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**TheMarker**

TheMarker 25 August 2011

**Market weakness did not prevent Harel from a quarterly profit  
Harel reported 10% growth in premiums to over NIS 2 billion. The restrictions on  
housing loans affected subsidiary EMI. Shimon Elkabetz: We feel the contraction in  
mortgages.**

**Noam Bar**

The falls in stock indices did not prevent Harel Insurance and Finances Services Ltd., from reporting a profit for the second quarter. The company posted a total profit of NIS 13 million, compared with a loss of NIS 32 million for the correspondent quarter of last year. Harel benefited from 10% growth in premiums to more than NIS 2 billion for the quarter.

Income from management fees on financial management operations – provident funds, pension funds, managers insurance, mutual funds, and portfolios – rose by 89% to NIS 179 million. Last year, Harel was compelled to refund NIS 70 million in variable management fees to participating policyholders, and while it could not charge variable management fees in this quarter, it was also not forced to refund previously collected fees.

As of the end of the second quarter, non-financial investment losses to policyholders totaled NIS 347 million, which is expected to cost Harel NIS 52 million in management fees in the future. The company's life insurance business grew by an impressive 12% in gross premiums to NIS 749 million. The health insurance business achieved even greater growth, with premiums up 20% to NIS 577 million.

Harel's health insurance business is the largest in the industry, and includes the nursing portfolio of Clalit Health Services, which is due to publish a tender among the companies in a few months. This week, the Supervisor of Insurance notified the insurance companies that, from now on, it bans them from selling group nursing insurance policies.

Harel co-CEO Michel Siboni warns that the decision and transfer of policyholders to individual policies – hundreds of thousands of customers, of whom 25% are pensioners – will increase their premiums five-fold. "In my opinion, the correct solution is to establish a nursing fund in the form of a pension fund, in which policyholders guarantee each other. Another solution proposed by the industry is for groups of policyholders to buy individual policies, but will enjoy group discounts, will not provide policyholders large discounts on premiums," said Siboni.

Under the model that Siboni proposes, Harel manages the nursing insurance portfolio of Clalit Health Services.

However, all is not rosy. The mortgage credit insurance business, which is handled by subsidiary EMI, suffered from the new restrictions imposed the Supervisor of Banks on housing loans. These restrictions reduced demand for loans, resulting in a concurrent drop in the company's business. EMI's premiums fell by 12% to NIS 14 million in the second quarter, and the company posted a loss of NIS 5 million.

“For two quarters, we have felt the Supervisor's heavy hand and the contraction of the mortgage market,” says Harel co-CEO Shimon Elkabetz.

Another area where Harel continues to lose money is its non-life insurance business in Greece and Turkey. Despite 97% growth in premiums to NIS 38 million, the company lost NIS 10.3 million, due to higher set-up expenses by the companies.

#### Harel's results in millions of shekels

	Q2 2011	Q2 2010
Gross premiums	2,050	1,856
Total profit	13	-32
Net profit	85	15
Life insurance profit	-23	-93
Provident funds profit	14	16
Pension funds profit	12	9
Health insurance profit	44	39
Non-life insurance profit in Israel and overseas	-6	14
Financing profit	7	6