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DS
ניירות ערך והשקעות בע"מ

DS Brokerage Ltd.

Harel Investments
Response To Q2/11 Results

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Results correspond to market conditions, almost entirely without surprises. Harel continues to be the favorite in the sector.

- **Harel Investments presented fair results for the second quarter of 2011. The company recorded comprehensive profit of NIS 13.2 million, reflecting an ROC of 1.5%**, higher than Clal (-3.2%), with an ROC of 5.2% for the first half of the year.

Harel Insurance – Comprehensive Profit Q2-11			
Millions of NIS	**Q2-11**	**Q1-11**	**Q2-10**
Life insurance	(23.3)	53.9	(92.6)
Pension	11.8	8.3	8.9
Provident	13.9	19.1	16.0
Health	44.4	40.3	39.4
General insurance	4.8	9.6	25.3
Insurance companies abroad	(10.3)	(3.7)	(11.4)
Finances	7.1	11.0	6.2
Other	(24.3)	(22.4)	(42.5)
Profit before tax	**23.9**	**116.2**	**(50.8)**
Tax expenses	(10.6)	(37.4)	17.4
Comprehensive profit	**13.3**	**78.8**	**(33.4)**
Minority (minority losses)	.1	(.0)	(1.3)
Comprehensive profit to shareholders	**13.2**	**78.8**	**(32.1)**

- **In life insurance,** relatively high losses of NIS 23 million before tax were recorded. We believe that the loss resulted mainly from the loss in guaranteed-yield policies, in other words, from the recording of a negative financial margin, since Harel has the lowest rate of designated bonds, and the capital market did not sufficiently compensate for the CPI increase. The company has debt of NIS 96 million in variable management fees as of August 18, 2011.

- **Pension results** were very strong, with profit of NIS 12 million. In effect, the company recorded the strongest quarter in its history in the pension area, with a significant increase in management fees, and maintenance of results.

- **In contrast, provident activities** recorded a weak quarter. The company performed a provision in response to directives issued by the Supervisor for compensation due to delays in withdrawals from provident funds, or to delays in transfers between funds and investment tracks. The company is evaluating the extent of the directive's overall influence.

- **Results in health insurance** were very strong, with underwriting profit of about 5%, similarly to the same quarter the previous year, but better than all other quarters in the last two years.

- **In general insurance**, results continue to be weak, primarily due to the CPI increase.

- **General insurance activities abroad** continue to record losses fluctuating between NIS 4 and 11 million per quarter. The amount for the current quarter was in the upper bound, affecting the entire company's results.

- **Finances** recorded weak results, with management fees decreasing by 10.2%, and income from fees reduced by 18%, as a result of the capital markets situation, redemptions in mutual funds, and the decrease in volume.

- **Financing expenses**, which were higher than the income of the free nostro account, caused losses of NIS 24 million in results not attributed to areas of operation.

- **The decline in the nostro account** after the report date and until approval of the financial statements is estimated at NIS 118 million after tax, constituting 3.3% of total capital. At Clal this amount was lower, amounting to about 2.2% of capital. The company also reported a decrease in mutual fund volume, and a decline in management fees collected for these funds.

- **Harel Insurance lacks about NIS 8 million in order to fulfill capital requirements for the end of the year.** Dikla and EMI have capital surpluses. In light of the losses after the report date, the company may be required to perform an equity completion by the end of the year. However, Harel Investments, the holding company, has financial investments and cash totaling about NIS 400 million, which can be directed downwards to the insurance company.

- **In summary, the results for the quarter correspond to market conditions, almost entirely without surprises.** Due to the negative yields from the beginning of the third quarter, it may end in losses. **However, the capital ratio at which the company is currently traded – 0.89 – does not reflect its growth potential and long-term profitability, and includes a high risk premium**

for continued negative yields in the market. We continue to recommend Harel as outperform, with preference for the company over all other competitors in the sector.

August 24, 2011

Change in Recommendation	
Change in Price	
Change in Forecast	

Target Price	NIS 250
Recommendation	Outperform
Current Price	150.7
Previous Recommendation	Outperform
Previous Target Price	NIS 250

Market Value (Millions of NIS)	3,200
12 Month High	NIS 232.6
12 Month Low	NIS 138.6
Average Daily Volume (Thousands of NIS)	4,000
Floating Amount	49.7%
Weight in the Tel Aviv 100 Index	0.83%

Current Majority Capital Ratio	0.89
LTM PE Ratio	7.2

Notes, Warnings and Full Disclosure Regarding the Analysis Report

Notes Regarding the Analysis Report

1. Recommendation Index

   - **Buy** – The stock is expected to outperform the Tel Aviv 100 Index by 20% or more during the coming 12 months.
   - **Outperform** – The stock is expected to outperform the Tel Aviv 100 Index by 10% - 20% during the coming 12 months.
   - **Market perform** – The stock is expected to produce results ranging between outperform of 10% and underperform of 10% relative to the Tel Aviv 100 Index during the coming 12 months.
   - **Underperform** – The stock is expected to underperform the Tel Aviv 100 Index by 10% - 20% during the coming 12 months.
   - **Sell** – The stock is expected to underperform the Tel Aviv 100 Index by 20% or more during the coming 12 months.

2. The method used to assess the value of insurance companies and to determine target prices includes the use of two models in parallel: The dividend discount model (DDM) and the net asset value model (NAV), while also incorporating evaluation using capital ratios and P/E ratios, and comparing the different stocks in the sector.

3. Main risks which may significantly affect the target prices of insurance companies:

   - Declines in capital markets in Israel and around the world.
   - Decline in the state of the economy.
   - Decline in the health of individuals in the economy.
   - Decline in the economic situation of individuals in the economy.
   - Increase in life expectancy.
   - Increase in the severity of the global economic crisis.
   - Financial risks – exchange rate changes, interest changes, inflation.
   - Changes in legislation and regulation which may adversely affect the business activities of insurance companies.

4. Graph of company stock and changes in recommendations during the previous three years. Target prices per share refer to the 12 month period following the date each recommendation was given.

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Harel Investments Target Price -------- Harel ---------			
Date	**Share Price**	**Target Price**	**Recommendation**
May 29, 2011	177.6	250	Outperform
January 12, 2011	235.2	250	Market perform
November 25, 2010	204.5	228	Outperform
June 17, 2010	181.0	228	Buy
March 1, 2010	193.8	265	Buy

* Note – Stock graphs are displayed after adjustment for dividend distributions, whereas target prices are not retroactively adjusted for dividend payments, and refer to the situation as it existed on the date each recommendation was given.

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Full Disclosure of the Analysis Report Preparer

The analysis report preparer is not aware of any conflict of interest existing as of the date of publication of the analysis report.

Full Disclosure of DS Brokerage Ltd. (hereinafter: the "Authorized Corporation")

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Declaration of Independent Judgment

I, Meir Slater, holder of license number 9421, hereby declare that the opinions presented in this analysis report accurately reflect my personal opinion about the securities discussed herein, and about the corporation that issued these securities.

August 24, 2011	**Meir Slater**
Publication Date of the Analysis Report	

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