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August 21, 2012

**Press Release**

**Despite non-recurring influences, the impact of increased longevity, and negative yields on the capital market in the second quarter - Harel's comprehensive profit for the first six months of 2012 was up 150%, at NIS 230 million**

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**Harel concluded the second quarter of 2012 with a minimal loss. Comprehensive loss was NIS 57 million and the net loss was NIS 21 million**

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**Net profit for the first half of 2012 was NIS 171 million.**

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**Total premiums earned and benefit contributions in the first half of 2012 rose 10% compared with the corresponding period last year, amounting to NIS 6.5 billion**

**Total premiums earned and benefit contributions in the second quarter of 2012 rose 12% compared with the corresponding period last year, amounting to NIS 3.3 billion**

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**The Group's total assets under management amounted to NIS 108.2 billion.**

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**Harel Insurance Investments and Financial Services published its financial statements last night for the first half and second quarter of 2012**

Despite the non-recurring influences, and negative yields on the capital market in the second quarter, Harel concluded the first six months of 2012 with comprehensive profit of NIS 230 million, compared with NIS 92 million for the corresponding period last year, **a 150% increase**. The increase is due to the effect of the capital market, where yields were higher than those in the corresponding period last year, and to a drop in the rate of inflation during the reporting period, compared with the corresponding period last year. Results for the reporting period were affected by an update of the provision for the supplementary reserve for annuity due to a change in longevity estimates based on the revised estimates and future improvements in longevity specified in the draft position paper published by the Commissioner of Insurance on annuity conversion factors which incorporate a longevity guarantee. Adjustment of the reserve reduced comprehensive profit for the period by NIS 24 million before tax (NIS 15 million after tax) and a further NIS 79 million will be recognized over time.

**Net profit for the first half of 2012** was NIS 171 million compared with NIS 205 million for the corresponding period last year, **a drop of 16%**.

**The comprehensive loss in the second quarter of 2012** was NIS 57 million, compared with comprehensive profit of NIS 13 million for the corresponding quarter last year.

**The net loss in the second quarter of 2012** was NIS 21 million, compared with comprehensive profit of NIS 95 million for the corresponding quarter last year.

The shift from profit to loss is due mainly to the effect of the capital market, where yields were less than the yields for the corresponding period last year, and to the Company's revised estimates concerning obligations for annuity based on the revised estimates and future improvements in longevity specified in the draft position paper published by the Commissioner of Insurance on annuity conversion factors which incorporate a longevity guarantee.

**Michel Siboni, joint CEO of Harel Insurance Investments and Financial Services:** "Harel Insurance and Finance Group continues to position itself as Israel's foremost insurance group for private health insurance - in which it maintained steady growth, in general insurance - in which the

Group holds the largest market segment, and as the key player in pension savings, with extremely high rates of growth. At the same time, Harel pays particular attention to the quality of service provided to customers and agents, and it applies a responsible investment management policy." Mr. Siboni added: "Harel will benefit from the fruits of its current growth in sales for many years to come after the current volatility of the markets eases."

**Total premiums earned and benefit contributions** were 10% up in the first half of 2012, amounting to NIS 6.5 billion, compared with NIS 5.9 billion for the first half of 2011.

**Total premiums earned and benefit contributions** were 12% up in the second quarter of 2012, amounting to NIS 3.3 billion, compared with NIS 2.9 billion for the second quarter of 2011.

**Total premiums earned and benefit contributions in the long-term savings segment** (life assurance, pension, provident funds, and study funds) rose 12% in the first half of 2012, amounting to NIS 3.6 billion, compared with NIS 3.2 billion for the first half of 2011. Total premiums earned in this segment account for 31% of all premiums earned by the Group. Total premiums earned and benefit contributions in the long-term savings segment in the second quarter of 2012 rose 12%, amounting to NIS 1.8 billion, compared with NIS 1.6 billion for the second quarter of 2011.

**Total premiums earned in the health insurance segment**, in which the Group is the largest and most prominent in Israel, **rose 18%**, amounting to NIS 1,362 million for the first half of 2012, compared with NIS 1,159 billion for the first half of 2011. Total premiums earned in this segment account for 31% of all premiums earned by the Group.

**Comprehensive profit in long-term savings activity** in the first half of 2012 was NIS 73 million, compared with comprehensive profit of NIS 84 million for the first half of 2011. The decline can be attributed to a deterioration in underwriting results relative to the corresponding period last year and to an increase in obligations for annuity due to the Commissioner of Insurance's announcement on revised longevity and future improvements in longevity.

**Comprehensive profit in life assurance** in the first half of 2012 was NIS 24 million, compared with comprehensive profit of NIS 31 million for the corresponding period last year. The decline is partially attributed to a revision of the Company's estimates concerning obligations for annuity based on the revised longevity estimates and future improvements in longevity, as detailed in the draft position paper published by the Commissioner.

**Total premiums earned in life assurance** in the first half of 2012 were NIS 1.6 billion, compared with NIS 1.5 billion for the first half of 2011, a 5% increase. Premiums earned in life assurance accounted for 36% of all premiums earned by the Group during the reporting period.

**Comprehensive profit from pension fund management** in the first half of 2012 was up 5% to NIS 21 million, compared with NIS 20 million for the corresponding period last year. Benefit contributions collected by the Group's pension funds during the first half of 2012 increased by 22% to NIS 1.4 billion, compared with NIS 1.1 billion in the first half of 2011. At June 30, 2012, the Group's pension funds held assets under management of NIS 15.5 billion, compared with NIS 12.8 billion at June 30, 2011, an increase of 21%. The increase is due to the effect of the capital market, where yields were higher than those of the corresponding period last year, and to an increase in the amounts of provision by members.

**Comprehensive profit from the management of provident funds and study funds** in the first half of 2012 was NIS 28 million, compared with NIS 33 million for the corresponding period last year. At June 30, 2012, the provident funds and study funds managed by the Group held assets under management of NIS 22.5 billion, compared with NIS 23.1 billion at June 30, 2011.

**Comprehensive profit in the health insurance segment** in the first half of 2012 was NIS 96 million, compared with NIS 85 million for the corresponding period last year, a 13% increase. The increase is due to the effect of the capital market, where yields were higher than those of the corresponding period last year, and to a drop in the rate of inflation.

**Comprehensive profit in general (non-life) insurance** in the first half of 2012 was NIS 117 million, compared with comprehensive profit of NIS 14 million for the corresponding period last year. The increase is due to a drop in the rate of inflation and the effect of the capital market, where yields were high relative to the corresponding period last year. Gross premiums in the general insurance segment in the first half of 2012 were NIS 1.6 billion, compared with NIS 1.58 billion for the corresponding

period last year, an increase of 2%. Premiums on retention in general insurance in the first half of 2012 were NIS 917 million, compared with NIS 944 million for the corresponding period last year.

**The insurance companies in the overseas operating segment** posted a comprehensive loss of NIS 4 million in the first half of 2012, compared with a comprehensive loss of NIS 14 million for the corresponding period last year. The sum total of premiums earned in the overseas insurance companies segment in the first half of 2012 rose 28% to NIS 88 million, compared with NIS 69 million for the first half of 2011.

The volume of assets under management in the capital market and financial services segment at June 30, 2012 was NIS 26.6 billion, similar to the amount at June 30, 2011. Comprehensive profit from activity in the capital market and financial services in the first half of 2012 was NIS 9 million, compared with NIS 18 million in the corresponding period last year.

The Group's shareholders' equity attributed to the Company's shareholders at June 30, 2012, amounts to about NIS 3.76 billion.

At June 30, 2012, Harel Insurance held surplus equity in the amount of NIS 709 million, relative to the capital requirements which apply to it. In April and May 2012, the subsidiary, Harel Share Issues, raised NIS 250 million through the issuance of two debentures to be used as tier-3 equity by Harel Insurance. The debentures will bear fixed annual interest of 3.85%, and will be linked to the CPI.

At June 30, 2012, the Group's total assets under management in insurance, pension funds, provident funds, mutual funds and financial services amounted to NIS 108.2 billion.