235.2
Harel	228	Outperformance	November 25, 2010	204.5
Harel	228.0	buy	June 17, 2010	181.0
Harel	265.0	buy	March 1, 2010	193.8



Comment – the stock charts are depicted after the adjustment for division of dividend to the stockholders, whereas, the target prices are not adjusted and refer to the situation as it was on the date of issuing the recommendation.

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Disclosure of the person preparing this analysis

The analyzer is not aware of any conflict or conflict of interests at the time of the publication of this analysis.

Disclosure of DS Brokerage (herein: the "Licensed Corporation")

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I, Meir Slater, holder of certificate, no. 9421, declare herewith that the opinions reflected in this work of analysis, reliably reflect my own personal opinions regarding the reviewed securities and the corporation which issued these securities

Date of publishing of this analysis

March 19, 2012

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