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Harel Insurance

Leader Capital Markets Ltd.

August 24, 2011

Leader & Co. Investment House Ltd., Part of the Leader Capital Markets Group Ltd.

Harel Insurance – Response to Q2/2011 Statements	Market Perform – Updated Target Price Lena Itzkov Schwartz, 03-6845744, lenal@leader.co.il
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Main Points:

Harel finished the second quarter of the year with a net profit of about NIS 95 million, compared to net profit of about NIS 13.6 million for the previous year, while the comprehensive profit, which takes into account unrealized losses, totaled about NIS 13.2 million, compared to a loss of about NIS 33.3 million the previous year. Weakness in the markets was also seen in Q2/2010, and the company, similarly to others, was forced to return its variable management fees, resulting in a deleterious effect on the long-term results area. This year, an improvement was actually seen in most of the Company's areas of operation, whereas the current area of apprehension is directed towards the possibility of continued losses in the markets.

- **Life insurance – another quarter of impressive double-digit growth in premiums, although without collection of variable management fees:** Premiums grew by about 12.1%, which after neutralizing the one-time premiums of Bezeq amounted to growth of about 10%. Due to the market losses and the CPI increase, a loss in investment income was recorded, and Harel did not collect variable management fees, with a loss estimated at about NIS 96 million as of August 18, 2011. In Q2/2010, variable management fees totaling NIS 75 million were returned, while in the present quarter, variable management fees totaling NIS 6 million were returned, resulting in higher profits for the

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current quarter. Harel has a high weight of risk policies, an area that is less affected by market results, and profit from these policies stabilized results in the currently volatile markets.

- The above was due to the fact that a higher sum of variable management fees was collected in Q1/2010 than in Q1/2011, and therefore the higher sum of variable management fees returned in Q2/2010 than in Q2/2011 resulted in an improvement in the area's results compared to the previous year. Effectively, the situation this year appears to be worse: less profits, and less returns.
- **Improvement in pension activities and decline in provident results:** The continued growth in total pension fund assets resulted in profit growth for Harel from the beginning of the year, in spite of the increase in expenses compared to the previous year. Although provident activities are more volatile, and total assets in the area declined, management fees are still being collected, regardless of market results.
- **IDF Tender:** In spite of the negligible management fees expected to be collected from this portfolio, Harel may enjoy access to a population which, for the most part, spends a few years in career military service, and after concluding their service remain with the fund at average management fees, which are expected to contribute significantly. Harel may also benefit from the sale of additional products to this population.
- **Risk coverage for provident funds:** The Supervisor recently published a draft directive with regards to the sale of insurance coverage for provident funds. Implementation of the directive is expected to benefit the provident market (where Harel has one of the highest asset volumes in the sector), and will also enable expansion of the group's risk profit component.
- **Health insurance continues to be one of the group's growing areas:** This quarter saw continued growth of about 20% in premiums. Despite the increase in collective nursing insurance claims, profit before tax increased during the quarter and totaled about NIS 56.1 million. However, comprehensive profit for H1/2011 totaled NIS 85 million, 18% lower than the previous year, due to the influence of market losses.
- **The influence of capital markets was seen in the decrease in comprehensive profit from general insurance:** Premiums for the half year decreased by about 3%, due to a decrease in the company's share in the vehicle insurance of government employees. The current quarter saw losses in motor property, in the liabilities area, and in EMI activities, which operated in the field of high-risk mortgages. It appears that recent events have been resulting in a decrease in demand for mortgages in general, and for these mortgages in particular.
- **Profit of about NIS 7 million in financial activities:** During the third quarter, we expect to see a decrease in total assets in mutual funds, due to the high number of redemptions, as well as a change in composition – a decrease in stock-based funds, and an increase in monetary funds and bond funds, which contribute less management fees.

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The bottom line: We note again Harel's advantage in the insurance sector, due to a relatively balanced mix of life insurance, health insurance and general insurance activities. Harel also has large and growing activities in the health area, a significant weight of risk activities in life insurance, and growing pension fund activities, all of which contribute to balanced results, even in volatile markets. Over the next quarter, we expect to see even less strong results, with losses in the value of the marketable portfolio currently estimated to affect capital by about NIS 118 million. The company's stock dropped sharply recently, and we believe that, at its current price, the stock is not expensive, and Harel's stock is one of our favorites in the sector. However, we believe that its direction in the short term will be determined by the general direction of the market.

Bottom Line

In Millions of NIS	Q2/2011	Q2/2010	Difference
Net Profit	94.9	13.6	597.8%
Comprehensive Profit	13.2	-33.3	-139.6%

Results by Area of Operation

In Millions of NIS		Q2/2011	Q2/2010	Difference
Long Term Savings	Premiums	746.7	665.9	12.1%
	Profit	43	-45.9	-193.7%
Health Insurance	Premiums	576.9	479.6	20.3%
	Profit	56.1	43.3	29.6%
General Insurance in Israel	Premiums	690.8	691.7	-0.1%
	Profit	40.2	26.1	54.0%
General Insurance Abroad	Premiums	38.1	19.7	93.4%
	Profit	-11.9	-10	19.0%
Finances	Profit	7	6.1	14.8%

Results in the Long Term Savings Area

In millions of NIS	Q2/2011	Q2/2010	Difference
Life insurance	17.1	-70.4	-124.3%
Provident funds	13.8	15.9	-13.2%
<i>Total assets (billions of NIS)</i>	<i>23.1</i>	<i>21.7</i>	<i>6.5%</i>
Pension	12	8.5	41.2%
<i>Total assets (billions of NIS)</i>	<i>12.8</i>	<i>9.8</i>	<i>30.6%</i>

Full Disclosure

Details of the Analysis Report Preparer

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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

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During the previous 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		
		x			Market Perform, 218	
	Market Perform, 110					

<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

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