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translation thereof.**



DS Brokerage Ltd.

Harel – Response to Q3 Reports

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Very strong reports, the capital market, of course, but not only

- ➔ **In Q3 2012 Harel recorded comprehensive profit of NIS 262M reflecting a 30% ROC, the highest in the sector compared with companies that published their results so far.** From the beginning of the year the company recorded comprehensive profit of NIS 492M, with a 17.6% ROC (annually). This profitability was indeed accomplished following good yields in the capital markets however without collecting variable management fees.
- ➔ **Strong results in the life insurance sector with NIS 105M profit.** The company enjoyed high profits in guaranteed-yield policies in light of the yields that were made in free investments in the portfolio. Assessment of uncollected variable management fees totals NIS 10M as of 30.9.12 and it was completely covered as of 31.10.2012. From this date Harel returned to collect variable management fees.
- ➔ **In pension the comprehensive profit totaled NIS 14.5M. The profit level continues to increase consistently.** The tender the company won for the purpose of managing pension funds of standing army soldiers came into force, and included an amount of NIS 1 billion transferred to the company's management. The rate of management fees in this framework is zero, when we are of the opinion that the company's profit model also relies on cross sales of complementary products. **Contributions rose by 27% compared with the corresponding period** also thanks to the deposits made by standing army soldiers.

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- **Provident fund results continue to be stable**, and in the present quarter there was NIS 14.8M profit, a little higher than average in the last quarters (NIS 14M). The company did not specify the effect of decrease of management fees rate on the company's income.
- **Very good results were recorded in health insurance**, with a high comprehensive profit of NIS 99M, supported by yields in the capital market, however also as a result of improvement in the underwriting results. Accelerated growth is seen in the premiums with a 16% increase from the beginning of the year. **Harel continues to be the leading company in its field with the strongest growth at the same time.**
- **In general insurance in Israel the company enjoys impressive yields in the markets and recorded the highest quarterly profit in the last two years, NIS 100M.** Underwriting results also saw improvement in the present quarter, especially in the vehicle and property branches.
- **Overseas insurance companies continue to record losses, in the amount of NIS 3M in the present quarter.** Loss derives from the loss of the subsidiary in Turkey, due to a competitive market and limited scope of activities.
- **Financial activities that weakened in the last quarter also continued to show poor results in the present quarter.** This weakness is attributable to decrease at the rate of management fees in the funds and decrease in income from brokerage.
- **Capital surplus** – totals NIS 896M at the end of the present quarter, constituting 22% above the company's capital requirements. **The company can distribute more than NIS 250M in dividend and still conform to regulation requirements** (15% capital surplus). Such dividend will result in 8% yields.
- Harel is traded this morning according to a capital multiplier of 0.77.

Summary and recommendation

From the beginning of the year Harel generates the highest ROC in the system. In the next quarter variable management fees will be added to this yield. The main source of profit that generates the highest ROC is the health insurance branch, in which the company continues to grow in the highest rates in the sector.

Harel was and still remains one of the most favorable companies in the sector. Since the entire sector, from our point of view, should be kept in outperformance, and Harel should occupy this place.

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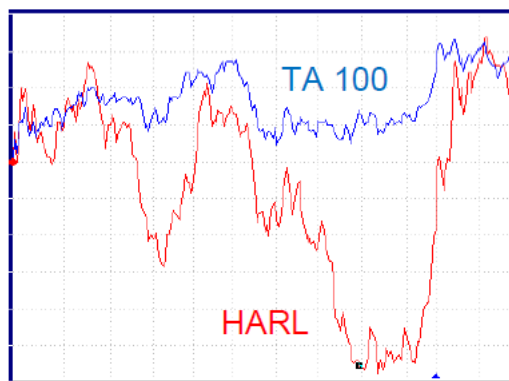
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Recommendation	Outperformance
Target price	NIS 180

Change of recommendation	
Price change	
Change of forecast	

Present price	NIS 143.3
Previous recommendation	Outperformance
Previous target price	NIS 180
Market value (NIS M)	3,000
Highest in 12 months	NIS 152.2
Lowest in 12 months	NIS 92.7
Average daily volume (NIS thousand)	3,500
Floating amount	50.5%
Weight in the TA-100 Index	0.8%

Harel stock in the last year



Income Before Taxes	Q3/12	Q2/12	Q3/11
Life	104.6	(135.6)	(165.1)
Pension & Provident Funds	29.2	25.0	28.3
Health	98.8	51.1	20.1
General Insurance	96.7	7.4	(45.1)
Financial Services	3.6	4.0	5.7
Other	92.1	(50.5)	(99.4)
Net Comprehensive Income	262.2	(57.1)	(162.0)

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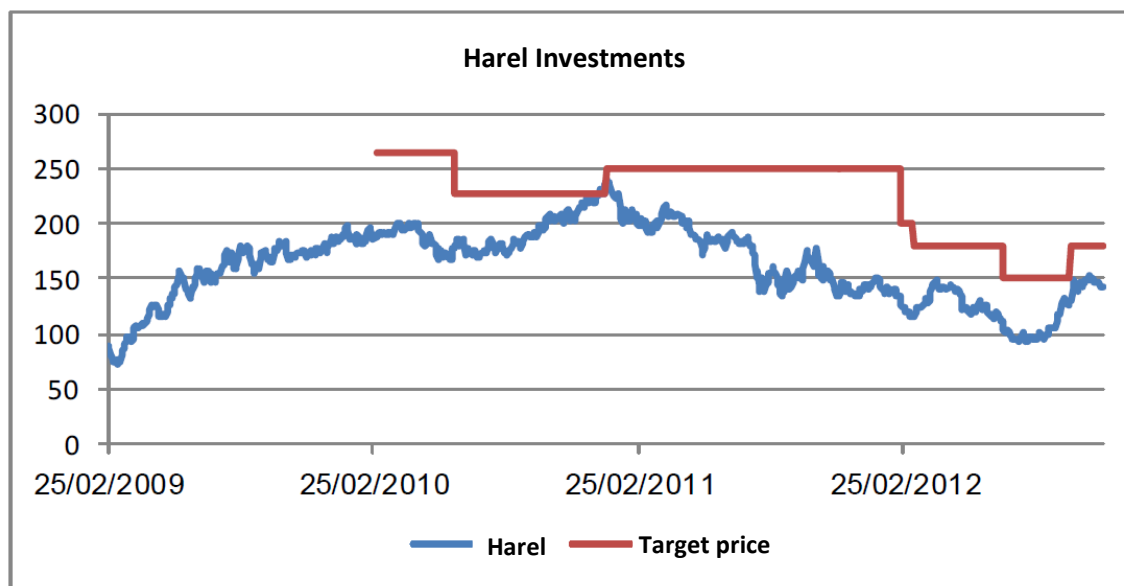
Notes, Warnings and Full Disclosure Regarding the Analysis Report

Notes regarding the Analysis Report

1. Recommendation index
 - **Buy** – the stock is expected to outperform the TA-100 Index by 20% or more in the upcoming 12 months.
 - **Outperform** – the stock is expected to outperform the TA-100 Index by 10%-20% in the upcoming 12 months.
 - **Market perform** – the stock is expected to produce results ranging between outperform of 10% and underperform of 10% relative to the TA-100 Index in the upcoming 12 months.
 - **Underperform** – the stock is expected to underperform the TA-100 Index by 10%-20% in the upcoming 12 months.
 - **Sell** – the stock is expected to underperform the TA-100 Index by 20% or more in the upcoming 12 months.
2. The method used to assess the clause of insurance companies and setting target prices includes the 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 worldwide.
 - 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 the legislation and regulation which may adversely affect the business activities of insurance companies.
4. Graph of Harel 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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Share	Target price	Recommendation	Recommendation date	Share price on recommendation date
Harel	180	Outperform	15/10/2012	130.4
Harel	150	Outperform	11/7/2012	115.2
Harel	180	Outperform	11/3/2012	114.9
Harel	200	Outperform	21/2/2012	133.7
Harel	250	Outperform	29/5/2011	177.6
Harel	250	Market return	12/1/2011	235.2
Harel	228	Outperform	25/11/2010	204.5
Harel	228.0	Buy	17/6/2010	181.0
Harel	265.0	Buy	1/3/2010	193.8



* 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 Author

The Analysis Report author is not aware of any conflict of interest existing as of the date of publication of the Analysis Report.

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Publication Date of the Analysis Report

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