HARAL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Interim Statement
As at March 31, 2013

The original language of theses Interim Consolidated Statements is Hebrew.
The Hebrew version shall prevail over any translation thereof.

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Harel Insurance Investments & Financial Services Ltd.

Board of Directors' Report

For the nine months ended September 30, 2012

The Board of Directors' Report for the three months ended March 30, 2013 ("the Reporting Period"), reflects the principal changes in the business situation of Harel Insurance Investments & Financial Services Ltd. ("Harel Investments" or "The Company") during this period, and it was prepared taking into account that the reader is also in possession of the Group's full Periodic Report for 2012 which was published on March 19, 2013 ("the Periodic Report").

The Board of Directors' Report in this chapter of the Periodic Report, also contains forward-looking information, as defined in the Securities Law, 5728-1968. Forward-looking information is uncertain information regarding the future, based on information that the Company has at the time of preparing the report and including the Company's estimates or intentions at the date of the report. Actual performance may differ substantially from the results estimated or inferred from this information. In certain instances, sections can be found that contain forward-looking information, where words such as: "the Company/the Group estimates", "the Company/the Group believes", "the Company/the Group anticipates", and the like appear, and such forward-looking information may also be worded differently.

1. Description of the Company

1.1. General

Harel Insurance Investments and Financial Services Ltd. ("Harel Investments" or "the Company") is a public company, whose shares have been traded on the Tel Aviv Stock Exchange since 1982. The Company, together with its subsidiaries ("the Group") operates principally in the following areas:

In various sectors of the insurance industry, the Company operates through the subsidiaries: Harel Insurance Company Ltd. (wholly controlled) ("Harel Insurance"); Dikla Insurance Company Ltd. (wholly controlled) ("Dikla"); Interasco Societe Anonyme General Insurance Company S.A.G.I. (in which the Company owns 95.75% stake ("Interasco"), which operates in Greece in non-life insurance; Turk Nippon (in which the Company owns a 99.98% stake), which operates in Turkey; ICIC - Israel Credit Insurance Company Ltd. (ICIC) (in which the Company has a 33.3.% stake) (Regarding an agreement to acquire additional shares in ICIC, such that thereafter the acquisition the Company will hold 50% of the shares of ICIC, see Note 13 to the financial statements), and E.M.I. - Ezer Mortgage Insurance Company Ltd. (wholly controlled), ("EMI").

In the long-term savings sector, the Company operates through subsidiaries which are provident funds and pension funds management companies, as follows:

Provident funds management companies: Harel Gemel and study Ltd. (wholly controlled) ("Harel Gemel"), Atidit Provident Fund Ltd. (wholly controlled) ("Atidit Gemel"), and the Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd. (wholly controlled) ("Tzva Hakeva").

Pension funds management companies: Harel Pension Funds Management Ltd. (wholly controlled) ("Harel Pension"); Manof Pension Funds Management Ltd. (wholly controlled) ("Manof"); and LeAtid Pension Funds Management Company Ltd. (in which the Company has a 79% stake), which manages an old pension fund ("LeAtid").

In the financial services and capital market sector, the Company operates through Harel Finance Ltd. ("Harel Finance") (wholly controlled by the Company) and its subsidiaries: Harel Pia Mutual Funds Ltd. ("Harel-Pia"), Harel Finance Securities and Trade Ltd. (which is a stock exchange member) (Harel Finance Trade) (Regarding the end of activity, see Note 7 to the financial statements), Harel Finance Investments Management Ltd. (has a licensed investment advisor), Harel Financial Products Ltd. ("Harel Products") (which engages in financial products such as: ETFs, covered warrants and more). The products are offered to the public through the subsidiary Harel Sal Ltd. ("Harel Sal") which is a reporting corporation under the Securities Law and issues index products (covered warrants and ETFs)) and through the subsidiary, Harel Sal Currencies Ltd. ("Harel Currencies"), which is a reporting corporation that issues deposit certificates on different currencies.

The Group has been active in the insurance industry for approx. 75 years, and it is Israel's second-largest Insurance Group, with a market share of approx. 20%. In health insurance the Group is the largest and most prominent in the market. In the non-life sectors the Group is the largest insurance group, and it holds fourth place regarding the volume of life-assurance premiums. In the new pension fund management sector, the Group has a market segment of about 14.6%. In the provident fund management sector, the Group has a market segment of about 7.6%. In the mutual fund management sector, the Group has a market segment of about 11.4%.

The Company's own operations center on the management, control and supervision of the subsidiaries, on-going planning of the Group's operations, and the initiating of activity and investments both directly and through the Group's companies.

1.2. Companies share holders

The Hamburger family (Yair Hamburger, Gideon Hamburger and Nurit Manor) holds (mainly through a holding company) 50.03% of the Company's shares.

2. Financial situation and results of operations, shareholders' equity and cash flow

2.1. Material changes in the Company's business during the Reporting Period

2.1.1. Agreement to acquire right at "Ir Yamim" mall

Regarding the agreement to acquire right at "Ir Yamim" mall, see Note 7d8 to the financial statements.

2.1.2. Distribution of a dividend

Regarding the resolution to distribute a dividend, which was made in April 11, 2013, see Note 8 to the financial statements.

2.1.3. Agreement to purchase half the rights in a Raanana property

Regarding a contract between the Company's subsidiaries, that are financial institutions, to the Blue Square Real Estate Ltd. to acquire half the rights in a property in Raanana.

2.1.4. A loan from a financial institution

Regarding a loan the Company took from a financial institution and relating financial institutions - see Note 9 to the financial statements.

2.1.5. Agreement to acquire the life assurance portfolio of Eliahu Insurance Company Ltd.

Regarding an agreement to acquire the life assurance portfolio of Eliahu Insurance Company Ltd. ("Eliahu") - see Note 7 to the financial statements.

2.1.6. Credit audit

Regarding a sanction imposed on Harel Insurance, see Note 12(3) to the financial statements.

2.2. Material changes in the Company's business after the Reporting

2.2.1. Agreement to purchase trust funds and portfolio management operations from Clal Finance.

Regarding the completion of an agreement to purchase trust funds and portfolio management operations from Clal Finance and regarding the merger of the acquired company into Harel-Pia - see Note 13 to the financial statements.

2.2.2. A transaction to purchase an office building in Minneapolis.

Regarding a transaction to purchase an office building in Minneapolis, see Note 13(2) to the financial statements.

2.2.3. ICIC

Regarding an agreement to aquire the entire holdings of Bituach Haklai in ICIC - see Note 13(3) to the financial statements.

2.2.4. Financial sanction

Regarding a financial sunction imposed on Harel Insurance, see Note 13(5) to the financial statements.

2.2.5. Transaction to acquire an office block in Düsseldorf, Germany

Regarding a transaction to acquire an office block in Düsseldorf, Germany, see Note 13(6) to the financial statements.

2.2.6. Transaction to acquire an office block in Frankfurt, Germany

Regarding a transaction to acquire an office block in Frankfurt, Germany, see Note 13(7) to the financial statements.

2.3. Legislation and regulation regarding the Company's areas of activity

The following is a description of material changes in legislation and regulation regarding the Company's areas of activity since the Periodical Report**:**

2.3.1. General

2.3.1.1. Provisions of Law

2.3.1.1.1. FACTA - Foreign Account Tax Compliance Act

In March 2010, the Foreign Account Tax Compliance Act (FACTA) was enacted in the US, obligating foreign financial institutions to provide information about accounts managed by American customers. The law considerably expands the disclosure and reporting requirements that apply to foreign financial institutions in relation to accounts owned by US citizens. In January 2013, final regulations were published by the US Ministry of Finance and Tax Authority providing operative instructions for implementation of the law. In general, according to the provisions of the law and the regulations, foreign financial institutions must enter into agreement with the IRS, in which context the foreign financial institution will undertake, inter alia, to locate American accounts, to report them to the IRS, and to deduct tax from customers who refuse to provide the relevant information and documents. Foreign financial institutions that fail to enter into such an agreement with the IRS, will themselves be obligated to withhold tax in respect of revenues from American sources and the revenues from the proceeds of the sale of assets which may generate revenues from American sources. Nevertheless, the US authorities are in contact with the tax authorities of the different countries for the purpose of an intergovernmental agreement, which may have repercussions for the manner of implementing the FACTA regulations on financial institutions in those countries.

The provisions of the law will not apply to obligations which are issued before January 1, 2014. Implementation of the law is expected to entail operating costs. At the publication date of this report, it is unclear whether Israel will sign the Intergovernmental Agreement with the US and what the content of the agreement will be. The extent of the application of the law on the existing portfolio therefore remains unclear. Consequently, at this stage it is impossible to estimate the range of activity that will be required, including the scope of the reports to the US authorities, the scale of the operating and automation activity, and the overall repercussions.

2.3.1.2. Circulars

2.3.1.2.1. Circulars published by the Commissioner during the reporting year and up to the publication date of this report (not detailed as part of the foregoing operating segments):

2.3.1.2.2. On January 15, 2013, the Commissioner published a draft circular concerning a list of the nostro assets of financial institutions at individual asset level, which eliminates Circular 2011-9-8. The circular stipulates that financial institutions will report to the Commissioner about the manner of investing the nostro monies which they manage by submitting a quarterly report with a list of assets at individual asset level. The circular prescribes provisions concerning the reporting format, frequency and the method of reporting. The provisions of the circular will apply to all financial institutions, excluding a sectorial provident fund management company from the annual reporting for 2012 onwards.

2.3.2. Life insurance and long-term savings

2.3.2.1.1. On January 1, 2013, Control of Financial Services (Provident Funds) (Insurance Cover by Provident Funds) Regulations, 5772-2012, were published. The regulations prescribed, inter alia, provisions concerning insurance cover which a management company may offer or purchase for its members, and the conditions of the insurance. An annuity provident fund may determine in its articles: cover for longevity, cover for risk of death cover for disability risks, and cover for waiver of payments. The cumulative cost of all the coverages shall not exceed 35% of the deposits. Premiums charged by an insurer which is an associate of the management company shall equal the premiums applied by the insurer in a similar policy for insureds with similar characteristics. Provident funds which do not pay an annuity and are not insurance funds may provide members with group life assurance and group work disability insurance. The insurance premiums on group policies will be calculated inter alia, according to the sum insured, the age and gender of the insured. Provisions were prescribed concerning preserving the insurance cover in the event that deposits are discontinued or money is withdrawn, and an instruction that premiums may not be collected from the severance pay component or from the management fees collected from the management company. Likewise, separate provisions were prescribed for group life assurance of an education fund. Together with the regulations, on December 12, 2012, a circular was published which prescribes provisions concerning implementation of the sale of such insurance coverages. Additionally, the following regulations were published: Income Tax (Rules for the Approval and Management of Provident Funds) Regulations (Amendment no. 3) 5773-2012, which eliminates Articles 31 and 45 of the Income Tax (Rules for the Approval and Management of Provident Funds), 5724-1964, commencing January 1, 2013. Control of Financial Services (Provident Funds) (Application of Section 16(d)(6) of the Insurance Fund and Insurer Law) Regulations, 5773-2012. In this context, Section 16(d)(6) of the Provident Funds Law which empowers the minister to prescribe provisions with respect to the categories of insurance in which provident fund members may be insured and the conditions of such insurance policies was also applied to insurance funds and to an insurer who manages such a fund. The regulations commence on January 1, 2013.

2.3.2.2. Circulars

2.3.2.2.1. On January 7, 2013, the Commissioner published a circular concerning a standard format for the transfer of information and data in the pension savings market, which lays out a "standard format" for the transfer of information to be used by financial institutions, licensees and other users of information about pension savings, as part of the different operations performed between them.

2.3.2.3. Instructions and clarifications

2.3.2.3.1. On January 3, 2013, the Commissioner published a letter addressed to the managers of financial institutions concerning the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations (Temporary Order), 5771-2010. The letter stipulates that the Temporary Order from 2008, which was extended to include 2011 and 2012 as well, only allowing money to be deposited in the severance pay component of provident funds which do not pay an annuity, will remain in force until the end of three months from the commencement of service of the incoming Knesset.

2.3.2.3.2. In May 2013, the Ministry of Finance published the proposed economic plan for 2013-2014. This plan sets out proposed changes in the model of tax benefits applicable to provision made for pension savings. The key change is the cancellation of Sections 45 or 47 of the Income Tax Ordinance, which address the tax rebate for an employee and permit a tax deduction for the employer's expense and for provision made by the self-employed for pensions, and replacing it with a new model. According to the new model, the following changes will apply to salaried employees: the upper limit of the tax rebate will be raised to 35% on deposits made by salaried employees, so that it will be 15% of the taxable income or 20 times the average wage in the economy (about NIS 180,000 per annum) ("the New Limit"), whichever is lower, net of the amounts deposited by the employer which had, until now, been eligible for a tax benefit, as detailed below. At the same time, the upper limit for the tax exemption on deposits made by the employer will be reduced from 7.5% of four times the average wage in the economy (i.e. - a monthly deposit of NIS 2,650) to 7.5% of the New Limit divided by 12 (i.e. - a monthly deposit of NIS 1,125). The following changes will apply to self-employed members: the upper limit of the tax rebate of 35% will apply to a deposit of up to

20% of the taxable income or of the New Limit, whichever is lower. If the proposal is passed, it will likely have positive and negative repercussions for the public's incentive to save for pension, depending on the level of income from which the pension saving is derived, for both self-employed and salaried employees, and for the saver's willingness to make deposits in pension savings even for amounts which are not eligible for tax benefits. At this stage it is impossible to estimate the expected aggregate effect of these changes. The economic plan is in the initial stages of legislation, so that changes may still be made during the course of discussions in the Knesset for its approval.

2.3.3. Life insurance

2.3.3.1. Instructions and clarifications

On January 23, 2013, a letter addressed to managers of the insurance companies was published concerning group long-term care insurance - outline for elderly insureds, which determined that an insurer shall offer all holders of group policies which include long-term care insurance (except for health funds), who belong to the target population (insureds aged 60 or more who are insured through group policies with a waiting period of no more than 12 months or where the group policy came to an end during the three years preceding the commencement of the application of the outline and it was not renewed by another insurer and the waiting period in the policy is not more than 12 months), an option to renew the group insurance in new, group policies which are identical for all the groups insured by the insurer. The circular prescribes provisions concerning the date of the renewal, notice given by the policyholder of enrolment in the outline policy and the inclusion of insureds, who are part of a group whose policyholder has decided to enroll in the outline policy. Insureds in a target population, whose policyholder has decided not to renew the group policy for them as part of the outline policy, will be entitled to move over to a (follow-on) personal lines policy as instructed by the Commissioner, in this instance, the conditions of the contract signed with the policyholder and conditions of the present group policy. The insurance in the outline policies will be renewed without a fresh review of any pre-existing medical condition and with no qualifying period. Likewise, the main conditions of cover in the outline policy and key terms of the additional cover were determined. Application of the foregoing is expected to significantly affect the volume of activity in the group long-term care sector.

2.3.4. General insurance

2.3.4.1. Calculation of the insurance reserves for non-life (general) insurance

On February 21, 2013, Control of Financial Services (Insurance) (Calculation of Insurance Reserves in Non-life Insurance) Regulations, 5773-2013, were published, prescribing the manner of calculating the insurance reserves to be held by a non-life insurance insurer.

Together with the regulations, the Commissioner published a circular concerning the calculation of insurance reserves for non-life (general) insurance. The circular sets forth provisions concerning the manner of calculating reserves in non-life insurance, specifying the manner of calculating the provisions which an insurer must include in the reserves, and instructions for calculating reserves for excess income over expenses in the branches of insurance which are specified in the circular. Commencing March 31, 2014, there will no longer be a requirement to calculate reserves for excess income over expenses. The provisions of the circular apply to all the insurance companies from the date of the onset of the regulations.

2.3.4.2. Provisions of law

On January 30, 2013, draft Control of Insurance Business (Conditions of a Contract to Insure Homes and their Content) (Amendment), Regulations, 5773-2013, were published which propose amending the Control of Insurance Business (Conditions of a Contract to Insure Homes and their Content) Regulations, 5746-1986, which prescribed, inter alia, the standard policy for household insurance and contents.

2.4. Capital market development

2.4.1.1. General

Global stock markets were positive in the first quarter of 2013 as concerns of a further deterioration in the state of the Eurozone diminished. Nevertheless, economic data in Europe remained weak while indicators from the US and other parts of the world were more favorable.

The austerity programs and structural reforms which were designed to reduce public debt and strengthen the confidence of investors, continued in most of the problematic Eurozone countries and most of the European Union states signed a fiscal discipline treaty. The ECB's loan plan which provided a commitment for unlimited credit to the European banks continued through the first quarter, significantly mitigating fears of a liquidity crisis in the Eurozone and contributing to the positive sentiment in the markets.

2.4.1.2. Economic Developments

The Group operates in the Israeli economy, where the political, security and economic situation affect its activity in various sectors. Changes in the state of the Israeli economy may lead to changes in the volume of premiums and other revenues and to a change in the operating costs of the Group's companies. A change in employment levels in the Israeli economy may affect the volume of activity in life insurance and long-term savings.

2.4.1.3. Stock markets

Most of the world's share indices rose in the first quarter of 2013. The TA-100 share index rose by 5% during the first quarter of 2013, after an increase7% in 2012.

2.4.1.4. Bonds Market

The general bond market rose by 0.6% in the first quarter of 2013.The government bond index declined by 0.2% in the first quarter of 2013, after rose of 8% in 2012. The corporate bond index rose by 2%, following a rose of 10% in 2012.

2.4.1.5. Provident funds

In the first quarter of 2013, the mutual funds market raised a net amount of NIS 17 billion, more than half of which (NIS 9.5 billion) was in the money-market funds, an increase of 160% compared with the previous quarter, and in contrast with net raisings of NIS 20 million in 2012. In the specialist funds too, bonds were noticeably positive in the first quarter of 2013, with net raisings of NIS 8 billion.

2.4.1.6. Index products

According to the Association of ETFs, the index-linked certificate market manages assets in the amount of NIS 82 billion at the end of Q1 2013, compared with NIS 69 billion at the end of 2012, a

19% increase. The deposit certificates in particular were positive in the first quarter, raising NIS 6.6 billion, as were the ETFs specializing in foreign shares, which raised NIS 2.5 billion.

2.4.1.7. Foreign Currency Market

The shekel got stronger by 2.3% against the US dollar during the first quarter of 2013 (to NIS 3.648 / USD) and grew stronger by 5.3% against the euro (to NIS 4.6612 / EUR).

2.4.1.8. Inflation

During the 12 months until March 2013 inflation amounted to 1.3%, in the central inflation target. During the first quarter of 2013 the consumer price index remained without a change.

2.4.1.9. Bank of Israel Interest

In the end of December 2012, the Bank of Israel lowered the interest by 0.25% to 1.75%, following a decrease of 0.75% in the interest during 2012. During the first quarter, the Bank of Israel left the interest rate unchanged, mainly due to signs of improved economic indicators in Israel, the high level of the national deficit and the increase in housing prices.

2.5. Summary of data from the consolidated financial statements of Harel Investments

2.5.1. Summary of data from the consolidated performance reports of Harel Investments (in NIS thousands):

	For the three months ended March 31		% change	For year ended December 31
	2013	2012		2012
Life assurance and long-term savings segment				
Gross premiums earned	934,170	802,765	16	3,297,033
Income from management fees	207,499	137,429	51	632,920
Profit from life assurance business	151,023	110,483	37	130,463
Profit from provident fund management	7,681	14,152	(46)	54,979
Profit from pension fund management	10,521	10,133	4	49,341
Total profit from life assurance and long-term savings	169,225	134,768	26	234,783
Total comprehensive income from life assurance and long-term savings	152,096	183,697	(17)	356,817
Non-life insurance segment				
Gross premiums earned	766,807	712,749	8	2,916,265
Premiums earned on retention	454,444	427,391	6	1,690,981
Total profit from non-lie insurance	73,194	79,570	(8)	215,084
Comprehensive income from non-life insurance	61,009	107,395	(43)	316,643
Health insurance segment				
Gross premiums earned	758,831	656,435	16	2,850,224
Premiums earned on retention	710,577	612,926	16	2,654,493
Total profit from health insurance	63,225	34,002	86	183,695
Comprehensive income from health insurance	58,729	44,643	32	225,433
Insurance companies overseas segment				
Gross premiums earned	42,859	44,632	(4)	172,232
Premiums earned on retention	26,901	29,848	(10)	109,492
Total profit from insurance companies overseas	(4,284)	(4,704)	-	(21,138)
Total comprehensive loss from insurance companies overseas	(6,815)	(1,524)	-	(20,264)
Capital market and financial services segment				
Revenues from capital market and financial services	42,175	49,686	(15)	194,672
Total expenses from capital market and financial services	43,113	44,194	(2)	179,182
Total profit (loss) from capital market and financial services	(938)	5,492	-	15,478
Total comprehensive profit (loss) from capital market and financial services	(844)	5,485	-	15,866
Items not included in operating segments				
Net profit from investments and financing income	79,011	83,718*	(6)	226,719*
Income from commissions	22,284	15,275	46	70,872
Other income	-	3,344	(100)	5,871
General & administrative expenses not charged to reports for operating segments	30,897	29,538*	5	102,600*
Financing expenses	26,978	26,370	-	134,678
Pre-tax profit	349,789	303,117	15	698,218

	For the three months ended March 31		% change	For year ended December 31
	2013	2012		2012
Net profit for the period	222,386	192,641	15	450,710
Other comprehensive profit (loss) for the period	(22,127)	95,604	-	254,216
Total comprehensive profit for the period	200,259	288,245	(31)	704,926
Net profit for the period attributed to the Company's shareholders	222,239	192,381	16	450,233
Net profit attributed to non-controlling interests	147	260	(43)	477
Return on equity in terms of annual comprehensive income in percent	18%	28%	(37.9)	18%

* Concerning retrospective application, see Note 3B in the interim consolidated statements about the first-time application of new standards.

Summary of data from the consolidated balance sheets of Harel Investments (in NIS millions):

	For the three months ended March 31		change %	For year ended December 31
	2013	2012		2012
Total balance sheet	68,984	57,315	20.4	63,362
Assets for yield-dependent contracts	27,529	22,301	23.4	24,997
Other financial investments	20,041	17,730	13.0	19,167
Intangible assets	1,418	1,455	(2.5)	1,431
Reinsurance assets	5,070	5,137*	(1.3)	4,975
Insurance liabilities (insurance reserves and outastanding claims) in life assurance				
For yield-dependent investment contracts and insurance contracts	24,729	20,144*	22.8	22,350
For insurance contracts that are not yield dependent	10,347	9,623*	7.5	10,166
In non-life insurance	10,019	9,744	2.8	9,653
In health insurance (yield dependent and non-yield dependent)	5,164	4,068	26.9	4,719
(Insurance companies overseas segment (yield dependent and non-yield dependent	215	219	(1.7)	223
Adjustments and Offsets	(8)	(9)	(8.5)	(9)
Total insurance liabilities	50,466	43,789	15.2	47,103
Equity attributedt to holders of the Company's equity	4,293	3,790	13.3	4,147

* Concerning insignificant adjustment of comparison figures - see note 2D to the Financial Statements.

Assets managed for the Group's members and policyholders (NIS millions):

	For the three months ended March 31		change %	For year ended December 31
	2013	2012		2012
For yield dependent invetsment contracts and insurance contracts	27,529	22,301	23.4	24,997
For members of provident funds and pension funds *	45,696	37,992	20.3	43,630
For mutual fund customers *	20,993	18,118	15.9	19,486
For customers portfolios *	3,131	3,759	(16.7)	2,876
Index linked certificates (ETFs)	7,966	4,088	94.9	6,039
Total assets under management for the Group's policyholders and members	105,315	86,258	22.1	97,028

* Total assets managed by provident fund, pension funds, mutual funds and in portfolio management are not included in the Company's consolidated financial statements.

2.6. Additional figures regarding outcomes of activity

The total amount of the premium earned from insurance business during the Reporting Period amounted to NIS 2. 5 billion compared with NIS 2.21 billion during the corresponding period last year, a growth of 13% compared with the corresponding period last year.

The total amount of the premium earned from insurance business during the reporting including at first the premium earned by insurance activity which was purchased from Eliahu ("Eliahu Activity") (Regarding the acquisition of the life insurance segment from Eliahu Insurance Company Ltd. see Note 5 to the financial statements). The total sum of premium earned from insurance business during the reporting period, neutralizing the premium earned, in respect of Eliahu Activity amount to NIS 2.43 billion compared with NIS 2.21 billion during the corresponding period last year, a growth of 10% compared with the corresponding period last year.

The comprehensive profit, which consists of profit after tax for the reporting period plus the net change in a capital fund in respect of available-for-sale financial assets and other changes in shareholders' equity, was NIS 200 million for the Reporting Period, compared with comprehensive profit of NIS 288 million for the corresponding period last year, a loss of 31% compared with the corresponding period last year. The transition from loss for the corresponding period last year to comprehensive profit for the Reporting Period is due mainly to the effect of the capital market, where yields were lower than those in the corresponding period last year.

Net profit for the Reporting Period was NIS 222 million, compared with NIS 193 million for the corresponding period last year, growth of 15% compared with the corresponding period last year.

Pre-tax profit during the Reporting Period amounted to NIS 350 million compared to pre-tax profit of NIS 303 million during the corresponding period last year, an increase of about 15%.

During the Reporting Period profits from net investments and funding income amounted to NIS 1,029 million, compared with profits of NIS 1,308 million during the corresponding period last year. The decrease stems from the fact that yields on the capital market during the Reporting Period were lower than during the corresponding period.

The Group's funding expenses, not attributed to the branches of activity during the Reporting Period amounted to NIS 27 million compared with NIS 26 million during the corresponding period last year.

The Company's equity as of March 31, 2013, relating to the Group shareholders amounts to NIS 4,293 million, compared to equity of NIS 4,147 million as of December 31, 2012. The change in equity stems from: (a) comprehensive profit attributed to the Group shareholders of NIS 200 million; and (b) a dividend declaration in the amount of NIS 53 million; (c) immaterial amounts for translation fund of external activities, holding company shares by a subsidiary running an exchange traded note and issue of options to employees.

For details concerning the regulatory capital requirements from the group's insurance companies and from the provident fund management companies and the pension fund, based on the Commissioner's circular on the subject of capital requirements for insurance companies, including details about the effect of the commencement of Control of Financial Services (Provident Funds) (Minimum Capital Required of a Management Company) Regulations, 5769-2009, see Note 8 to the financial statements.

2.7. Life Assurance and Long Term Savings

Comprehensive profit in life insurance and long-term savings during the Reporting Period amounted to NIS 152 million, compared with comprehensive loss of NIS 184 million in the corresponding period last year.

The decline in profit can be attributed mainly to the impact of the capital market, in which yields were lower than those for the corresponding period last year, and to a decline in profitability of provident fund activity due to the reform of management fees (for additional information about the reform of management fees, see Note 7 to the financial statements). These effects were partially offset due to the fact that during the Reporting Period, the Company collected variable management fees of NIS 63 million whereas it did not collect any variable management fees in the corresponding quarter last year.

Pre-tax profit in life assurance branch and long term savings during the Reporting Period amounted to NIS 169 million compared to pre-tax profit of NIS 135 million during the corresponding period last year, an increase of about 26%.

Life assurance

2.7.1. Total premiums earned during the Reporting Period amounted to NIS 934 million, compared with NIS 803 million during the corresponding period last year, a 16% increase compared to the corresponding period last year. Premiums earned during the Reporting Period constituted 37% from the total premiums earned in the Group during the Reporting Period.

During the reporting period the premiums earned in life assurance segment in respect of Eliahu Activity were included for the first time. The total premiums earned in life assurance, neutralizing the premium earned in respect of Eliahu Activity amounted to NIS 878 million, compared with about NIS 803 million during the corresponding quarter last year, a 9% increase compared to the corresponding quarter last year.

Single premiums were recorded during the Reporting Period in a total amount of NIS 8 million, received from Bezeq's retirees transaction and from Discount's transaction, as opposed to single premiums at the amount of NIS 56 million, received from Bezeq's transaction during the corresponding period last year.

Comprehensive income in life insurance during the Reporting Period amounted to NIS 134 million, compared with comprehensive income in life insurance of NIS 160 million in the corresponding period last year. The shift from comprehensive loss to comprehensive profit stems mainly from the effect of the capital market, where yields were lower than those in the corresponding period last year**.**
These effects were partially offset due to the fact that during the Reporting Period, the Company collected variable management fees of NIS 63 million whereas it did not collect any variable management fees in the corresponding quarter last year.

Pre-tax profit in life assurance during the Reporting Period amounted to NIS 151 million compared with pre-tax prift of NIS 110 million during the corresponding period last year.

During the Reporting Period revenues amounted to NIS 230 million and constituted approximately 2.8% of the average reserve in life assurance, compared to revenues for the amount of approximately NIS 196 million during the corresponding period last year that constituted 2.9% from the average reserve last year.

The total amount of life assurance reserves as of March 31, 2013, amounted to NIS 35.1 billion.

Yield-dependent policies:

	Policies issued from 1992-2003	
	1-3.2013 (in percent)	1-3.2012 (in percent)
Real yield before payment of management fees	2.93	4.93
Real yield after payment of management fees	2.38	4.78
Nominal yield before payment of management fees	2.95	4.93
Nominal yield after payment of management fees	2.40	4.78

Following are the yield rates on yield-dependent policies - General track:

	Policies issued from 2004	
	1-3.2013 (in percent)	1-3.2012 (in percent)
Real yield before payment of management fees	2.89	5.19
Real yield after payment of management fees	2.58	4.88
Nominal yield before payment of management fees	2.91	5.19
Nominal yield after payment of management fees	2.60	4.88

The estimated amount of investment profit (loss) and management fees included in the consolidated income statement, which were credited to or debited from insureds in yield-dependent policies, and which are calculated according to the instructions prescribed by the Commissioner, on the basis of the quarterly yield and balances of the average insurance reserves, is (in NIS millions):

	1-3.2013	1-3.2012
Profits after management fee	544	863
Total management fees	109	37

Pension funds

2.7.2. The number of members in the pension funds managed by the Group as of March 31, 2013, is 727,491 members, 400,702 of which are active members, a 0.7% increase in the number of active members compared with December 31, 2012.

The extent of assets managed by pension funds as of March 31, 2013, amounted to NIS 20.7 billion compared with NIS 15 billion on March 31, 2012, a 38% increase and compared with the extent of assets of NIS 19.4 billion as of December 31, 2012, an increase of 7%.
The increase in comparison to the previous year can be attributed to a one-time transfer of NIS 975 million resulting from the agreement with the IDF concerning the pension arrangement for career soldiers (for additional information, see Note 42.D in Chapter 3 of the Periodic Report - Financial Statements) and to an increase in the amounts of provisions of members in the return received during the Reporting Period.
Contribution fees that were collected by the Group's pension funds during the Reporting Period amounted to NIS 886 million, compared with NIS 645 million on the corresponding period last year, a 37% increase. The increase can be attributed mainly to the impact of the deposits arising from the agreement with the IDF.

The total amount of the assets of the pension funds and the contribution fees deposited therein are not included in the consolidated financial statements of the Group .

The total amount from management fees collected from pension funds managed in the Group during the Reporting Period amounted to NIS 49 million, compared with NIS 45 million in the corresponding period last year, a 9% increase. Expenses in connection with management of pension funds amounted to NIS 39 million, compared with NIS 36 million in the corresponding quarter last year.
Total pre-tax profit from management of pension funds and operating an old pension fund during the Reporting Period amounted to NIS 11 million, compared with NIS 10 million during the corresponding period last year.

During the Reporting Period positive yields were recorded in most of the investment tracks in the capital market. The rates of the nominal yields obtained by the new pension funds managed by the Group are as follows:

For the three months ended March 31, 2013

Fund name	Comprehensive yield (in percent)	Investment yield (in percent)	Demographic yield (in percent)
Harel Gilad Pension	3.06	2.90	0.16
Harel - Manof	3.33	2.97	0.35

For the three months ended March 31, 2012

Fund name	Comprehensive yield (in percent)	Investment yield (in percent)	Demographic yield (in percent)
Harel Gilad Pension	4.70	4.53	0.16
Harel - Manof	5.12	4.61	0.49

Provident funds

2.7.3. As of the Reporting Date the Group manages 14 provident funds (provident funds, education funds, central and personal severance pay funds, a provident fund for sick pay and budgetary pension fund). Some of the provident funds have several investments tracks of which the members can choose. At March 31, 2013, the Group operates 33 tracks in its provident funds.

The volume of assets in the provident funds managed by the Group as of March 31, 2013, amounted to NIS 25 billion compared with NIS 23 billion as of March 31, 2012, and compared with NIS 24.2 billion as of December 31, 2012, a 8.7% increase in relation to March 31, 2012, and an increase at the rate of 3.1% compared to 31 December 2012 .

The provident funds' assets and benefit contributions are not included in the Company's consolidated statements.

Income from management fees collected from the provident funds managed by the Group during the Reporting Period amounted to NIS 50 million, compared with NIS 56 million for the corresponding period last year, a 11.3% decrease that stems from the erosion of the average management fee's rate (For additional information about the reform of management fees - see Note 7 to the financial statements).

Expenses in the provident funds amounted to NIS 42 million, similar to the corresponding period last year.

The total pre-tax profit of the provident funds activity included in the consolidated profit and loss statement in the life assurance and long term savings branch during the Reporting Period amounted to NIS 8 million compared with NIS 14 million during the corresponding period last year. The decline in profit can be attributed mainly to the impact of the capital market, in which yields were lower than those for the corresponding period last year, and to a decline in profitability of provident fund activity due to the reform of management fees (for additional information about the reform of management fees, see Note 7 to the financial statements).

The provident funds' net accumulation (excluding profits from investments) during the Reporting Period was negative and amounted to NIS 160 million compared with negative accrual of NIS 183 million for the corresponding quarter last year.

2.8. Health Insurance

Premiums earned in the health insurance sector totaled NIS 759 million for the Reporting Period, compared with NIS 656 million for the corresponding period last year, a 16% increase. Total premiums earned in health insurance during the Reporting Period, accounted for 30% of all premiums earned by the Group.

The total amount of earned premium in health insurance segment, in respect of Eliahu Activity, was included for the first time. The total premiums earned in health insurance segment, neutralizing the premium earned in respect of Eliahu Activity amounted to NIS 749 million, compared with NIS 656 million during the corresponding quarter last year, a 14% increase compared to the corresponding quarter last year.

During the Reporting Period the health insurance sector posted comprehensive profit of NIS 59 million compared with a comprehensive profit of NIS 45 million in the corresponding period last year, a 32% increase. The increase in comprehensive profit during the Reporting Period compared with the comprehensive profit in the corresponding period last year stems due to improved underwriting performance and accrued in spite of lower incomes from investments during the Reporting Period compared to the corresponding quarter last year.

Pre-tax profit in health insurance sector totaled NIS 63 million for the Reporting Period, compared with NIS 34 million in the corresponding period last year, an 86% increase.

Total payments and change in gross liabilities in respect of insurance contracts in the health insurance sector during the Reporting Period amounted to NIS 591 million, compared with NIS 542 million in the corresponding period last year. A part of the change stems from an increase in claims paid in respect of a group long-term care policy in which most of the insurance risk is imposed on the plan rather than the insurer, as well as investment margins which are recognized in the said insurance plan, which were higher than the investment margins recognized during the corresponding period last year. During the Reporting Period, investment profits of NIS 36.7 million were recognized in the plan, compared with investment profits of NIS 51.6 million credited to the plan during the corresponding period last year.

2.9. Non-life insurance

The composition of gross premiums and profit in non-life insurance activity for the report period, before tax, according to the insurance sectors included in non-life insurance, is as follows (in NIS thousands):

	Gross premiums			
	1-3.2013	1-3.2012	% change	2012
Compulsory motor	206,744	191,816	7.8	509,792
Motor property	406,540	313,299	29.8	872,363
Property & other branches	222,899	209,789	6.2	822,754
Other liabilities branches	248,771	183,408	35.6	687,186
Credit & mortgage insurance*	(1,793)	8,125	-	47,649
Total	1,083,161	906,437	19.5	2,939,744

*Net of settlements

	Pre-tax profit			
	1-3.2013	1-3.2012	% change	2012
Compulsory motor	28,898	54,430	(46.9)	186,944
Motor property	6,263	3,343	87.3	10,926
Property & other branches	8,058	13,087	(38.4)	41,772
Other liabilities branches	7,593	18,826	(59.7)	35,982
Credit & mortgage insurance	10,197	17,709	(42.4)	41,019
Total	61,009	107,395	(43.2)	316,643

Gross premiums during the Reporting Period totaled to approx. NIS 1,083 million, compared with NIS 906 million during the corresponding period last year, a 19% increase. The increase in the gross premiums during the Reporting Period is despite the decline in Harel Insurance's share of the insurance of state employees' motor vehicles during the Reporting Period against the corresponding period last year (see Section 0 below).

Premiums in retention during the Reporting Period totaled to approx. NIS 689 million, compared with NIS 563 million in the corresponding period last year, a 22% increase.

Comprehensive profit in general (non-life) insurance during the Reporting Period, amounted to NIS 61 million, compared with comprehensive loss of NIS 107 million in the corresponding period last year. The decrease in the comprehensive profit in the Reporting Period stems mostly from the influence of the capital market in which yields were lower than yields in the corresponding period last year.

Pre-tax profit in general (non-life) insurance during the Reporting Period amounted to NIS 73 million compared with NIS 80 million in the corresponding period last year, an 8% decrease.

2.9.1. Motor property

In motor-vehicle property insurance gross premiums during the Reporting Period amounted to NIS 407 million, compared with gross premiums of NIS 313 million during the corresponding period last year, an increase in 30%. Increase in premiums stems mostly from a incline in the share held by Harel Insurance of the insurance for state employees' motor vehicles during the Reporting Period against the corresponding period last year.

During the Reporting Period, premiums in retention amounted to NIS 323 million compared with NIS 249 million in the corresponding period last year, an increase in 29%.

Comprehensive income in motor-vehicle property insurance in the Reporting Period amounted to NIS 6 million, compared with comprehensive income of about NIS 3 million in the corresponding period last year. The increase in the comprehensive income stems mostly from improved underwriting performance and from the effect of the capital market, where yields were lower than those in the corresponding period last year.

Pre-tax profit in motor-vehicle property insurance in the Reporting Period amounted to NIS 8 million compared with pre-tax profit of about NIS 1 million in the corresponding period last year.

On October 30, 2012, Harel Insurance was informed that it had been awarded 80% of the volume of the motor property insurance and compulsory motor insurance of state employees for 2013 (compared to a rate of about 10% in 2012 and a rate of 33% in 2011), as part of the tender published by the Ministry of Finance's Accountant General. Harel Insurance has insured the vehicles of state employees for more than 35 years **.**

The winning of the tender and the anticipated increase in the number of state employees' vehicles that Harel Insurance will insure in 2013 is not expected affect its performance significantly.

2.9.2. Compulsory motor

During the Reporting Period, gross premiums in compulsory motor vehicle insurance sector amounted to NIS 207 million, compared with gross premiums of NIS 192 million during the corresponding period last year. The increase in Compulsory motor premiums stems mostly from an incline in the share held by Harel Insurance of the insurance for state employees' motor vehicles during the Reporting Period against the share held by Harel Insurance in the corresponding period last year.

As to compulsory motor insurance for vehicles owned by state employees - see Par. 0 above regarding motor-vehicle property.

During the Reporting Period, premiums in retention amounted to NIS 165 million compared with NIS 153 million in the corresponding period last year.

Comprehensive income in compulsory motor insurance in the Reporting Period amounted to NIS 29 million compared with NIS 54 million profits in the corresponding period last year. The decrease in profit stems from the influence of the capital market in which yields were lower than yields in the corresponding period last year and the release of surplus income over expenses for previous underwriting years, by an amount which was lower than that released in the corresponding period last year and due to improved underwriting performance during the Reporting Period against the corresponding period last year.

Pre-tax profit for compulsory motor insurance during the reporting period amounted to NIS 35 million, compared with NIS 42 million during the corresponding quarter last year.

2.9.3. Liabilities branches and others

During the Reporting Period gross premiums in liabilities insurance and others amounted to NIS 249 million, compared with NIS 183 million during the corresponding period last year.

Premiums in retention in the Reporting Period amounted to NIS 141 million compared with NIS 95 million during the corresponding period last year, a 48% increase.

Comprehensive profit in liabilities insurance and others in the Reporting Period amounted to NIS 8 million compared with loss of about NIS 19 million in the corresponding period last year. The decrease in the comprehensive profit stems mostly from the influence of the capital market in which yields were lower than yields in the corresponding period last year.

Pre-tax profit in others liabilities insurance in the Reporting Period amounted to NIS 12 million, similar to the corresponding period last year.

2.9.4. Property and other branches

Premiums in property and other branches during the Reporting Period amounted to NIS 223 million compared with NIS 210 million during the corresponding period last year, a 6% increase.

Premiums in retention during the Reporting Period amounted to NIS 63 million compared with NIS 58 million during the corresponding period last year, an 8% increase.

Comprehensive profit in property and other branches in the Reporting Period amounted to NIS 8 million, compared with NIS 13 million in the corresponding quarter last year. The decrease stems mostly from the increase in claims.

Pre-tax profit in property insurance and other branches during the Reporting Periodamounted to NIS 8 million, compared with NIS 13 million in the corresponding quarter last year.

2.9.5. Credit risks inherent in mortgage assets

Regarding the reduction of EMI's activity in light of the provisions of the Supervisor of the Banks - see Note 7 to the financial statements.

Premiums in retention in credit risks inherent in mortgage assets during the Reporting Period amounted to NIS 14 million compared with premiums in retention of about NIS 16 million in the corresponding period last year.

EMI does not have reinsurance agreements in this branch.

The comprehensive profit in credit risks inherent in mortgage assets during the Reporting Period amounted to NIS 10 million compared with NIS 18 million in the corresponding period last year. The decrease in profit stems mostly from the influence of the capital market during the

Reporting Period in which yields were lower than yields in the corresponding period last year.

Pre-tax profit in credit risks inherent in mortgage assets during the Reporting Period amounted to NIS 11 million compared with NIS 12 million in the corresponding period last year.

2.10. Insurance companies overseas

The Company is owns a 95.75% stake of Interasco Societe Anonyme General Insurance Company S.A.G.I (Interasco), an insurance company operating in Greece in the health and non-life insurance sectors, and holds the controlling interest (99.98% stake) in Turk Nippon which operates in Turkey.

During the Reporting Period, the operating segment for insurance companies overseas earned premiums of NIS 43 million, compared with NIS 45 million for the corresponding period last year, a decrease of 4%. Total premiums earned by the insurance companies operating overseas segment for the Reporting Period account for 2% of all premiums earned by the Group.

The insurance companies in the overseas operating segment posted a comprehensive loss of NIS 7 million, compared with a comprehensive loss of NIS 2 million for the corresponding quarter last year.

During the Reporting Period, the insurance companies abroad posted a pre-tax loss of NIS 4 million, compared with a pre-tax loss of NIS 5 million for the corresponding quarter last year.

The loss posted by the overseas insurance companies segment can be attributed to the losses from Turk Nippon in Turkey, which operates in an extremely competitive market and also records losses on account of the fact that the scope of the company's activity is relatively small.

At March 31, 2013, Turk Nippon had a shortfall of regulatory capital of TL 4.8 million (about NIS 9.6 million). The date for supplementing the capital required according to the regulatory requirements is in the future and at the very latest during at the end of 2013 (see Note 8, Section 17, to the financial statements).

2.11. Capital market and financial services

During the Reporting Period, revenues in the capital market and financial services sector amounted to NIS 42 million, compared with NIS 50 million for the corresponding period last year, a 15% decrease compared with the corresponding period last year. This decrease in revenues during the Reporting Period compared with the corresponding period last year can be attributed mainly to the sale of brokerage services in respect of the sale of the trade activity TASE member.

Total management fees from the mutual funds and managed cases during the Reporting Period totaled NIS 34 million, compared with NIS 36 million for the corresponding period last year.

The volume of assets under management in the capital market and financial services segment at March 31, 2013, was NIS 32 billion, compared with NIS 26 billion at March 31, 2012, and compared with NIS 28.4 billion at December 31, 2012.

Most of this increase in the volume of assets under management in this operating segment, relation to data as of December 31, 2012, can be attributed to the growth of assets under management in the mutual funds, as well as due to the Group expanding its ETF and certificates deposit activity.

These amounts include mutual fund assets in the amount of NIS 21 billion at March 31, 2013, compared with NIS 18.1 billion at March 31, 2012 and NIS 19.5 million at December 31, 2012, as well as ETF assets, which at March 31, 2013 amounted to NIS 8 billion against to NIS 4.1 billion at March 31, 2012 and NIS 6 billion at December 31, 2012. The assets under management, excluding the assets of the ETF Company, are not included in the Company's consolidated balance sheets.

During the Reporting Period, the capital market and financial services sector recorded pre-tax profit of NIS 0.9 million, as against a pre-tax profit of NIS 5.5 million for the corresponding period last year. The transition from profit to loss can be attributed to a decrease in management fees due to a decrease in the average management fees in the mutual funds.

Regarding the completion of a transaction to acquire a mutual fund management company and portfolio management activity from Clal Finance - see Note 13 to the Financial Statements.

2.12. Income tax

Income tax during the Reporting Period amounted to an expense of NIS 127 million, compared with expenses for income tax of NIS 110 million during the corresponding period last year.

Regarding the agreement between Association of Life Assurance Companies and the Assessment Officer - see Note 37 to the third chapter to the Periodic Reports "Financial Statements".

Regarding the tax assessments in dispute with the Tax Authority - see Note 6 to the financial Statements.

2.13. Sources of finance and liquidity

2.13.1. Cash flows

During the Reporting Period total net cash flows used for on-going activity amounted to NIS 1,346 million. Net cash flows used for investment activity amounted to NIS 31 million. Net cash flows provided by activity and fluctuations in exchange rate amounted to NIS 1,850 million. The outcome of the entire activity is showing through the increase in cash flow in the sum of NIS 473 million.

2.13.2. Financing of operations

As a rule, the Company and its subsidiaries finance their on-going operations from their own sources. In some cases, new operations are acquired partially by means of external financing. Likewise, in view of the capital requirements applicable to the Company's subsidiaries that are insurers, and pursuant to the Capital Regulations, the regulatory capital required of an insurer may comprise tier-1 capital, hybrid tier-2 capital, and hybrid tier-3 capital. Accordingly, Harel Insurance and Dikla raised tier-2 capital, as specified below.

2.13.2.1. Issue of liability notes by Harel Insurance and by Harel Insurance, Financing and Share

2.13.2.2. Issues Ltd. ("Harel Share Issues").

Concerning the issuance of hybrid tier-3 capital by Harel Finance & Issues - see Note 9 to the Financial Statements.

2.13.2.3. Loans from banks

On loans which the Company and its subsidiaries took - see Note 9 to the Financial Statements.

A loan that Harel-Pia took from bank

On a loan which Harel-Pia took - see Note 9 to the Financial Statements.

2.13.2.4. Credit taken by Harel Financial Products

On credit taken by Harel Financial Products - see Note 9 to the Financial Statements.

2.13.2.5. Harel Trade & Securities - TASE member

On Harel Trade & Securities - TASE member - see Note 7 to the Financial Statements.

2.13.2.6. In addition to the mentioned loans, at March 31, 2013, the Company and the other companies in the Group short term loan amounted approximately NIS 71 million.

3. Market Risk Exposure and Management

There were no material changes during the Reporting Period in the exposure to the Company's market risks and their management compared with the periodical report**.**

4. Corporate governance

4.1. Details concerning the process for approving the Company's financial statements

The Companies (Provisions and conditions concerning the procedure for approval of the financial statements) Regulations, 5770-2010, include mandatory rules that public companies must apply in the process of approvi7ng financial statements. The provisions of the regulations apply from the financial statements at December 31, 2010.

The regulations stipulate that before the financial statements are presented for the approval of the company's board of directors, the reports are to be discussed and approved by a special committee known as "the Committee for the Review of the Financial Statements" ("the Committee"). The Committee is responsible for discussing the financial statements and formulating a recommendation to the board of directors regarding those matters prescribed in the regulations.

The regulations prescribe several conditions with respect to the composition of the Committee and its discussions:

The Committee shall consist of at least 3 members;

Members of the Committee shall not be employees of the company, permanent service providers of the company, a controlling shareholder or relative of such a person (like the audit committee);

The Committee's chair shall be an outside director;

Only directors shall be members of the Committee;

A majority of the Committee's members shall be independent directors;

All members of the Committee must have the ability to read and understand financial statements;

At least one of the independent directors shall have accounting and finance expertise;

The Committee members have declared that they are capable of reading and understanding financial statements and a director who has accounting and finance expertise must give a declaration in accordance with the Companies (Conditions and tests for a director with accounting and finance expertise and a director with professional qualifications) Regulations, 5765-2005.

The quorum required for discussing and passing resolutions by the Committee is a majority of its members, provided that most of those present are independent directors and that at least one outside director is present.

Until these regulations took effect, the Company had a balance sheet committee whose functions were similar to those prescribed in the regulations for the "Committee for the review of the financial statements".

On January 19, 2012, the Board of Directors resolved that the members of the Committee for the review of the financial statements shall be:

David Granot, Chairman (External Director)

Prof. Israel Gilad (External Director)

Doron Cohen

Esther Dominissini (External Director)

As noted above, the Committee is a special purpose committee appointed for the purpose of approving the financial statements and the Audit Committee will not serve as the Committee for the approval of the financial statements.

4.1.1. Regarding details concerning the members of the Committee for the review of the financial statements see Article 26 in chapter 5 - Additional information about the Company in the Periodic Report of the Company for 2012.

4.1.2. Procedure for approval of the financial statements:

To approve the financial statements at March 31, 2013, the Committee convened on May 19, 2013.

In addition, the Company's CPA are invited to and attend meeting of the Committee and Board of Directors' meeting that discuss and approve the financial statements, and they present the principal findings, if there are such, that emerged during the course of the audit or the review. The meeting was also attended by the Company's CFO, Ronen Agassi CPA, and legal advisor, Adv. Hanan Fridman. A meeting of the Committee held on May 19, 2013 was attended by the Company's CPA and the internal auditor was also invited to the meeting.

A detailed review of the material issues in the financial reporting is presented to the balance sheet committee, including material transactions that are not the normal course of business, if and insofar as there are any, the material assumptions and critical estimates that were applied in the financial statements (Including the review of the EV report), the reasonability of the data, the accounting policy which was applied and any changes which occurred in this policy, as well as implementation of the principle of fair disclosure in the financial statements and related information. The balance sheet committee also receives a review of issues that emerged, if they emerged, while performing the audit and risk management, the efficacy of the controls and procedures with respect to their disclosure in the Company's subsidiaries that are financial institutions.

The Committee also reviews various aspects of risk management and control, those that are reflected in the financial statements, as well as those that affect the credibility of the financial statements. In addition, the Committee may request that other subjects are also reviewed, at the discretion of the committee's members.

The Committee is also advised of the results of the SOX procedure implemented by the Company and its subsidiaries that are financial institutions, and it reviews the effectiveness of the internal control. The Committee also received the draft EV report.

To formulate its recommendations to the Board of Directors, the draft financial statements are submitted to the members of the Committee several days before the meeting scheduled to discuss them. The Committee meets prior to the Board of Directors' meeting which discusses and approves the Financial Statements. The Committee's recommendations are submitted to the Board of Directors as soon as the Committee's meeting is over.

At a meeting of the committee held on May 19, 2013, the committee members held a detailed discussion of the Company's estimates and assessments on which the financial reports were based, addressing the discretion applied by management on various issues. The committee's members were also advised regarding the internal control process, they examined material issues in the financial reports, the completeness and reasonability of the financial reporting, the accounting policy and figures in the financial statements.

During the meeting of the Company's Board of Directors which approves the financial statements, the Committee's recommendations, insofar as there are any, are reviewed, in connection with the approval of the financial statements, the Company's financial performance is reviewed and the changes that have occurred during the reported period are presented. During the course of the deliberations of the Company's Board of Directors, questions are raised by the members of the board on issues that arose during the audit and whether the financial statements faithfully reflect the Company's financial position. The questions and issues discussed are answered by management. After the discussion, the Chairman of the Board calls for a vote to approve the financial statements.

On a meeting of the Company's Board of Directors held on May 29, 2013, the Board of Directors was updated with the committee's recommendations, the main consolidated financial statements, in divisions to the different activity segments, were reviewed by the Company's CEO and the material issues were in debate.

5. Disclosure instructions in connection with financial reporting by the Corporation

5.1 Events after the reporting date on the financial situation

Regarding changes that took place after the Reporting Period - see par. 2.2 above.

The Board of Directors wishes to express its thanks to the Group's employees and agents for the Group's achievements

Yair Hamburger	Michel Siboni	Shimon Alkabetz
Chairman of the Board of Directors	Company's joint CEO	Company's joint CEO

May 29, 2013

For your peace of mind | HAREL Insurance & Finance

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2013

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Auditors' review report to the shareholders of
Harel Insurance Investments and Financial Services Ltd.

Introduction

We reviewed the attached financial information of Harel Investments in Insurance and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") which include the condensed interim consolidated statement of position as at March 31, 2013 and the condensed interim consolidated statements of income, comprehensive income, changes in capital and cash flows for the three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with international accounting standard IAS 34 "Financial reporting for interim periods", and they are responsible for the preparation for the preparation of financial information for this interim period under Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. To the extent that these regulations apply to insurance companies and subject to the disclosure requirements issued by the Supervisor of Insurance according to the Law for the Supervision of Financial Services (Insurance) - 1981. Our responsibility is to express a conclusion on the financial information for the interim periods, based on our review.

We did not review the condensed financial information for the interim period of consolidated companies whose assets included in the consolidation comprise 12.87% of all the consolidated assets as at March 31, 2013 and whose revenues included in the consolidation comprise 1.60% of all the consolidated revenues for the period of three months then ended. Moreover we did not review the condensed financial information for the interim period of investee companies presented by the equity method in which the investment in them is NIS 95,907 thousand as at March 31, 2013, and the Group's shares of their profit aggregated NIS 3,328 thousand for the periods of three months then ended. The condensed financial information for the interim period of those companies were reviewed by other auditors whose review reports were furnished to us and our conclusions, to the extent that they relate to financial information for those companies, are based on the review reports of the other auditors.

Scope of the review

We prepared our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods prepared by the entity's auditor". The review of the financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is considerably more limited in scope than an audit performed in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to be certain that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an opinion of an audit.

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Conclusion

Based on our review, and on the review report of the other auditors, nothing came to our notice which would cause us to think that the above financial information is not prepared, in all significant aspects, in accordance with International Accounting Standard IAS34.

In addition to the remark in the previous paragraph, based on our review and on the review reports of the other auditors, nothing came to our attention which cause us to think that the above financial information does not meet, from all significant aspects, the provisions of the Pronouncement under Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970 to the extent that the regulations apply to insurance companies and according to the disclosure requirements issued by the Supervisor of Insurance according to the Law for the Supervision of Financial Services (Insurance) - 1981.

Without qualifying our above conclusions we direct attention to Note 7A to the interim condensed consolidated financial statements regarding exposure to contingent liabilities.

Somekh Chaikin
Certified Public Accountants (Isr)

May 29, 2013

Condensed interim consolidated statements of financial position at

	March 31		December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**1,418,164**	1,454,771	1,431,360
Deferred tax assets	**9,130**	11,827	8,063
Deferred acquisition costs	**1,478,885**	1,339,893	1,399,999
Fixed assets	**652,732**	637,118	650,992
Investments in investees treated using the balance sheet value method	**555,601**	590,204*	554,373*
Real estate investments - yield dependent contracts	**834,032**	726,592*	814,307*
Other real estate investments	**1,244,885**	1,002,551*	1,223,546*
Reinsurance assets	**5,069,739**	5,137,317**	4,974,741
Current tax assets	**10,783**	99,028**	122,182
Other receivables	**415,276**	365,077*	417,638*
Outstanding premiums	**1,268,069**	1,149,558	1,104,386
Financial assets – yield dependent contracts	**25,164,819**	19,987,338*	23,052,239*
Financial assets for index-linked certificates and deposit certificates	**5,902,293**	3,881,201	5,355,405
Other financial investments:			
Marketable debt assets	**8,342,971**	6,761,530	7,900,976
Non-marketable debt assets	**9,411,445**	9,008,606	9,093,023
Shares	**499,981**	472,297	517,528
Other investments	**1,786,291**	1,487,376	1,655,958
Total other financial investments	**20,040,688**	17,729,809	19,167,485
Cash and cash equivalents pledged for ETFs holders	**2,179,104**	393,013	818,523
Cash and cash equivalents - yield dependent contracts	**1,103,263**	1,243,173	740,754
Other cash and cash equivalents	**1,636,666**	1,566,183	1,526,490
Total assets	**68,984,129**	57,314,653	63,362,483
Total assets - yield dependent contracts	**27,528,655**	22,301,480*	24,997,392*

* Concerning retrospective application, see Note 3B about the first-time application of new standards.
** Regarding insignificant adjustment of comparison figures - see note 2C.

The notes accompanying the condensed interim consolidated financial statements are an integral part thereof.

Condensed interim consolidated statements of financial position at

	March 31		December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Equity and liabilities			
Equity			
Share capital and share premium	**308,555**	306,296	308,446
Treasury stock	**(145,632)**	(137,285)	(142,300)
Capital reserves	**306,854**	162,416	328,173
Retained earnings	**3,823,264**	3,458,658**,*	3,652,909*
Total equity attributed to company shareholders	**4,293,041**	3,790,085	4,147,228
Minority rights	**5,151**	4,419	4,990
Total equity	**4,298,192**	3,794,504	4,152,218
Liabilities			
Liabilities in respect of non-yield dependent insurance and investment contracts	**23,210,261**	21,840,890**	22,604,869
Liabilities in respect of yield dependent insurance and investment contracts	**27,255,432**	21,947,979**	24,498,167
Deferred tax liabilities	**480,456**	360,424*	482,273*
Net liabilities for employee benefits	**249,554**	243,237*	247,739*
Current tax liabilities	**38,413**	10,230*	21,245*
Creditors and credit balances	**2,521,088**	2,405,532*	2,508,501*
ETF's liabilities	**7,965,762**	4,045,705	6,039,066
Financial liabilities	**2,964,971**	2,666,152	2,808,405
Total liabilities	**64,685,937**	53,520,149	59,210,265
Total equity and liabilities	**68,984,129**	57,314,653	63,362,483

Yair Hamburger	Michel Siboni	Shimon Alkabetz	Ronen Agassi
Chairman of the Board of Directors	Company's joint CEO	Company's joint CEO	Deputy Chief Executive Officer and Chief Financial Officer

Date of approval of the financial statements: May 29, 2013

* Concerning retrospective application, see Note 3B about the first-time application of new standards.
** Regarding insignificant adjustment of comparison figures - see note 2C.

The notes accompanying the condensed interim consolidated financial statements are an integral part thereof.

Condensed interim consolidated statements of income and loss

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Premiums earned, gross	**2,500,249**	2,213,896	9,225,619
Premiums earned by reinsurers	**408,447**	369,317	1,587,875
Premiums earned in retention	**2,091,802**	1,844,579	7,637,744
Net profit from investments and financial income	**1,028,799**	1,307,650*	3,745,835*
Income from management fees	**245,690**	177,259	792,632
Income from commissions	**100,867**	94,246	419,347
Other income	**-**	2,501	3,698
Total income	**3,467,158**	3,426,235	12,599,256
Payments and changes in liabilities for insurance and investment contracts, gross	**2,752,650**	2,738,841	10,192,138
Reinsurers' share in payments and changes for insurance contracts liabilities	**322,263**	244,557	1,005,298
Payments and changes in liabilities for insurance and investment contracts, in retention	**2,430,387**	2,494,284	9,186,840
Commission, marketing and other acquisition expenses	**417,015**	388,245	1,661,492
General and administrative expenses	**240,292**	213,349*	867,095*
Other expenses	**14,641**	15,731	68,009
Financing expenses	**25,446**	26,175	154,732
Total expenses	**3,127,781**	3,137,784	11,938,168
Company share of profit of investee companies recorded by the equity method	**10,412**	14,666*	37,130*
Profit before income taxes	**349,789**	303,117	698,218
Income taxes	**127,403**	110,476*	247,508*
Net profit for the year	**222,386**	192,641	450,710
Attributed to:			
Company shareholders	**222,239**	192,381	450,233
Non-controlling rights in consolidated companies	**147**	260	477
Net profit for the year	**222,386**	192,641	450,710
Basic profit per share (shekel)	**10.52**	9.11*	21.32*
Diluted profit per share (shekel)	**10.26**	9.11*	21.32*

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

The notes accompanying the condensed interim consolidated financial statements are an integral part thereof.

Condensed interim consolidated statements of income and loss

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profit for the year	**222,386**	192,641*	450,710*
Other items of comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss			
Net changes in fair value of financial assets available for sale	**784**	121,655	432,214
Net changes in fair value of financial assets available for sale transferred to statement of income	**(26,970)**	(30,283)	(168,746)
Loss from impairment in value of financial assets available for sale transferred to statement of income	**4,219**	13,811	87,907
Foreign currency transaction's difference in respect of overseas operations	**(13,863)**	(1,848)	(3,000)
Tax on income for items of other comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss	**12,587**	(34,642)	(125,697)
Total other comprehensive income for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	**(23,243)**	68,693	222,678
Other items of comprehensive income which will not be transferred to profit or loss			
Revaluation of fixed assets, net	**-**	41,438	42,052
Remeasurement of a defined benefit plan	**1,733**	-	-
Taxes on income for other items of comprehensive income which will not be transferred to profit or loss	**(617)**	(14,528)	(10,513)
Other comprehensive income for the period which will not be transferred to profit or loss, net of tax	**1,116**	26,910	31,539
Comprehensive income for the year	**(22,127)**	95,604	254,216
Total comprehensive income for the year	**200,259**	288,245	704,926
Attributed to:			
Company shareholders	**200,098**	287,859	704,329
Minority rights	**161**	386	597
Totalcomprehensive income for the year	**200,259**	288,245	704,926

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

The notes accompanying the condensed interim consolidated financial statements are an integral part thereof.

Condensed interim consolidated statements of changes in capital

	Attributed to company shareholders										
	Share capital and premium	Capital reserve for financing assets available for sale	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Transactions with non-controlling interests	fund for revaluation of investment real estate	Retained earnings	Total	Non-controlling rights in consolidated companies	Total equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
For the three months ended March 31, 2013 (Unaudited)											
Balance as at January 1, 2013	308,446	303,691	(6,881)	40,327	(142,300)	(48,908)	39,944	3,652,909	4,147,228	4,990	4,152,218
Comprehensive income for year											
Profit for year	-	-	-	-	-	-	-	222,239	222,239	147	222,386
Total other comprehensive income (loss)	-	(12,609)	(10,648)	-	-	-	-	1,116	(22,141)	14	(22,127)
Total comprehensive income (loss) for year	-	(12,609)	(10,648)	-	-	-	-	223,355	200,098	161	200,259
Transactions with owners credited directly to equity											
Dividends paid	-	-	-	-	-	-	-	(53,000)	(53,000)	-	(53,000)
Share based payment	-	-	-	1,938	-	-	-	-	1,938	-	1,938
Purchase of treasury stock	-	-	-	-	(4,335)	-	-	-	(4,335)	-	(4,335)
Reissuing of treasury stock	109	-	-	-	1,003	-	-	-	1,112	-	1,112
Balance as at march 31, 2013	308,555	291,082	(17,529)	42,265	(145,632)	(48,908)	39,944	3,823,264	4,293,041	5,151	4,298,192

The notes accompanying the condensed interim consolidated financial statements are an integral part thereof.

Condensed interim consolidated statements of changes in capital

	Attributed to company shareholders										
	Share capital and premium	Capital reserve for financing assets available for sale	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Transactions with non-controlling interests	fund for revaluation of investment real estate	Retained earnings	Total	Non-controlling rights in consolidated companies	Total equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
For the three months ended March 31, 2012 (Unaudited)											
Balance as at January 1, 2012	306,895	79,087	(4,834)	30,175	(138,583)	(48,908)	8,405	3,266,276*	3,498,513	4,033	3,502,546
Comprehensive income (loss) for year											
Profit for year	-	-	-	-	-	-	-	192,381*	192,381	260	192,641
Total other comprehensive income (loss)	-	69,567	(999)	-	-	-	26,910	-	95,478	126	95,604
Total comprehensive income (loss) for year	-	69,567	(999)	-	-	-	26,910	192,381	287,859	386	288,245
Transactions with owners credited directly to equity											
Share based payment	-	-	-	3,013	-	-	-	-	3,013	-	3,013
Purchase of treasury stock	-	-	-	-	(1,205)	-	-	-	(1,205)	-	(1,205)
Reissuing of treasury stock	(599)	-	-	-	2,503	-	-	-	1,904	-	1,904
Balance as at march 31, 2012	306,295	148,654	(5,833)	33,188	(137,285)	(48,908)	35,315	3,458,658	3,790,084	4,419	3,794,504

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

The notes accompanying the condensed interim consolidated financial statements are an integral part thereof

Condensed interim consolidated statements of changes in capital

	Attributed to company shareholders										
	Share capital and premium	Capital reserve in respect of assets available for sale	Translation of foreign operations fund	Capital reserve in respect of share based payment	Treasury stock	Transactions with non-controlling interests	Capital fund for revaluation of investment real estate	Retained earnings	Total	Non-controlling rights in consolidated companies	Total equity
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Balance as at December 31, 2012 (Audited)											
Balance as at January 1, 2012	306,895	79,087	(4,834)	30,175	(138,583)	(48,908)	8,405	3,266,276*	3,498,513	4,033	3,502,546
Comprehensive income for year											
Profit for year	-	-	-	-	-	-	-	450,233*	450,233	477	450,710
Total other comprehensive income (loss)	-	224,604	(2,047)	-	-	-	31,539	-	254,096	120	254,216
Total comprehensive income (loss) for year	-	224,604	(2,047)	-	-	-	31,539	450,233	704,329	597	704,926
Transactions with owners credited directly to equity											
Dividends declared	-	-	-	-	-	-	-	(63,600)	(63,600)	-	(63,600)
Share based payment	-	-	-	10,152	-	-	-	-	10,152	-	10,152
Purchase of treasury stock	-	-	-	-	(13,356)	-	-	-	(13,356)	-	(13,356)
Reissuing of treasury stock	1,551	-	-	-	9,639	-	-	-	11,190	-	11,190
Sale of non-controlling interests	-	-	-	-	-	-	-	-	-	360	360
Balance as at December 31, 2012	308,446	303,691	(6,881)	40,327	(142,300)	(48,908)	39,944	3,652,909	4,147,228	4,990	4,152,218

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

The notes accompanying the condensed interim consolidated financial statements are an integral part thereof.

Condensed interim consolidated statements of cash flows

	Appendix	For the three months ended March 31 2013 (Unaudited) NIS thousands	For the three months ended March 31 2012 (Unaudited) NIS thousands	For the year ended December 31 2012 (Audited) NIS thousands
Cash flows from operating activities				
Before taxes on income	A	**(1,346,428)**	(655,204)*	(2,331,546)*
Income tax refund (paid)		**50**	(79,799)	(193,570)
Net cash provided by operating activities		**(1,346,378)**	(735,003)	(2,525,116)
Cash flows from investing activities				
Investment in investee companies		**-**	360*	38,783*
Investment of fixed assets		**(13,190)**	(9,779)	(59,250)
Investment in intangible assets		**(17,411)**	(14,766)	(82,548)
Dividends from investee company		**2,526**	3,020*	23,014*
Proceeds from sale of fixed assets		**12**	328	3,624
Net cash used for investing activities		**(31,391)**	(20,837)	(76,377)
Cash flows for financing activities				
Proceeds from issue of liability notes		**-**	-	247,279
Acquisition of Treasury stock		**(3,224)**	698	(2,166)
Proceeds from issue of ETF's		**1,752,375**	841,010	2,142,526
Short-term Loans from banks		**639**	7,571	(57,928)
Loans from banks and others		**100,000**	-	-
Repayments of loans from banks and others		**(27,683)**	(93,265)	(203,251)
Dividends paid		**-**	-	(63,600)
Net cash provided by financing activities		**1,822,107**	756,014	2,062,860
Effect of fluctuations in currency exchange rate on balances of cash and cash equivalents		**28,347**	11,254	7,949
Increase (decrease) in cash and cash equivalents		**472,685**	11,428	(530,684)
Cash and cash equivalents, beginning of the year	B	**2,267,244**	2,797,928	2,797,928
Cash and cash equivalents, end of the year	C	**2,739,929**	2,809,356	2,267,244

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

The notes accompanying the condensed interim consolidated financial statements are an integral part thereof.

Condensed interim consolidated statements of cash flows

Appendix A' - Cash flows from operating activities before taxes on income (1) (2) (3)

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Appendix A - Cash flows from operating activities before taxes on income (1), (2), (3)			
Profit for period	**222,386**	192,641*	450,710*
Items not involving cash flows			
Company's share of loss (profit) of investee companies recorded on the equity basis	**(10,412)**	(14,666)*	(37,130)*
Losses (profit) - financial investments - yield dependent insurance policies and investment contracts, net	**(533,333)**	(765,979)*	(1,547,781)*
Net losses (profits) from other financial investments			
Marketable debt assets	**339**	(32,278)	(276,447)
Non-marketable debt assets	**9,470**	2,413	(82,815)
Shares	**(14,244)**	(2,818)	2,613
Other investments	**(137,387)**	(125,602)	(98,185)
Financing expenses (income) for financial liabilities	**294,273**	(311,042)	594,847
Net losses (profits) from realizations			
Fixed assets	**-**	145	-
Changes in fair value of real estate for investment - for yield dependent contracts	**537**	1,039*	3,855*
Changes in fair value of other real estate investment	**7,689**	3,678*	(27,360)*
Depreciation and amortization			
Fixed assets	**11,369**	13,103	45,445
Intangible assets	**30,607**	27,714	118,896
Change in liabilities for non yield dependent insurance and investment contracts	**616,420**	277,333	1,042,259
Change in liabilities for yield dependent insurance and investment contracts	**2,757,265**	1,264,409	3,814,597
Change in reinsurance assets	**(98,534)**	(18,492)	143,704
Change in deferred acquisition costs	**(79,740)**	(51,317)	(111,461)
Share based payment	**1,938**	3,013	10,152
Income taxes	**127,403**	110,476*	247,508*
Changes in other balance sheet items:			
Financial investments and real estate for investment for yield dependent - insurance policies and investment contracts			
Acquisition of real estate for investment	**(20,262)**	(3,956)*	(94,486)*
Proceeds from the sale of real estate for investment	**-**	-	-*
Acquisitions net, of financial investments	**(1,604,175)**	(493,219)*	(2,753,625)*
Other financial investments and real estate for investment			
Acquisition of real estate for investment	**(34,062)**	(3,861)*	(193,160)*
Proceeds from the sale of real estate for investment	**5,035**	-	-*
Acquisitions net, of financial investments	**(789,140)**	(166,707)	(1,084,587)
Outstanding premiums	**(166,187)**	(65,841)	(20,934)
Other receivables	**17,028**	(61,877)*	(42,298)*
Investment for ETFs holders	**(546,888)**	(466,209)	(1,940,413)
Cash and cash equivalents pledged for ETFs holders	**(1,360,581)**	(127,502)	(553,012)
Other payables	**(56,406)**	158,405*	51,246*
Liabilities for employee benefits, net	**3,164**	1,793*	6,316*
Total adjustments required to present cash flows from operating activities	**(1,568,814)**	(847,845)	(2,782,256)
Total cash flows from operating activities, before taxes on income	**(1,346,428)**	(655,204)	(2,331,546)

Appendix A' - Cash flows from operating activities before taxes on income (1) (2) (3) (contd.)

(1) Cash flows from operating activities include net purchases and sales of financial investments and real estate investment resulting from activities in insurance contracts and investment contracts.
(2) In the framework of operating activities, interest received was presented of NIS 371 million (for the three months ended March 31, 2013 an amount of NIS 323 million and for 2012 an amount of NIS 1,427 million) and the interest paid of NIS 12 million (for the three months ended March 31, 2013 and amount of NIS 53 million and for 2012 an amount of NIS 137 million).
(3) In the framework of operating activities a dividend was presented which was received from other financial investments of NIS 21 million (for the period of three months ended March 31, 2013 of NIS 27 million and for 2012 an amount of NIS 163 million).

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Appendix B - Cash and cash equivalents, beginning of the period			
Cash and cash equivalents for yield dependent contracts	**740,754**	1,247,598	1,247,598
Other cash and cash equivalents	**1,526,490**	1,550,330	1,550,330
Cash and cash equivalents, beginning of period	**2,267,244**	2,797,928	2,797,928
Appendix C - Cash and cash equivalents, end of period			
Cash and cash equivalents for yield dependent contracts	**1,103,263**	1,243,173	740,754
Other cash and cash equivalents	**1,636,666**	1,566,183	1,526,490
Cash and cash equivalents, end of year	**2,739,929**	2,809,356	2,267,244

The notes accompanying the condensed interim consolidated financial statements are an integral part thereof.

Note 1 - General

The reporting entity

Harel Investments in Insurance and Financial Services Ltd. (hereinafter: "the Company") is an Israeli resident company, which was incorporated in Israel, and whose shares are traded on the Tel Aviv Stock Exchange. Its official address is 3 Abba Hillel Silver Street, Ramat Gan.

The Company is a holding company whose main holdings are in subsidiaries comprising insurance and financial companies. The condensed interim consolidated financial statements, as at March 31, 2013, include those of the Company, its subsidiaries (hereinafter: "the Group"), the Company's rights in entities with joint control and the Group's rights in affiliated companies.

The condensed interim consolidated financial statements mainly reflect assets and liabilities and operations of the subsidiary insurance companies and, therefore, were prepared in a similar format.

Note 2 - Basis for preparing the financial statements

a. Declaration on compliance with International Financial Reporting Standards

The condensed interim consolidated financial statements were prepared in accordance with IAS 34 - Financial Reporting for Interim Periods and in accordance with the requirements of the Pronouncements issued by the Supervisor of Insurance and in accordance with the Law for the Supervision of Financial Services (Insurance) – 1981 (hereinafter: "The Law for the Supervision"), and does not include all of the information required in full annual financial statements. One must read them together with the financial statements as at and for the year ended December 31, 2012 (hereinafter: "the Annual Statements"). Moreover, these statements were prepared in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

The condensed interim consolidated financial statements were approved for publication by the Company's Board of Directors on May 29, 2013.

b. Use of estimates and discretion

1. In the preparation of the condensed interim consolidated financial statements in accordance with IFRS and in accordance with the Supervision Law and the Regulations issued under it, the Group's management is required to use its discretion in evaluations, estimates and assumptions, including actuarial assumptions and estimates (hereinafter: "Estimates") which affect the implementation of the accounting policy and the value of assets and liabilities, and of amounts of revenues and expenses. It should be clarified that actual results are liable to be different from these estimates. The main estimates included in the financial statements are based on actuarial evaluations and on external evaluations.

   On formulating these accounting estimates used in the preparation of the Group's financial statements, the Company's management is required to assume assumptions regarding circumstances and events which are connected with considerable uncertainty. When using their discretion in determining the estimates, the Company's management bases itself on past experience, various factors, external factors, and reasonable assumptions in accordance with the relevant circumstances for every estimate.

   The estimates are reviewed on a current basis. Changes in accounting estimates are recognized during the period in which the estimates were amended and in every future affected period.

   The evaluations and discretion that management uses in order to implement the accounting policy and prepare the condensed consolidated interim financial statements are mainly consistent with those used in the preparation of the consolidated financial statements as at December 31, 2012.

Note 2 - Basis for preparing the financial statements (contd.)

b. Use of estimates and discretion (contd.)

2. On January 30, 2012, the Ministry of Finance published a new tender for the setting up and operation of an individual price quote and interest rate database for financial institutions (corporate bonds, loans, deposits etc.).

   On October 14, 2012, Shaarey Ribit won the tender for the creation and operation of a price quotation and interest rate database for financial institutions. Shaarey Ribit will supply price quotation and interest rate for financial institutions for the revaluation of non-marketable debt assets including establish the methodology for determining prices and interest rates for the capitalization of cash flows of non-marketable debt assets. Shaarey Ribit will also establish a database for non-marketable debt assets. In a publication of the Ministry of Finance from April 17, 2013 it was stipulated that the date of transition to the revaluation based on the quotes of Shaarey Ribit will be not sooner than July 2013. A specified date will be published in the future.

   At this stage, the Group's financial institutions are unable to estimate the effect of the projected change in methodology on the fair value of non-marketable debt assets and whether there will be any such effect.

3. The insurance liabilities in respect the acquisition of the activity of Eliahu are included in the financial statements of Harel for the first time in this quarter, and they were calculated mainly in accordance with the assumptions and methods applied by Harel, net of the future profits embedded therein which were computed by an external appraiser.
   In view of the unique nature of the insurance liabilities in Eliahu's long-term care insurance plans compared with those of Harel, which include a mechanism for sharing the investment profits, and based on adjustment of the sums insured for the policyholder, the reserve was computed using the Net Premium Reserve method and not using the Gross Premium Reserve Method, as is customary for the long-term care insurance plans, where the insurance sum is permanent.

c. Insignificant adjustment of comparison figures

During the third quarter of 2012, a technical error was discovered in the calculation of the reserve for "claims in payment" for work disability claims. Correction of the error refers to previous reporting periods.

In reviewing the materiality of the error with respect to the relevant reporting periods, it was found, after examining the quantitative and qualitative parameters, that this error will not affect the economic decision-making process and/or analysis of the aforesaid financial statements by users of the statements. Consequently, this is not a significant error which necessitates republication of the Company's amended consolidated financial statements for 2011 or earlier years. This amendment is included as part of the comparison figures in these financial statements, by way of marking the amended reporting items as "an insignificant adjustment" to comparison figures.

The effect on the statement of financial position at March 31, 2012 is an increase in the amount of NIS 12.3 million in liabilities for insurance contracts and investment contracts which are not yield dependent, an increase of NIS 18.3 million in liabilities for insurance contracts and yield dependent investment contracts, an increase of NIS 3.5 million in assets for reinsurance contracts, an increase in the amount of NIS 9.4 million in current tax assets, and a reduction of NIS 17.7 million in surpluses.

The effect on the statement of income for the three month periods ended March 31, 2012, is insignificant.

Note 3 - Significant accounting principles

Excluding those details in clause a. above, the Group's accounting principles in these condensed interim consolidated financial statements is the policy which is applied in the annual statements. The following is a description of the nature of the changes made in the accounting policies in these condensed interim consolidated financial statements and their effect.

a. First implementation of new standards

From January 1, 2013, the Group is implementing the following standards and amendments:

1. Deferred Taxes in respect of Investment Property

IFRS 10, Consolidated Financial Statements ("IFRS 10")

- IFRS 10 introduces a new single control model for determining whether an investee should be consolidated, which is to be implemented with respect to all investees.
- De facto power is to be considered when assessing control, which means that the existence of effective control of an investee will require consolidation.
- When assessing the existence of control, all substantive potential voting rights will be taken into account, and not only potential voting rights that are currently exercisable.
- The requirements of IAS 27 will continue to be valid only for separate financial statements.

In the opinion of the Group, application of the suite of standards will not have a material effect on the financial statements.

IFRS 11, Joint Arrangements ("IFRS 11"), Joint Ventures, IAS 28 Investments in Associates

IFRS 11 classifies joint arrangements as joint operations or as joint ventures on the basis of the rights and obligations of the parties to the arrangement. Joint ventures, which are all the joint arrangements structured in a separate vehicle in which the parties with joint control have rights to the net assets of the joint arrangement, shall only be accounted for using the equity method (the option to apply the proportionate consolidation method has been eliminated).

IFRS 11 will be applied retrospectively. Subsequent to the adoption of IFRS 11, joint ventures will henceforth be accounted for using the equity method, whereas prior to the application of IFRS 11 it was Company policy to apply the proportionate consolidation method. In the wake of the foregoing, an investment in subsidiaries in the amount of NIS 416 million at January 1, 2012 (and a total of NIS 173 million in the provident and pension funds), which engage mostly in the holding of rights in land, which were accounted for using the proportionate consolidation method and were therefore presented mainly under other investment property, investment property for yield-dependent contracts and deferred tax assets, were reclassified as joint ventures and accounted for using the equity method.

For the quantitative effects on the Group's financial statements following the adoption of IFRS 11, see section B below.

Note 3 - Significant accounting principles (contd.)

a. First implementation of new standards (contd.)

2. IFRS 13, Fair Value Measurement ("IFRS 13")

When measuring the fair value of a liability, the effect of the entity's own credit risk must be considered.

The fair-value measurement of investment property reflects the consideration of future capital expenses which will improve or expand the real estate and the future economic benefits arising from these expenses, if such expenses or benefits are taken into account by participants in the market at the time of measurement.

If the asset or liability which is measured at fair value has a bid price and ask price, the price which is within the range between the two which most closely represents fair value under the circumstances will be used for measuring fair value.

With the publication of IFRS 13, the disclosure requirements for the fair value of financial instruments in the financial statements for interim periods were also expanded. The requirements of IFRS 13 were integrated in these financial statements in Notes 9, 10 and 11 regarding financial liabilities, assets for yield-dependent contracts and other financial investments.

3. Amendment to IAS 19, Employee Benefits

- Employee benefits will be classified as short or long term depending on when the entity expects the benefits to be wholly settled and will not be classified according to the date the employee will be able to use the benefit.
- All actuarial gains and losses will be recognized immediately through other comprehensive income.
- The interest to be recognized in profit or loss will be calculated on the net balance of the liabilities (the asset) for a defined benefit, according to the discounting rate used to calculate the liability.
- Costs for past services will be recognized immediately, unrelated to the date on which the benefits vest.

The amended standard will be applied retrospectively, except for the alleviation in relation to discounting costs to assets. Accordingly, the carrying amount of assets outside the application of IAS 19 will not have to be adjusted for changes in costs in respect of employee benefits which were included in the carrying amount prior to the initial date of application.

Following application of the amendment to IAS 19, the Group recognizes actuarial profits and losses by way of other comprehensive income directly to surpluses, instead of to profit or loss. The retrospective application of this standard had no significant effect on the Group's financial statements and the comparison figures were therefore not corrected. Additionally, in the wake of implementation of the amendment to IAS 19, the cost of past services for revising the terms of retirement of the controlling shareholders from December 2011, was recognized retrospectively, as specified below.

At the end of 2011, the salary conditions of the controlling shareholders were approved. As part of the approved conditions, approval was also given so that when the employment relationship ends for any reason whatsoever, the controlling shareholders will be entitled to compensation equal to the compensation owed by law. Additionally, approval was given so that subject to completion of a minimum period of employment, the controlling shareholders will be entitled to double severance pay when their employment for the Company terminates. The Company made provision in its financial statements for 2011 and 2012 for obligations for additional several pay for the relative period accrued, and this due to the fact that the additional severance pay is conditional upon a minimum period of employment. During the Reporting Period, based on the amendment to IAS 19, Employee Benefits, the Company made provision for the outstanding amount by way of restatement. For additional information, see also section B below.

Note 3 - Significant accounting principles (contd.)

a. First implementation of new standards (contd.)

4. Amendment to IAS 1, Presentation of Financial Statements, Other Comprehensive Income

The amendment to IAS 1 changes the presentation of items of other comprehensive income (hereinafter - "OCI") in the financial statements, so that items of OCI that may be reclassified to profit or loss in the future, would be presented separately from those that would never be reclassified to profit or loss.

The Amendment will be implemented retrospectively. The report on comprehensive income during the comparison periods was restated pursuant to the amendment.

Note 3 - Significant accounting principles (contd.)

b. Influence on the financial statements (contd.)

1. Influence on the financial position

	March 31 2012 NIS thousands				
	As reported in the past	Effect of restatement for work disability insurance	Effect of the retrospective application of IFRS 11	Effect of the retrospective application of IAS 19	As reported in these financial statements
Investments in investees treated using the balance sheet value method	320,344		269,860		590,204
Real estate investments - yield dependent contracts	878,832		(152,240)		726,592
Other real estate investments	1,281,021		(278,470)		1,002,551
Reinsurance assets	5,133,817	3,500			5,137,317
Current tax assets	89,665	9,363			99,028
Other receivables	369,615		(4,538)		365,077
Financial assets – yield dependent contracts	19,833,957		153,381		19,987,338
Financial assets for index-linked certificates and deposit certificates	22,301,794		(314)		22,301,480
Liabilities in respect of non-yield dependent insurance and investment contracts	21,828,590	12,300			21,840,890
Liabilities in respect of yield dependent insurance and investment contracts	21,929,679	18,300			21,947,979
Deferred tax liabilities	371,233		(7,997)	(2,812)	360,424
Net liabilities for employee benefits	231,987			11,250	243,237
Current tax liabilities	10,641		(411)		10,230
Creditors and credit balances	2,409,132		(3,599)		2,405,533
Retained earnings	3,484,832	(17,737)		(8,438)	3,458,657

	December 31 2012 NIS thousands			
	As reported in the past	Effect of the retrospective application of IFRS 11	Effect of the retrospective application of IAS 19	As reported in these financial statements
Investments in investees treated using the balance sheet value method	357,785	196,588		554,373
Real estate investments - yield dependent contracts	966,045	(151,738)		814,307
Other real estate investments	1,422,101	(198,555)		1,223,546
Other receivables	429,505	(11,867)		417,638
Financial assets – yield dependent contracts	22,898,445	153,794		23,052,239
Total assets- yield dependent contracts	24,997,510	(118)		24,997,392
Deferred tax liabilities	486,114	(1,591)	(2,250)	482,273
Net liabilities for employee benefits	238,739		9,000	247,739
Current tax liabilities	27,331	(6,086)		21,245
Creditors and credit balances	2,512,602	(4,101)		2,508,501
Retained earnings	3,659,659		(6,750)	3,652,909

Note 3 - Significant accounting principles (contd.)

b. Influence on the financial statements (contd.)

2. Influence on the capital

	January 1, 2012		
	NIS thousands		
	As reported in the past	Effect of the retrospective application of IAS 19	As reported in these financial statements
Retained earnings	3,275,276	(9,000)	3,266,276

3. Influence on the income and loss

	For the three months ended March 31 2012			
	NIS thousands			
	As reported in the past	Effect of the retrospective application of IFRS 11	Effect of the retrospective application of IAS 19	As reported in these financial statements
Net profit from investments and financial income	1,317,385	(9,735)		1,307,650
General and administrative expenses	214,099		(750)	213,349
Company share of profit of investee companies recorded by the equity method	7,032	7,634		14,666
Income taxes	112,389	(2,101)	188	110,476
Profit for the year	192,079		562	192,641
Diluted profit per share attributed to the Company's shareholders (in NIS)	9.08		0.03	9.11

	For the year ended December 31 2012			
	NIS thousands			
	As reported in the past	Effect of the retrospective application of IFRS 11	Effect of the retrospective application of IAS 19	As reported in these financial statements
Net profit from investments and financial income	3,754,238	(8,403)		3,745,835
General and administrative expenses	870,095		(3,000)	867,095
Company share of profit of investee companies recorded by the equity method	30,097	7,033		37,130
Income taxes	248,128	(1,370)	750	247,508
Profit for the year	448,460		2,250	450,710
Diluted profit per share attributed to the Company's shareholders (in NIS)	21.21		0.11	21.32

Note 3 - Significant accounting principles (contd.)

b. Influence on the financial statements (contd.)

4. Influence on the cash flows

	For the three months ended March 31 2012		
	NIS thousands		
	As reported in the past	Effect of the retrospective application of IFRS 11	As reported in these financial statements
Net cash provided by (used for) current activities	(732,247)	(2,756)	(735,003)
Net cash used for investing activities	(23,593)	2,756	(20,837)

	For the year ended December 31 2012		
	NIS thousands		
	As reported in the past	Effect of the retrospective application of IFRS 11	As reported in these financial statements
Net cash provided by (used for) current activities	(2,449,689)	(75,427)	(2,525,116)
Net cash used for investing activities	(151,804)	75,427	(76,377)

c. Seasonality

1. Life and health insurance and Finance

The revenues from life and health insurance premiums are not characterized by seasonality. Nevertheless, due to the fact that the provisions for life assurance enjoy tax benefits, a considerable part of new sales is affected mainly at the end of the year. The revenues from the finances segment are not characterized by seasonality

2. General insurance

The turnover of the gross premium revenues in general insurance is characterized by seasonality, resulting mainly from vehicle insurance of various groups of employees and vehicle fleets of businesses, where the date of their renewal are generally in January and from various policies of businesses where the renewal dates are generally in January or in April. The effect of this seasonality on the reported profits is neutralized through the provisions of premiums not yet earned.

The components of other expenses such as claims, and the components of other revenues such as revenues from investments do not have a definite seasonality and, therefore, also there is no definite seasonality in profits.

Note 4 - Operating segments

The performances of the segments are measured based on the profits of the segments before taxes on income. Inter-company transactions results are cancelled in the framework of the adjustments so as to prepare condensed interim consolidated financial statements.

The Group operates in the following segments:

1. Life assurance and long-term savings segment

This field includes the Group's insurance activities in the life assurance branches and the Group's operations in managing pension and provident funds.

In March 2011, Dikla's insurer's license was extended to include the sector of life insurance - risk only. Also, Dikla received an approval for two life insurance - risk programs. During the Reporting Period life insurance and long term savings included Dikla's life insurance sector. Comparison figures were not presented due to insignificance.

In addition, during the Reporting Period, the results of the life insurance activity acquired from Eliahu Insurance were included for the first time. For additional information about the acquisition of Eliahu's life insurance portfolio, see Note 5.

2. Health insurance segment

This field includes the Group's insurance activities in illness and hospitalization branches, personal accidents, dental and nursing. The policies sold in the framework of these insurance branches cover the range of damages caused to the insured as a result of illness and/or accidents, including a situation of nursing and dental treatments. The health insurance policy are offered both individuals and to groups.

During the Reporting Period, the results of the life and health insurance activity acquired from Eliahu Insurance were included for the first time. For additional information about the acquisition of Eliahu's health insurance portfolio, see Note 5.

3. General insurance segment

This segment comprises five sub-fields:

Vehicle property: includes the Group's activities in the sale of insurance policies in the motor vehicle insurance branch ("the vehicle property"), which covers damages caused to the vehicle owner as a result of an accident, and/or theft and/or the liability of the vehicle owner or the driver for property damage caused to a third party in an accident.

Vehicle compulsory: includes the Group's activities in the insurance branch according to the requirements of the Vehicle Insurance Ordinance (New Version) - 1970 (hereinafter: "compulsory vehicle"), which covers corporal damage as a result of the use of a motor vehicle according to the Compensation Law to Injured in Road Accidents - 1975.

Other liability branches: including the Group's activities in the sale of policies covering the insured liability to a third party (excluding cover for liabilities in the compulsory vehicle field, as described above). This framework includes, inter alia, the following insurance branches: imposed liability insurance, third-party liability insurance, professional liability insurance, directors' and officers' liability insurance, and insurance against liability for defective products.

Property and other branches: this field includes the Group's insurance activities in all property branches (excluding vehicle property) detailed in the insurance branches notice.

Mortgage insurance business: this field includes the Group's insurance activities in the liability insurance branch for homes insured in a mortgage (as a single branch - MONOLINE). This insurance is intended to give indemnity for damage caused as a result of non-payment of loans given against a first mortgage on a single real estate property for residential purposes only, and after realizing the property serving as collateral for such loans.

Note 4 - Operating segments (contd.)

4. Insurance companies overseas operating segment

The overseas segment consists of the activity of Interasco Societe Anonyme General Insurance Company S.A.G.I ("Interasco"), and Turk Nippon, an insurance company wholly owned by the Company.

5. Financial services segment

The Group's activities in the capital and financial market are carried out in Harel Finance. Harel Finance is engaged through companies controlled by it in the following activities:

- Managing mutual funds.
- Managing securities for private customers, corporations, and institutional customers in capital markets in Israel and abroad.
- Issue to the public of index products (ETFs and deposit certificates).

6. Not allocated to operating segments

Activities which were not relating to the operating segment include mainly activities of insurance agencies and of capital activities in consolidated insurance companies.

Note 4 - Operating segments (contd.)

A. **Information regarding segment reporting**

	For the three months ended March 31 2013 (Unaudited)							
	Life Insurance and Long-Term Savings	Health Insurance	General Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	934,170	758,831	766,807	42,859	-	-	(2,418)	2,500,249
Premiums earned by reinsurers	34,290	48,254	312,363	15,958	-	-	(2,418)	408,447
Premiums earned in retention	899,880	710,577	454,444	26,901	-	-	-	2,091,802
Net profit (loss) from investments and financial income	801,792	76,150	67,491	660	6,493	79,011	(2,798)	1,028,799
Income from management fees	207,499	2,346	-	-	34,405	1,522	(82)	245,690
Income from commissions	9,787	18,321	57,356	4,753	1,277	22,284	(12,911)	100,867
Total income	1,918,958	807,394	579,291	32,314	42,175	102,817	(15,791)	3,467,158
Payments and changes in liabilities for insurance and investment contracts, gross	1,489,600	590,672	654,398	19,423	-	-	(1,443)	2,752,650
Reinsurers' share in payments and changes for insurance contracts liabilities	20,130	26,651	273,549	3,376	-	-	(1,443)	322,263
Payments and changes in liabilities for insurance and investment contracts, in retention	1,469,470	564,021	380,849	16,047	-	-	-	2,430,387
Commission, marketing and other acquisition expenses	158,422	126,025	128,156	16,107	-	1,217	(12,912)	417,015
Management and general expenses	102,918	53,070	7,749	4,366	41,375	30,897	(83)	240,292
Other expenses	12,247	-	238	78	778	1,300	-	14,641
Financing expenses (income)	1,020	1,743	(4,762)	-	960	26,978	(493)	25,446
Total expenses	1,744,077	744,859	512,230	36,598	43,113	60,392	(13,488)	3,127,781
Company share of profit (loss) of investee companies recorded by the equity method	(5,656)	690	6,133	-	-	9,245	-	10,412
Profit (loss) before income taxes	169,225	63,225	73,194	(4,284)	(938)	51,670	(2,303)	349,789
Other comprehensive incomes (losses), before income tax	(17,129)	(4,496)	(12,185)	(2,531)	94	2,150	-	(34,097)
Total comprehensive income (loss) before income tax	152,096	58,729	61,009	(6,815)	(844)	53,820	(2,303)	315,692
Liabilities in respect of non-yield dependent insurance and investment contracts	10,347,380	2,637,410	10,018,680	214,987	-	-	(8,196)	23,210,261
Liabilities in respect of yield dependent insurance and investment contracts	24,729,324	2,526,108	-	-	-	-	-	27,255,432

Note 4 - Operating segments (Cont'd)

A. Information regarding segment reporting (Cont'd)

	For the three months ended March 31 2012 (Unaudited)							
	Life Insurance and Long-Term Savings	Health Insurance	General Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	802,765	656,435	712,749	44,632	-	-	(2,685)	2,213,896
Premiums earned by reinsurers	28,351	43,509	285,358	14,784	-	-	(2,685)	369,317
Premiums earned in retention	774,414	612,926	427,391	29,848	-	-	-	1,844,579
Net profit (loss) from investments and financial income	1,069,797*	82,116*	66,474*	(923)	5,520	83,718*	948	1,307,650
Income from management fees	137,429	2,809	-	-	35,754	1,267	-	177,259
Income from commissions	2,148	18,342	53,505	4,843	8,412	15,275	(8,279)	94,246
Other income	-	-	-	-	-	3,344	(843)	2,501
Total income	1,983,788	716,193	547,370	33,768	49,686	103,604	(8,174)	3,426,235
Payments and changes in liabilities for insurance and investment contracts, gross	1,631,059	542,030	522,159	44,942	-	-	(1,349)	2,738,841
Reinsurers' share in payments and changes for insurance contracts liabilities	26,122	17,998	175,939	25,847	-	-	(1,349)	244,557
Payments and changes in liabilities for insurance and investment contracts, in retention	1,604,937	524,032	346,220	19,095	-	-	-	2,494,284
Commission, marketing and other acquisition expenses	142,380	114,295	122,468	16,234	-	1,147	(8,279)	388,245
Management and general expenses	88,748	43,152	7,109	3,006	42,639	29,538*	(843)	213,349
Other expenses	13,998	-	241	137	293	1,062	-	15,731
Financing expenses (income)	1,761	1,507	(4,719)	-	1,262	26,370	(6)	26,175
Total expenses	1,851,824	682,986	471,319	38,472	44,194	58,117	(9,128)	3,137,784
Company share of profit of investee companies recorded by the equity method	2,804*	795*	3,519*	-	-	7,548*	-	14,666
Profit (loss) before income taxes	134,768	34,002	79,570	(4,704)	5,492	53,035	954	303,117
Other comprehensive incomes (losses), before income tax	48,929	10,641	27,825	3,180	(7)	54,207	-	144,774
Total comprehensive income (loss) before income tax	183,697	44,643	107,395	(1,524)	5,485	107,242	954	447,891
Liabilities in respect of non-yield dependent insurance and investment contracts	9,623,101**	2,263,774	9,744,295	218,673	-	-	(8,953)	21,840,890
Liabilities in respect of yield dependent insurance and investment contracts	20,143,959**	1,804,020	-	-	-	-	-	21,947,979

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

** Regarding insignificant adjustment of comparison figures - see note 2C.

Note 4 - Operating segments (Cont'd)

A. Information regarding segment reporting (Cont'd)

A. Information regarding segment reporting (Cont'd)

	For the year ended December 31 2012 (Audited)							
	Life Insurance and Long-Term Savings	Health Insurance	General Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	3,297,033	2,850,224	2,916,265	172,232	-	-	(10,135)	9,225,619
Premiums earned by reinsurers	114,255	195,731	1,225,284	62,740	-	-	(10,135)	1,587,875
Premiums earned in retention	3,182,778	2,654,493	1,690,981	109,492	-	-	-	7,637,744
Net profit (loss) from investments and financial income	2,952,606*	282,226*	257,609*	5,031	25,043	226,719*	(3,399)	3,745,835
Income from management fees	632,920	10,271	-	-	140,967	9,415	(941)	792,632
Income from commissions	23,458	78,328	238,896	18,410	28,112	70,872	(38,729)	419,347
Other income	-	-	-	-	550	5,871	(2,723)	3,698
Total income	6,791,762	3,025,318	2,187,486	132,933	194,672	312,877	(45,792)	12,599,256
Payments and changes in liabilities for insurance and investment contracts, gross	5,638,697	2,282,689	2,164,827	113,651	-	-	(7,726)	10,192,138
Reinsurers' share in payments and changes for insurance contracts liabilities	87,330	100,283	781,463	43,948	-	-	(7,726)	1,005,298
Payments and changes in liabilities for insurance and investment contracts, in retention	5,551,367	2,182,406	1,383,364	69,703	-	-	-	9,186,840
Commission, marketing and other acquisition expenses	598,140	467,351	565,623	64,761	-	4,346	(38,729)	1,661,492
Management and general expenses	355,481	188,122	37,736	14,058	172,762	102,600*	(3,664)	867,095
Other expenses	56,215	-	969	5,549	1,930	3,346	-	68,009
Financing expenses (income)	9,150	7,506	(170)	-	4,490	134,678	(922)	154,732
Total expenses	6,570,353	2,845,385	1,987,522	154,071	179,182	244,970	(43,315)	11,938,168
Company share of profit (loss) of investee companies recorded by the equity method	13,374*	3,762*	15,120*	-	(12)	4,886*	-	37,130
Profit (loss) before income taxes	234,783	183,695	215,084	(21,138)	15,478	72,793	(2,477)	698,218
Other comprehensive incomes (losses), before income tax	122,034	41,738	101,559	874	388	123,834	-	390,427
Total comprehensive income (loss) before income tax	356,817	225,433	316,643	(20,264)	15,866	196,627	(2,477)	1,088,645
Liabilities in respect of non-yield dependent insurance and investment contracts	10,166,033	2,570,742	9,653,208	223,429	-	-	(8,543)	22,604,869
Liabilities in respect of yield dependent insurance and investment contracts	22,349,956	2,148,211	-	-	-	-	-	24,498,167

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

Note 4 - Operating segments (Cont'd)

b. Additional data regarding general insurance segment

	For the three months ended March 31 2013 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	insurance Mortgage	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	206,744	406,540	222,899	248,771	(1,793)	1,083,161
Premiums earned by reinsurers	41,989	84,001	159,873	107,833	-	393,696
Retention premiums earned	164,755	322,539	63,026	140,938	(1,793)	689,465
Changes in premium balances that have not yet been earned, retention	60,533	134,780	12,197	43,705	(16,194)	235,021
Retention premiums earned	104,222	187,759	50,829	97,233	14,401	454,444
Profits from investments, net, and financing income	32,049	6,680	1,550	21,892	5,320	67,491
Commission income	3,955	10,960	29,791	12,650	-	57,356
Total income	140,226	205,399	82,170	131,775	19,721	579,291
Payments and changes in liabilities for insurance contracts, gross	118,690	196,092	168,233	165,288	6,095	654,398
Reinsurer's share of payments and changes in liabilities for insurance contracts	22,805	37,327	142,677	70,740	-	273,549
Payments and changes in liabilities for insurance contracts, retention	95,885	158,765	25,556	94,548	6,095	380,849
Commission, marketing expenses and other acquisition costs	13,225	38,419	47,833	28,214	465	128,156
Management and general expenses	1,325	1,766	679	810	3,169	7,749
Other expenses	-	-	-	-	238	238
Financing expenses (income), Net	(2,466)	(514)	(119)	(1,685)	22	(4,762)
Total expenses	107,969	198,436	73,949	121,887	9,989	512,230
Company share of profit of investee companies recorded by the equity method	2,710	565	131	1,851	876	6,133
Profit before income taxes	34,967	7,528	8,352	11,739	10,608	73,194
Other comprehensive losses, before income tax	(6,069)	(1,265)	(294)	(4,146)	(411)	(12,185)
Total comprehensive income (loss) before income tax	28,898	6,263	8,058	7,593	10,197	61,009
Liabilities for insurance policies, gross, as at March 31, 2013	2,799,437	796,829	739,531	5,029,437	653,446	10,018,680

* Property braches and others include mainly results from property loss insurance and comprehensive apartments insurance, whose activities comprise 76% of total premiums in these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability whose activities comprise 80% of total premiums in these branches.

Note 4 - Operating segments (Cont'd)

b. Additional data regarding general insurance segment (Cont'd)

	For the three months ended March 31 2012 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments**	Other Liability Segments***	insurance Mortgage	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	191,816	313,299	209,789	183,408	8,125	906,437
Premiums earned by reinsurers	38,931	64,215	151,544	88,474	-	343,164
Retention premiums earned	152,885	249,084	58,245	94,934	8,125	563,273
Changes in premium balances that have not yet been earned, retention	42,262	83,589	12,419	5,598	(7,986)	135,882
Retention premiums earned	110,623	165,495	45,826	89,336	16,111	427,391
Profits from investments, net, and financing income	33,848*	6,258*	1,394*	17,557*	7,417*	66,474
Commission income	4,339	10,625	26,546	11,995	-	53,505
Total income	148,810	182,378	73,766	118,888	23,528	547,370
Payments and changes in liabilities for insurance contracts, gross	123,113	182,192	68,561	142,434	5,859	522,159
Reinsurer's share of payments and changes in liabilities for insurance contracts	25,435	36,482	48,518	65,504	-	175,939
Payments and changes in liabilities for insurance contracts, retention	97,678	145,710	20,043	76,930	5,859	346,220
Commission, marketing expenses and other acquisition costs	13,379	35,479	40,692	31,601	1,317	122,468
Management and general expenses	868	1,090	667	631	3,853	7,109
Other expenses	-	-	-	-	241	241
Financing income, Net	(2,703)	(500)	(111)	(1,402)	(3)	(4,719)
Total expenses	109,222	181,779	61,291	107,760	11,267	471,319
Company share of profit of investee companies recorded by the equity method	2,012*	372*	83*	1,044*	8*	3,519
Profit before income taxes	41,600	971	12,558	12,172	12,269	79,570
Other comprehensive incomes, before income tax	12,830	2,372	529	6,654	5,440	27,825
Total comprehensive income before income tax	54,430	3,343	13,087	18,826	17,709	107,395
Liabilities for insurance policies, gross, as at March 31, 2012	2,812,244	700,886	573,377	5,015,966	641,822	9,744,295

* Concerning retrospective application, see Note 3B about the first-time application of new standards

** Property braches and others include mainly results from property loss insurance and comprehensive apartments insurance, whose activities comprise 80% of total premiums in these branches.

*** Other liabilities branches include mainly results from third-party insurance and professional liability whose activities comprise 76% of total premiums in these branches.

Note 4 - Operating segments (Cont'd)

b. Additional information regarding life assurance and long-term savings segment

	For the year ended December 31 2012 (Audited)					
	Compulsory Motor	Motor Property	Property and Other Segments**	Other Liability Segments***	insurance Mortgage	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	509,792	872,363	822,754	687,186	47,649	2,939,744
Premiums earned by reinsurers	105,230	179,950	634,340	347,584	-	1,267,104
Retention premiums earned	404,562	692,413	188,414	339,602	47,649	1,672,640
Changes in premium balances that have not yet been earned, retention	(14,940)	10,200	13,530	(11,613)	(15,517)	(18,340)
Retention premiums earned	419,502	682,213	174,884	351,215	63,167	1,690,981
Profits from investments, net, and financing income	130,759*	22,496*	6,004*	75,221*	23,129*	257,609
Commission income	22,088	50,553	115,681	50,574	-	238,896
Total income	572,349	755,262	296,569	477,010	86,296	2,187,486
Payments and changes in liabilities for insurance contracts, gross	456,168	695,355	364,302	612,092	36,910	2,164,827
Reinsurer's share of payments and changes in liabilities for insurance contracts	96,797	137,627	283,341	263,698	-	781,463
Payments and changes in liabilities for insurance contracts, retention	359,371	557,728	80,961	348,394	36,910	1,383,364
Commission, marketing expenses and other acquisition costs	77,490	188,649	172,597	121,796	5,091	565,623
Management and general expenses	5,886	7,823	3,874	3,824	16,329	37,736
Other expenses	-	-	-	-	969	969
Financing expenses (income), Net	(113)	(19)	(6)	(64)	32	(170)
Total expenses	442,634	754,181	257,426	473,950	59,331	1,987,522
Company share of profit of investee companies recorded by the equity method	8,215*	1,413*	378*	4,726*	388*	15,120
Profit before income taxes	137,930	2,494	39,521	7,786	27,353	215,084
Other comprehensive incomes, before income tax	49,014	8,432	2,251	28,196	13,666	101,559
Total comprehensive income before income tax	186,944	10,926	41,772	35,982	41,019	316,643
Liabilities for insurance policies, gross, as at March 31, 2012	2,731,632	608,481	658,583	4,990,591	663,921	9,653,208

* Concerning retrospective application, see Note 3B about the first-time application of new standards

** Property braches and others include mainly results from property loss insurance and comprehensive apartments insurance, whose activities comprise 82% of total premiums in these branches.

*** Other liabilities branches include mainly results from third-party insurance and professional liability whose activities comprise 80% of total premiums in these branches.

Note 4 - Operating segments (Cont'd)

c. Additional information regarding life assurance and long-term savings segment (Cont'd)

	March 31 2013 (Unaudited)				March 31 2012 (Unaudited)			
	Provident	Pension	Life-assurance	Total	Provident	Pension	Life-assurance	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Premiums earned, gross	-	-	934,170	934,170	-	-	802,765	802,765
Premiums earned by reinsures	-	-	34,290	34,290	-	-	28,351	28,351
Retention premiums earned	-	-	899,880	899,880	-	-	774,414	774,414
Profits from investments, net, and financing income	282	384	801,126	801,792	245	1,475	1,068,077*	1,069,797
Management fee income	49,503	48,882	109,114	207,499	55,779	44,829	36,821	137,429
Commission income	-	-	9,787	9,787	-	-	2,148	2,148
Total income	49,785	49,266	1,819,907	1,918,958	56,024	46,304	1,881,460	1,983,788
Payments and changes in liabilities for insurance contracts and investment contracts, gross	474	2,243	1,486,883	1,489,600	445	1,767	1,628,847	1,631,059
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	20,130	20,130	-	-	26,122	26,122
Payments and changes in liabilities for insurance contracts and investment contracts, retention	474	2,243	1,466,753	1,469,470	445	1,767	1,602,725	1,604,937
Commission, marketing expenses and other acquisition costs	16,147	22,063	120,212	158,422	15,457	20,557	106,366	142,380
Management and general expenses	19,475	13,522	69,921	102,918	18,367	12,554	57,827	88,748
Other expenses	5,981	952	5,314	12,247	7,566	1,118	5,314	13,998
Financing expenses , net	27	(35)	1,028	1,020	37	175	1,549	1,761
Total expenses	42,104	38,745	1,663,228	1,744,077	41,872	36,171	1,773,781	1,851,824
Company share of profit (loss) of investee companies recorded by the equity method	-	-	(5,656)	(5,656)	-	-	2,804*	2,804
Profit (loss) before income taxes	7,681	10,521	151,023	169,225	14,152	10,133	110,483	134,768
Other comprehensive incomes (losses), before income tax	(133)	(330)	(16,666)	(17,129)	148	(269)	49,050	48,929
Total comprehensive income before income tax	7,548	10,191	134,357	152,096	14,300	9,864	159,533	183,697

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

Note 4 - Operating segments (Cont'd).

c. Additional information regarding life assurance and long-term savings segment (Cont'd)

	Year ended December 31 2012 (Audited)			
	Provident	Pension	Life-assurance	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Premiums earned, gross	-	-	3,297,033	3,297,033
Premiums earned by reinsures	-	-	114,255	114,255
Retention premiums earned	-	-	3,182,778	3,182,778
Profits from investments, net, and financing income	1,520	5,242	2,945,844*	2,952,606
Management fee income	221,130	193,440	218,350	632,920
Commission income	-	-	23,458	23,458
Other income	-	-	-	-
Total income	222,650	198,682	6,370,430	6,791,762
Payments and changes in liabilities for insurance contracts and investment contracts, gross	1,774	7,863	5,629,060	5,638,697
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	87,330	87,330
Payments and changes in liabilities for insurance contracts and investment contracts, retention	1,774	7,863	5,541,730	5,551,367
Commission, marketing expenses and other acquisition costs	62,213	85,661	450,266	598,140
Management and general expenses	73,309	50,691	231,481	355,481
Other expenses	30,279	4,681	21,255	56,215
Financing expenses, net	96	445	8,609	9,150
Total expenses	167,671	149,341	6,253,341	6,570,353
Company share of profit (loss) of investee companies recorded by the equity method	-	-	13,374*	13,374
Profit before income taxes	54,979	49,341	130,463	234,783
Other comprehensive incomes, before income tax	1,414	1,208	119,412	122,034
Total comprehensive income before income tax	56,393	50,549	249,875	356,817

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

Note 5 - Business combinations

1. Acquisition of Eliahu Insurance Company Ltd. life assurance portfolio.

On January 1, 2013, Harel Insurance completed a transaction whereby it acquired the operations included in the life insurance segment of Eliahu Insurance Co. Ltd. ("Eliahu Insurance").

The transaction included the acquisition of all the rights and obligations of Eliahu Insurance in the life-assurance sector, including the life and healthcare insurance segments, and all of its rights and obligations towards policyholders, reinsurers, agents and the like.

As part of the acquisition, Harel Insurance received the assets against the insurance liabilities for NIS 210 million. The consideration was paid upon completion of the transaction was completed, as follows: (a) NIS 100 million in cash; (b) NIS 110 million in the form of deferred promissory notes issued by Harel Issues, through the expansion of Series 6 and 7 issued by Harel Issues. Regarding the expansion of these Series, see note 9.

Based on the examination performed by an external appraiser, the cost of the acquisition was allocated in accordance with the future embedded profit in the acquired assets and liabilities. This profit is attributed to the insurance liabilities and it will be amortized according to the period of economic benefit .

The Group bears the legal costs and costs of due diligence attributed to the acquisition in the amount of NIS 1,258,000. These costs were included in the income statement under general and administrative expenses .

The fair value of the identified assets and liabilities of Eliahu Insurance Company and the amount retained in the financial statements at the acquisition date are as follows:

	Fair Value
	NIS thousands
Financial assets – yield dependent contracts	1,324,107
Other financial assets:	
Marketable debt assets	181,619
Non marketable debt assets*	238,283
	419,902
Cash and cash equivalents - yield dependent contracts	141,955
Other cash and cash equivalents	40,985
Reinsurance assets	6,003
Outstanding premiums	16,906
Other assets	135
	1,949,993
Liabilities in respect of non-yield dependent insurance and investment contracts	382,915
Liabilities in respect of yield dependent insurance and investment contracts	1,339,834
Total liabilities in respect insurance contracts	1,722,749
Other liabilities	17,244
Total liabilities**	1,739,993
Assets, Net	210,000

* Non-marketable debt assets, are designated bonds registered according to cost. The surplus fair value of NIS 37 million, attributed to the bonds, was deducted from the amount of the insurance liabilities which it backs.

** Of the above, NIS 232 million is attributed to the health insurance segment and the rest is attributed to the life assurance and long term savings segment.

2. See Note 13 on the completion of a transaction to acquire mutual funds and portfolio management activity from Clal Finance after the Reporting Period.
3. See Note 13 on the entering into an agreement to acquire an additional 17% of ICIC after the Reporting Period.

Note 6 - Taxes on income

Tax rates which applies to incomes of companies in the Group

On May 27, 2013, the finance committee of the Kneset approved the increase in tax rate, commencing June 2013, in a rate of 1%, such that the updated tax rate will be 18%. Additionally, an update in salary taxes and tax profit is anticipated. As a result of the mentioned change, the statutory tax rate, which applies on financial institutions, will increase during the course of 2013 from a rate of 35.9% to a rate of 36.2% and in the course of 2014 and on, the tax rate will increase up to a rate of 36.44%.

Year	Companies tax rate	Profit tax rate	Tax rate in financial institution
2013	25%	17.58%	36.2%
2014 and on	25%	18%	36.44%

The change in profit tax rate, as mentioned above, is not predicted to have an insignificant affect over the comprehensive income and/or the capital of the Company.

Tax Assessments

1. **Final tax assessments**

1. The Company and some of its subsidiaries have final tax assessments up to and including 2010. Other consolidated companies have tax assessments that are considered final up to 2010.

2. In June 2009 Harel Insurance submitted an appeal to the Appeals Committee in regard to a purchase tax assessment issued against it by the Tax Authorities for the acquisition of floors 11-13 in Harel House, Ramat Gan from Gitam Imaging Systems Ltd., which were purchased entirely from Harel Insurance's Nostro account. Harel Insurance claimed that for the purpose of purchase tax, the value of the real estate acquired was lower than the overall consideration paid for the transaction, due to the fact that certain components that are not tax liable were purchased. Based on the decision of the Land Tax Administration, the purchase tax charge is for the total consideration paid in connection with the transaction. On April 25, 2013 a compromise was reached with the tax authorities. According to the compromise, most of the tax in dispute was paid. The mentioned compromise has no insignificant affect over the financial statements.

3. On December 22, 2011, Harel Insurance received an Income Tax assessment order under Section 152 of the Income Tax Ordinance, with respect to the 2007 tax year ("the Order"). In the Order, the Assessment Officer argued that Harel Insurance must allocate differently the purchase cost of the intangible assets it acquired during the acquisition of Bank Leumi's provident fund operations and amortize them differently.
   Harel Insurance appealed against the Order to the Tel Aviv District Court. Harel Insurance received an opinion to the effect that there is a strong chance that its appeal will be accepted. Nevertheless, if the Tax Authority's position is accepted in full, amortization on the brand component will not be recognized for Harel Insurance for tax purposes.
   On August 30, 2012, the tax assessment officer submitted notice in the Tel Aviv District Court explaining the reasons for the assessment.
   On May 29, 2013, a compromise agreement was signed with Income Tax for the years 2007-2011. Accordingly, Harel Insurance will be permitted to recognize the entire purchase cost for tax purposes. The compromise relates principally to the method of splitting the purchase cost component and the timing of the date of recognition of the expense.
   Harel Insurance recognizes deferred taxes in respect of timing differences created as a result of a difference in the amortization rates for accounting purposes and those for tax purposes. Consequently, implementation of the compromise agreement is unlikely to have any significant impact on the equity or profit of Harel Insurance and the Group.

Note 6 - Taxes on income (contd.)

2. Tax assessments in dispute

On February 14, 2012, Bar Tavai, a wholly owned subsidiary of the Company, received a decision of the Tax Authority regarding the objection it submitted in the matter of the Betterment Tax assessment issued it in regard to the sale of a building on 120 Allenby St., Tel-Aviv. The Tax Authority declined to approve the deduction of some of the cost components declared by Bar Tavai. The tax amount in dispute is NIS 1.4 million. In August 2012, Bar Tavai filed an appeal to the Appeals Committee against the dismissal of its objection. A court meeting was appointed to September 15, 2013. In the assessment of Bar Tavai's legal advisors, it is more likely that the appeal will be accepted than rejected.

Note 7 - Contingent Liabilities and Commitments (contd.)

A. Contingent Liabilities (contd.)

There is a general exposure which cannot be evaluated and/or quantified resulting, inter alia, from the complexity of the services provided by the Group to its insured and its customers. The complexity of these arrangements conceal, inter alia, potential of allegations, interpretations and others, due to the differences in information between the Group's companies and other parties to the insurance contacts and the rest of the Group's products, relating to the long series of commercial and regulatory conditions. It is not possible to anticipate in advance the types of allegations, which will be raised in this field, and the exposure resulting from these and other allegations in connection with the Group's products raised, inter alia, through a mechanism of hearings set forth in the Class Actions Law.

New interpretations of the information in insurance policies and long-term term pension products may, in some instances, affect the Group's future profits in respect of the existing portfolio, in addition to the exposure inherent in requirements to compensate customers for past activity.

Likewise, there is an element of exposure in all regulatory changes and instructions issued by the Commissioner, in circulars that are in force and in draft circulars that are still under discussion, some of which have far-reaching legal and operational ramifications. This exposure is particularly great in pension savings and long-term insurance, including health insurance. In these sectors, the rights of the policyholders, members and customers are over a period of many years during which policies, regulations and legal trends may be changed, including through court rulings.
These rights are managed through complex automated systems, and in view of these changes they must be constantly adjusted. All these create considerable operational and mechanization exposure in these areas of activity. Among these regulatory changes, on December 21, 2011, the Commissioner published a circular concerning data optimization of the rights of members of financial institutions. The circular details the activity framework that a financial institution must carry out to ensure that members' rights are reliably, and fully recorded in the information systems, and that they are available and retrievable. The circular defines the stages of implementation of the optimization project as follows: (1) a gap study of the existing information at product, members and employers level - by March 31, 2013; (2) formulation of a mapping model and rating of the gaps found - by March 31, 2013; (3) a work plan is to be prepared to deal with any failure/s that are found - by September 30, 2013. The work plan will address the arrangement and saving of the existing information - by September 30, 2014. The optimization project is to be completed by June 30, 2016. During the period, on-going provision was made due to implementation of the first stage of the project, in insignificant amounts.

In addition, there is a general exposure due to complaints issued from time to time to the Director of Capital Markets, Insurance and Savings in the Ministry of Finance against institutional bodies in the Group, regarding the rights of insured relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division in the Institutional bodies. The decisions of the Supervision on these complaints, if and to the extent that any decision is made, are liable to be given across the board and apply to large groups of insured. Sometimes, the complaining factors are even threatening to take steps regarding their complaints in the framework of a class action.

At this time, it is not possible to evaluate if there is an exposure for such complaints and it is not possible to evaluate if a wide-ranging decision will be given by the Director regarding these complaints and/or if class actions will be filed as a result of such processes, and it is not possible to evaluate the potential exposure to such complaints; therefore, no provision for this exposure has been included. In this context, on January 14, 2013, the Commissioner published a second draft of a ruling in principle with regard to the raising of management fees by management companies without giving advance notice. At this stage, it is impossible to estimate what the final wording of the ruling will be and what the exposure is to the Group's management companies in connection with the draft ruling.

Note 7 - Contingent Liabilities and Commitments

A. Contingent Liabilities

Additionally, as part of the policy recently applied by the Ministry of Finance Capital Market, Insurance & Savings Division to enhance the controls and audits of financial institutions, from time to time the Commissioner conduct in-depth audits of a variety of activities of the Group's financial institutions. As a result of these audits, the Ministry of Finance may impose fines and/or financial penalties and it may also order that changes should be made with respect to various operations, both in the past and in the future.
Regarding instructions with respect to past activity, the Commissioner may request the restitution of money or a change in conditions vis-à-vis policyholders and/or fund members which may impose financial liabilities on the Company's subsidiaries and/or increase the exposure of the subsidiaries that are insurers to a broader range of insurance events to be covered on account of these instructions, in policies that were issued.

As part of the audits conducted by the Commissioner, during previous reporting periods in-depth audits of were conducted of the following: audit of non-negotiable credit of Harel Insurance and the subsidiaries that are financial institutions; audit of the prohibition on money laundering in Harel Insurance's life assurance division; audit of the location of beneficiaries in the life assurance division of Harel Insurance; audit of members' rights and the portability of money in Harel Insurance's life assurance division; general audit of Harel Pension, particularly concerning the portability of members' rights; general audit of Harel Gemel; audit of Dikla, particularly with respect to long-term care insurance; audit of the health insurance division of Harel Insurance, and more.

The following are details of the exposure for class actions and applications to recognize them as class actions filed against the Company and/or companies in the Group.

Applications to approve legal actions as class actions as detailed below, which are, in management’s opinion based inter alia on legal opinions that it received, more likely than not that the defense contentions of the Company or the appeal contentions that the Company or a subsidiary filed or a compromise arrangement proposed will be accepted and the application for approving the legal action as a class action will be rejected, so no provisions have not been included in the financial statements. Applications to approve a legal action as class action regarding a claim, fully or partly, it is more reasonable that the defense contentions on the Company are likely to be rejected, the financial statements have a provision to cover the exposure estimated by the Company's management and/or the managements of subsidiaries.

In the opinion of the Company's management, inter alia, based on legal opinions it received, the financial statements have suitable provisions, where provisions are required, to cover the estimated exposure by the Company and/or subsidiaries. The total provisions included in the financial statements to cover the exposure are not an immaterial amount.

With regards to application to approve actions as class actions filed as specified in sections 12, 22, 24, 25 and 26 below, it is not possible at this early stage to estimate the chances of the applications to be approved as a class action and therefore no provisions have been included in the financial statements for these claims.

1. In April 2006, a claim was filed against Harel Insurance (subsidiary) and five insurance companies in the Tel Aviv-Jaffa District Court. The court was asked to certify the claim as a class action. The cause of claim was that the defendants had collected insurance fees from the plaintiffs for coverage of work disability. The plaintiffs claim that the defendants collected insurance premiums during the last three months of the insurance period, regardless of the fact that for this period, the plaintiffs were not eligible to receive insurance compensation even if they suffered loss of ability to work (because of the waiting period defined in the policy). The plaintiffs claimed that the defendants did not provide them with the information that it was their intention to collect insurance premiums for the last three months of the insurance period according to the policy. According to the plaintiffs, the damage caused to all plaintiffs by the defendants is estimated, in accordance with an expert opinion, at NIS 47.61 million. The damage claimed by the plaintiffs from Harel Insurance, totals, in their estimation NIS 1.54 million.

Note 7 - Contingent Liabilities and Commitments (cont'd)

A. Contingent Liabilities (cont'd)

On February 3, 2009, the court certified the petition as a class action. Harel insurance submitted a request for the right to appeal this decision.
On April 11, 2013, the court accepted the application for permission to appeal and returned hearing of the action to the District Court for a decision on the question of whether the action should be treated as a class action, whether payment during the last three months of the policy is consideration for service which the insureds will never be entitled to receive or whether it is a form of payments in installments which is the result of an actuarial calculation, whether the defendants were in violation of their proper disclosure obligations and whether prescription applies under the circumstances of the matter at hand.

2. In April 2007, a petition and a request for certification as a class action were filed in the Tel Aviv-Jaffa District Court against Bank Hapoalim Ltd., Bank Leumi le-Israel Ltd., Israel Discount Bank Ltd., First International Bank of Israel Ltd. ("The Banks"), Clal Finance, Batucha Investment Management Ltd., Migdal Capital Markets Ltd., and Harel Investment House (these last three will henceforth be called: "Fund Managers"). The cause for the claim is a reimbursement of brokerage commissions allegedly paid by the plaintiffs from the beginning of 2004, in respect of their holdings of units of various mutual trust funds, as specified in the statement of claim, for the charges of brokerage commissions and commissions associated with trading in foreign currency at a rate higher than the rate ostensibly supposed to be charged from the claimants. According to the petitioner, from 2004, the respondents charged a number of private bodies, commissions at lower rates than those charged in relation to mutual trust funds that the banks controlled.
According to the statement of claim, the period relevant to Harel Investment House is from November 15, 2006 up to the end of March 2007. It is also claimed, that within the context of the sale by the banks of control of the mutual funds to the mutual fund managers, it was determined that the banks would ostensibly continue to provide the fund managers with share trading services on the Tel-Aviv Stock Exchange and / or banking services (buying/selling foreign currency), and charge the same high commission charged up to the time of sale, where this is expressed, allegedly, in the reduced price that was paid for acquiring the control of the mutual funds, to prevent the mutual fund managers from profiting by the collection of brokerage commissions. The plaintiffs estimate the sum of the claim against Harel Investment House at NIS 5,676 thousands. In accordance with the court's recommendation the claim was transferred to arbitration.

3. In January 2008 a legal action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance and against four additional insurance companies together with application for its certification as a class action. The subject of the action is a claim that the respondents unlawfully collected a "sub-annual factor fee" (a fee that insurance companies are allowed to collect when the amount of the annual premium is actually paid in installments). The plaintiffs claim damages in the amount of NIS 1,684.54 for each insurance year. The plaintiffs estimate that the total claim for the entire class that they wish to represent against all defendants is about NSI 2.3 billion, of which about NIS 307 million is against Harel Insurance. On February 1, 2010, the court approved a request for a procedural arrangement between the parties, according to which the plaintiff will strike out the claim that Harel Insurance collected a sub-annual factor fee exceeding the rate permitted in policies that were issued before 1992 as well. As instructed by the court, the plaintiff submitted an amended claim and request for its certification as a class action.

4. In January 2008 an action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance and against four additional insurance companies and an application for its certification as a class action.The subject of the action is a claim that the respondents allegedly collected management fees from their policyholders on profit-sharing life assurance policies, contrary to the Supervision of Insurance Business (Conditions of Insurance Contracts) Regulations, 5742-1981, and contrary to the circulars of the Commissioner of Insurance. According to the plaintiffs, the defendants collected monthly management fees at higher rate than permitted and they also collected variable management fees every month, despite the fact that such fees were collected at year end. In the opinion of the plaintiffs, the amount of the nominal claim against all the defendants for all the members of the group that they are requesting to represent is NIS 244 million, of which NIS 28 million are against Harel Insurance.

Note 7 - Contingent Liabilities and Commitments (cont'd)

A. Contingent Liabilities (cont'd)

5. In April 2008 an action and an application for its certification it as a class action was filed with the Jerusalem District Court against the subsidiary Harel Insurance and against other insurance companies. The basis of the claim is the plaintiff's allegation according to which in the old managers’ insurance policies sold until 2000, the defendants customarily credited insured women reaching retirement age with a monthly pension lower than that of a man insured with identical data received, and this based on the contention that women have a longer life expectancy. On the other hand, the plaintiff alleges that the defendants collect from their female insureds a "risk" premium at a rate identical to that which it collects from the male insured, despite the fact that the rate of death of women during the "risk" cover is lower. The plaintiff alleges that in 2001 the defendants corrected the policies and this by way of reducing the discrimination that allegedly existed, and set "risk" premium rates for women at rates lower than those set for men. The plaintiff alleges that the defendants did not correct the alleged discrimination in the old polices issued before the date of the change.

6. In July 2008, a claim and a request to certify the claim as a class action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance. The claimant claims that Harel Insurance ostensibly avoided paying and / or indemnifying its insured parties for damages caused to safety devices installed in their vehicles in the event of a total loss or constructive total loss or theft, and that it signs its policyholders, in contravention of the instructions of the Commissioner of Insurance, on a letter of settlement. The claimant alleges that in this way, Harel Insurance enriches itself at the expense of the insured and is in breach of a statutory obligation.
   The claimant notes that he does not have all the information available in order to accurately estimate the size of the group, but he does estimate that the amount of the claim for all members of the group, over a period of four and half years, at NIS 37 million.

7. In February 2009, a claim was filed with Tel Aviv District Court against the subsidiary Dikla Insurance together with an application for its certification as a class-action suit. The claim's premise is that Dikla does not pay insurance benefits for "Si’udi Mushlam" (supplementary LTC insurance), during the policy's waiting period, ostensibly in contravention of legal provisions; that Dikla did not pay any interest differences on monthly insurance compensation; ostensibly in contravention of provisions of law; that Dikla did not calculate, apparently, correctly CPI-linkage differences on insurance compensation; that Dikla continued to collect from its injured parties, insurance premiums for certain periods when the insured parties were under long-term care; that Dikla ostensibly delayed payment of LTC compensation. The claimants estimate their individual claim at NIS 10,228 and the claim for all members of the group at NIS 795.5 million. On July 2, 2012, the court’s ruling was received approving the application to exchange the litigants.

8. In April 2010 a legal action and an application for its certification as a class action was filed in the Petach Tikva Central Region Distict Court against the subsidiary Harel Insurance and against four additional insurance companies. The subject of the legal action is the allegation that in the event of a discontinuation of insurance in any month, after the insurance premium for that month was collected by the defendants in advance, the defendants allegedly did not reimburse the insured the proportionate, surplus share of the premiums for that month, or alternatively they allegedly repaid the insurance premium in nominal values only. In the opinion of the applicants, the total damages to all members of the group, cumulatively claimed against all defendants, amount to NIS 225 million for a ten year period (the plaintiffs did not relate to any specific amount to each of the defendants separately). The amount of the plaintiffs’ personal claim against Harel Insurance is NIS 80. On December 12, 2011, the court instructed that the plaintiffs' allegations should be struck out in connection with Section 28.A of the Contracts (Insurance) Law and in connection with a policy of policyholders that has partially or temporarily expired.

9. In May 2011, a claim was filed at the Central Region District Court against the subsidiary Harel Insurance and three other insurance companies, together with an application for recognition as a class action. The subject of the claim is an allegation that the respondents allegedly unlawfully collect a payment called a "policy factor" and/or "other management fees" at a considerable rate of the premium paid without their consent or knowledge and without compliance with a condition that enables such collection in the policy instructions.

Note 7 - Contingent Liabilities and Commitments (cont'd)

A. Contingent Liabilities (cont'd)

9. (cont'd)

The claimants allege that according to instructions issued by the Commissioner of Insurance in the Capital Market, Insurance and Savings Division ("the Commissioner"), companies may charge a policy factor under certain conditions; however they also claim that in addition to the Commissioner's authorization, the respondents must stipulate collection of the policy factor in a contractual agreement with the policyholder. According to the claimants, the total loss claimed for all members of the group against all the respondents' amounts to NIS 2,325 million, and against Harel Insurance, consistent with its share of the market, to NIS 386 million.

10. In June 2011, a claim was filed at the Central District Court against the subsidiary Harel Insurance and nine other insurance companies, with an application for certification as a class action.The subject of this class action is the allegation that when, due to attachments on insurance benefits imposed at the request of a third party, payment of the insurance benefits is withheld from policyholders, the insurance companies allegedly pay the policyholders the insurance benefits in nominal values without any revaluation, or in certain instances only with linkage differences, without the profits arising from them, as a result of this delay. The plaintiffs estimate that the total loss incurred by all members of the group as a result of the defendants' actions is NIS 350 million. The plaintiffs estimate the total loss against Harel Insurance in the amount of NIS 72 million. On February 8, 2012, the plaintiffs announced that they are abandoning their claim that foreclosures were imposed illegally. On December 12, 2012, the court approved conducting the claim as a class action.

11. In June 2011, a claim was filed at the Tel Aviv District Court against the subsidiary Harel Gemel and five other provident fund management companies, with an application for recognition as a class action.

    The subject of the action is the allegation that the respondents, allegedly, discriminate unlawfully between members of the provident funds that they manage by giving some of them benefits on the management fees collected from them in respect of the provident funds that they own.

    According to the plaintiffs, the overall loss that all members of the group are claiming from Harel Gemel, amounts to between NIS 180 - 360 million. On March 20, 2012, one of the plaintiffs in the case notified the court that he would be appealing to the High Court of Justice.
    At a pre-trial which took place on April 3, 2012, the court determined that it would wait for the state's response to the HCJ appeal which had been filed. On May 23, 2012, the Superintendent of the Capital Market, Insurance and Savings, submitted his preliminary response to HCJ, rejecting all the plaintiff's arguments. The District Court postponed the date of the pre-trial on the class action proceeding to enable the proceeding to be exhausted by the Supreme Court. On February 26, 2013, a judgment was given dismissing the petition which had been filed in the HCJ.

12. In July 2011, a claim was filed at the Central Region District Court against the subsidiary Harel Insurance, with an application for its certification as a class action. The subject of the action is the allegation that Harel Insurance ostensibly charges its non-life insurance policyholders credit fees in excess of the maximum permitted rate or that exceed the rate that it ostensibly presents to the policyholder. According to the Plaintiff, the overall loss claimed for all members of the group amounts to NIS 524 million. On March 18, 2013, the parties filed to the court a request for a settlement approval. On May 8, 2013, the court ordered an announcement to be published in the daily newspapers concerning submittal of a compromise settlement and giving a right to file objections to the compromise settlement as well as requests to leave the group by July 2013. Subsequently, a court hearing is expected to take place to approve the compromise settlement.

13. On March 13, 2012, a claim was filed against Harel Gemel in the Tel Aviv District Court, with an application for certification as a class action. The contention of the class action claim is that Harel Gemel raised the rates of management fees that it collects from the plaintiff, ostensibly without providing the plaintiff with advance notice, as required by law. The plaintiff estimates that the damages claimed for all group members amount to about NIS 200 million.

Note 7 - Contingent Liabilities and Commitments (cont'd)

A. Contingent Liabilities (cont'd)

14. In May 2012, a claim was filed against the subsidiary Dikla together with two other insurance companies and three health funds ("the Defendants"), in the Jerusalem District Court, with an application for certification as a class action. The contention of the class action claim is that the Defendants refused to insure clients with disabilities in the context of the group LTC insurance provided by health funds, and this is ostensibly in breach of the provisions of the 1998 Law for the Equal Rights of Persons with Disabilities ("the Law"), thereby discriminating against them and abrogating their right to respect and equality. The plaintiffs estimate that the damages claimed against Dikla is NIS 2,000. The plaintiffs estimate the amount of the claim for all group members they wish to represent against all Defendants at NIS 659 million.

15. In May 2012, a claim was submitted against the subsidiary Harel Insurance and the subsidiary Dikla along with four other insurance companies and one insurance agency ("the Defendants") in the Jerusalem District Court, together with an application for certification as a class action. The contention of the class action claim is that the Defendants ostensibly refused to insure clients with disabilities in such individual insurance policies as healthcare, travel, pension, personal injury, life, LTC and work disability ("the personal lines insurances"), and this ostensibly in breach of the provisions of the 1998 Law for the Equal Rights of Persons with Disabilities ("the Law"), thereby discriminating against them and abrogating their right to respect and equality. The plaintiffs estimate that the damages claimed against Dikla is NIS 2,000. The plaintiffs estimate the amount of the claim for all group members they wish to represent against all Defendants at NIS 934 million.

16. In May 2012, a claim was filed against the subsidiary Harel Insurance in the Haifa District Court, with an application for certification as a class action. The contention of the class action claim is that Harel Insurance indemnifies third parties incurring property damages in road accidents for the impaired value their vehicle, according to the date on which the claim is received and not according to the date of the accident. The plaintiff claims that this method of calculating impairment losses that Harel Insurance applied is seemingly contrary to the provisions of the law and constitutes, inter alia, a breach of the law and unjust enrichment. The class action was submitted despite the Commissioner's decision in 2001 that where third party claims are concerned the damages involved impairment losses may be calculated according to the date on which the claim is received and not according to the date of the accident. The plaintiff estimates that the loss in the personal claim against Harel Insurance amounts to NIS 385, and that the amount of the claim for all group members he wishes to represent is NIS 63 million.

17. In July 2012, a claim was filed against the subsidiary Harel Insurance in the Petach Tikva District Court, with an application for certification as a class action. The contention of the class action claim is that in healthcare insurance policies stipulating that the premium will change once every five years, Harel Insurance raises the premiums when the insured reaches the age of 65, even if five years have not yet passed from the time the policy was purchased. The plaintiff alleges that this is a breach of contract, an intention to mislead and unjust enrichment. The plaintiff estimates that the damages involved in the personal claim against Harel Insurance amount to NIS 380, and that the amount of the claim for all group members he wishes to represent is NIS 160 million.

18. In July 2012, a claim was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with an application for its certification as a class action. The contention of the class action claim is that in a group life insurance policy issued to members of the IDF Disabled Veterans Organization a certain insurance coverage ostensibly exists which was intended for cases where the insurance event takes place in the year between the age of 75 and 76 in the life of the insured, while Harel Insurance only provides insurance coverage for insurance events occurring up to the age of 75. The plaintiff estimates the amount of the claim for all group members he wishes to represent at NIS 46 million. It should be noted that a similar claim was submitted by the plaintiff in the past and was struck out for lack of material jurisdiction.

Note 7 - Contingent Liabilities and Commitments (cont'd)

A. Contingent Liabilities (cont'd)

19. In August 2012, a claim was filed against the subsidiary Harel Insurance and four other insurance companies ("the Defendants") in the Petach Tikva District Court, together with an application for certification as a class action. The contention of the class action claim is that the defendants ostensibly collect management fees from the total sum of the premium deposited by their customers in life insurance policies that include a saving component, of the type that was issued from 2004 and is intended for both the self-employed and salaried employees ("Management Fees", and "the Policies") respectively, and this seemingly in breach of the provisions of the Supervision of Financial Services (Insurance) (Terms in Insurance Contracts) Regulations, 1981, ("the Regulations"). In addition, the plaintiffs claim that the Insurance Commissioner exceeded his authority in allowing the defendants to collect management fees in a way that ostensibly differs from that established by the Regulations, and that any permit given by the Insurance Commissioner to collect management fees in a way that deviates from the Regulations is invalid and contrary to the requirements of the law.

    The plaintiffs claim that any management fees levied from the premium are completely invalid and should be returned to the customers. Alternatively, the maximum management fees that may be collected are 2% of the value of the investment portfolio ("management fees from the accrual") and any management fees that exceed this rate should be returned to the customers. Alternatively, the plaintiffs claim that even if such collection of management fees from the premium is permitted, then that part of the management fees from the premium which was collected for the amount which is not directed to savings, should be returned to the insureds. The plaintiff estimates that the individual damages claimed against Harel Insurance amount to NIS 1,159.40, or alternatively NIS 101.40, or alternatively NIS 510.60 for every insurance year. The plaintiff estimates the amount of the claim for all group members at a nominal sum of NIS 569.8 million.

20. In November 2012, a claim was submitted against the subsidiary Harel Insurance and one additional insurance company ("the Defendants") in the Tel Aviv District Court, together with an application for certification as a class action. The contention of the class action claim is that the defendants allegedly insure athletes whose age during the insurance period or part of it was younger than 20 years ("the Athletes") with an insurance policy for loss of working ability that includes a condition wherein eligibility to receive compensations for loss of working ability, is subject to the policyholder having worked for a salary before the insurance event occurred and that as a consequence of the insurance event he has lost the ability to practice his profession and/or work in the same occupation as before the insurance event ("the Policy" and "the Condition", respectively). The plaintiffs claim that this condition conflicts with the provisions of the Sports (Insurance) Regulations, 1994 ("the Regulations"). In addition, the plaintiffs claim that the defendants did not notify the Athletes insured by them about the condition added to their policies and the curtailment of their rights, and in this it seems that the defendants did not act in good faith and contrary to section 55(A) of the Supervision of Financial Services Law, 1981. The plaintiffs estimate that the individual damages claimed against Harel Insurance amount to the difference between the compensation amounts stipulated in the policies (USD 500 a week) and the actual compensation paid, ex gratia (NIS 100 per week). The plaintiffs estimate the amount of the claim for all group members to be more than NIS 2.5 million.

21. In December 2012, a claim was filed against the subsidiary Harel Insurance and six other insurance companies ("the Defendants") in the Central District Court, with an application for certification as a class action. The contention of the class action claim is that in the context of the reforms implemented in the vehicle licensing branch by the Ministry of Transportation in 2007, the 1961 Transportation Regulations were amended, thereby changing the classification of leisure ATVs and mini-vans ("the Vehicles") to private vehicles. The plaintiffs claim that the defendants chose to continue to define the Vehicles as commercial vehicles, ostensibly in contravention of the provisions of the law. It is also claimed that in respect of vehicles manufactured after the reform was in place, i.e. from the year 2008 and on, the defendants changed their conduct and insured the Vehicles as private vehicles, thus, ostensibly creating discrimination. The plaintiffs claim that by classifying the Vehicles as commercial vehicles, even though they are classified by the Ministry of Transportation as private vehicles (M-1), the defendants allegedly collect higher insurance premiums than they do for private vehicles. The plaintiffs estimate the amount of the claim for all group members at a sum exceeding NIS 105 million.

Note 7 - Contingent Liabilities and Commitments (cont'd)

A. Contingent Liabilities (cont'd)

22. In December 2012, a claim was submitted against the subsidiary Harel in the Aviv District Court, together with an application for certification as a class action. The contention of the claim is that Harel ostensibly pays the monthly LTC insurance benefit to customers insured under a group policy of the Israel Teachers Union ("the Policy") according to the CPI known at the beginning of the month, rather than the CPI known at the date of payment. In addition, it is claimed that Harel ostensibly pays the LTC benefit without linking it to the base CPI given in the Policy, but rather to a CPI that was published two months later, and this, ostensibly, in breach of the provisions of the Policy. The plaintiff estimates the personal damages at a nominal amount of NIS 251. The plaintiff does not mention the total sum that it claims for the entire group.

23. In January 2013, a claim was filed against the subsidiary Harel Insurance, the Israeli Pool of Motor Insurers ("the Pool") and 13 additional insurance companies in the Central District Court, together with an application for certification as a class action. The plaintiff argues that the compulsory motor insurance issued to it by the Pool specifies the commencement of the policy period together with an exclusion to the effect that the policy will not come into force before the compulsory insurance certificate is actually paid. The plaintiff claims that when an insured customer pays the full premium shown on the insurance certificate after the stipulated date has passed, the Pool also collect a premium for the period elapsing between the time stipulated in the certificate and the actual time of payment at the bank, when the certificate is actually issued, and this without providing any insurance cover for this period and without returning the relative part paid for the period during which no insurance coverage was provided. According to the plaintiff this is a case of residual insurance provided through co-insurance of all insurance companies providing compulsory motor insurance in Israel (according to the names of the insurance companies noted in the insurance certificates along with the percentage of each insurance company's participation), and each insurance company is therefore responsible only for its own relative part. The plaintiff estimates the amount of the claim for all group members that it wishes to represent at NIS 45 million, and a sum of just NIS 3 million against the Pool alone.

24. In March 2013, an action was filed in the Tel Aviv District Court together with an application for its recognition as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel rejects requests by third-parties for payment of insurance benefits (which the policyholders are entitled to receive) due to a lack of cooperation by the policyholders and/or notice given by them, and this ostensibly in contravention of the provisions of Section 68 of the Contracts (Insurance) Law, 1981, provisions of circulars published by the Commissioner of Insurance (Non-life insurance circular 1998/8) and the provisions of the Law. The personal loss claimed by the plaintiff amounts to NIS 3,599. According to the plaintiffs, the total loss claimed by the plaintiff for all members of the group amounts to NIS 35 million.

Note 7 - Contingent Liabilities and Commitments (cont'd)

Claims which have filed after the Reporting Period

25. In May 2013, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel ostensibly refrains from paying insurance benefits to its policyholders together with linkage differences and interest, from the date of occurrence of the insured event up to the payment date of the insurance benefits. In this class action, the plaintiff seeks to represent any person who filed a claim for insurance benefits from Harel Insurance over the last seven years and did not receive linkage differences and/or interest. The total loss claimed for all members of the group amounts to sums varying from NIS 168 million to NIS 800 million.

26. In May 2013, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel ostensibly refrains from paying linkage differences and interest on the insurance benefits it pays to its policyholders, in respect of the period from the date of occurrence of the insured event and up to the payment date of the insurance benefits, allegedly in contravention of the provisions of Section 28(A) of the Contracts (Insurance) Law. In this class action, the plaintiff seeks to represent any person who has filed a claim for insurance benefits from Harel Insurance over the last three years and did not receive linkage differences and/or interest. The total loss claimed for all members of the group amounts to NIS 60 million.

Note 7 - Contingent liabilities and commitments (contd.)

a. Contingent liabilities (contd.)

Table summarizes

The following table summarizes the amounts claimed as part of the contingent applications for the approval of class actions, actions that were approved as a class action, and other significant claims against the Company and/or subsidiaries, as specified by the claimants in the suits they filed. It should be clarified that the amount claimed does not necessarily constitute the amount of exposure estimated by the Company, given that these are the claimants' estimates and they will be investigated during the litigation process. The table consists updates which occurred in suits after the reporting period.

Type	Amount of claims	Amount claimed NIS thousands
Class certified a class action:		
amount pertaining to the Company and/ or subsidiaries	1	71,731
Prosecution refers to several companies and was allocated a specific amount of the company and/ or subsidiaries	0	
Claim amount is not specified	0	
Pending requests for approval of class actions:		
amount pertaining to the Company and/ or subsidiaries	17	3,913,350
Prosecution refers to several companies and was allocated a specific amount of the company and/ or subsidiaries	6	2,436,390
Claim amount is not specified	2	
Other significant claims	2	296,782

The total provision amount of claims filed against the Company and / or consolidated companies, as described above amounts to about to NIS 21.9 million (at December 31,2012 an amount of NIS 17.8 million)

b. Other contingent liabilities

1. In June 2004, a claim was filed with the Tel Aviv District Court and an application to approve it as a derivative claim against the subsidiary Yedidim Holdings Management (1994) Ltd. (hereinafter: "Yedidim"), the former Chairman and CEO of Yedidim, and against an additional subsidiary, Harel Pension Funds Management Services (1987) Ltd., which is the controlling shareholder in Yedidim by the minority shareholders Leatid Pension Fund Management Ltd., a subsidiary of Yedidim (hereinafter: "Leatid") for an amount of NIS 15,605 thousand. The subject of the claim is compensation to Atidit Pension Fund Ltd. (hereinafter: "Atidit"), a pension fund managed by Leatid, for the use of Atidit's various resources, such as: the use of the operating infrastructure and reputation, the use of Adidit property, for taking a continuing pension fund and the loss of profits. The hearing on the file is in the stage of summaries in the application to approve the claim as a derivative claim. In addition the plaintiffs claim commissions of NIS 3,177 thousand in the framework of their personal claim.

   On July 29, 2010, after interrogations had been conducted and written summaries had been submitted as part of the application to approve the derivative claim, the Court accepted the application and granted the claimants the option of suing the defendants in Leatid's name in respect of rights which they claim Leatid is entitled to.

   Yedidim's management is of the opinion, based on the opinion of its legal advisors, that the chances of the application to appeal being accepted or the derivative claim being rejected outright are greater than the chances of the action being accepted (and the appeal being rejected). Regarding the alleged entitlement of the minority shareholders group to on-going commissions by virtue of agreements that Yedidim had with them, appropriate provision has been made in the financial statements.

Note 7 - Contingent liabilities and commitments (contd.)

c. Claims which have been completed

1. In February 2011, a claim was filed in the Tel Aviv District Court against the subsidiary Harel Insurance and five other insurance companies, together with an application for its certification as a class action.

   The subject of the action concerns allegations that when an insured event occurs, the respondents allegedly do not compensate their comprehensive motor insurance policyholders in respect of an impairment of value that reflects the damage caused to the vehicle in market terms, but compensate them in respect of a technical impairment of value that, allegedly, is not based on market conditions and is less than the real impairment. The claimants allege that the respondents do not clarify this to the policyholder before the insurance is purchased, and they therefore, inter alia, mislead the policyholder, allegedly violate the duty of disclosure, allegedly breach a statutory obligation, and ostensibly practice unjust enrichment .

   The claimants employ three methods to calculate the amount of the claim against Harel Insurance, according to which the claim ranges from NIS 190 million to NIS 253 million.

   On June 10, 2012, the District court approved the plaintiffs' request to abandon their claim, thus bringing it to an end. In the context of the approval of abandonment, the court determined that the fees paid to the plaintiffs' attorney shall be NIS 30 thousand, the remuneration paid to the class action plaintiffs shall be NIS 15,000 and the reimbursement of legal expenses shall be NIS 15 thousand. The plaintiffs have appealed to the Supreme Court claiming that the amount awarded for legal fees, expenses and remuneration was exorbitant.

2. In January 2009, a legal action and an application for its certification as a class action was filed with the Tel Aviv District Court against the subsidiary Dikla. The subject of the legal action is the allegation that Dikla allegedly continues to collect a premium from insured customers in LTC policies even after the occurrence of the insured event, and after the end of the insurance cover and even after the death of the insured. In addition it was alleged that Dikla continued to collect premiums for suitable LTC policies in the period that proceeded July 2009, despite the fact that the quota of LTC benefits had been fully paid for ("the Third Cause"). The plaintiffs estimate the amount of the personal claim at NIS 3,600 and the amount of the claim for all members of the group at NIS 1.3 billion. On November 18, 2012, the District Court approved the plaintiffs’ application for abandonment of the claim in regard to the two first causes, and on January 16, 2013, the Court also approved their abandonment of the third cause, thus bringing the claim to its end.

3. In May 2012, a claim was filed against the subsidiary Harel and against the Tax Authority ("the Defendants") in the Tel-Aviv District Court, together with an application for its certification as a class action. The class action claim alleges that the defendants ostensibly prevent the withdrawal of money from a life assurance policy recognized as a provident fund, without the deduction of taxes for the months preceding the date on which a declaration of low income was filed under Regulation 34 (B) of the 1964 Income Tax Regulations ("the Regulations"). The plaintiff claims that said Regulations should be so interpreted as to bar withholding of tax at source even for months that preceded the date of the declaration required in the Regulations, and this despite the fact that the Regulations do provide that option for the month in which the declaration has been submitted and the two months after the declaration has been submitted. The plaintiff claims that his personal damages are NIS 7,700 because of funds he was prevented from withdrawing in December 2010, to which one should add management and other fees, and NIS 8,211 because of funds he was prevented from withdrawing in November 2011, to which one should add management and other fees. On January 23, 2013, the Tel Aviv District Court issued a verdict dismissing the application for certification as a class action, given that Harel adhered to the instructions of the Tax Authorities and acted according to its directives at all times. The plaintiff appealed to the Supreme Court on this verdict.

Note 7 - Contingent liabilities and commitments (contd.)

b. Claims which have been completed (contd.)

4. In December 2008, a claim was filed with District Court of Tel Aviv against Harel Insurance (consolidated company) together with a request to recognize it as a class-action suit. The claim's premise is, that Harel Insurance, apparently avoided paying third parties in vehicle property insurance issues, the full amount of assessors' professional fees paid by a third party, and in lieu, pays professional fees at amounts which it determined to be sufficient for the professional opinions. The claimant notes, that he does not have the appropriate resources in order to evaluate the size of the group and the claimed compensation. Based on various assumptions, the claimant estimates that the amount of damage to all members of the group, which he wishes to represent, is NIS 33 million.

   On December 8, 2011, the opinion of the Commissioner of Insurance was submitted to the court, in which the Commissioner states, inter alia, that an insurer may refuse to accept the request for payment of the full assessor's professional fee, if it is of the opinion that the professional fees are more than reasonable and more than the generally accepted rate. Likewise, in his response, the Commissioner requests that the claim should not be certified as a class action, as it is not suitable to be heard as a class action, since the grounds for the claim are not included in the Schedule to the Class Actions Law. On February 21, 2013 the court approved the plaintiff's request to withdraw his request to recognize the suit as a class-action suit and to reject his personal suit, determining, that there is no cause and that the suit is not appropriate to conduct as a class-action suit. With this the claim was ended.

5. In January 2012, a claim and an application for its certification as a class action were filed in the Tel Aviv District Court against Harel Pension Fund Management Ltd. ("Harel Pension"). The subject of the action is that Harel Pension ostensibly makes provision from the amounts that it collects from members who are unmarried or widowed or single parents (including divorced parents) with children over the age of 21, who are in the general track of the pension funds that it manages, of amounts in respect of insurance cover for "death and disability risks" ("survivors' insurance" or "survivors' coverage") thus infringing upon the amount that is accrued to the credit of those members in the pension savings. The plaintiff estimates the total loss claimed for all members of the group at NIS 89,489,400. On February 21, 2013 the court approved the plaintiff's request to withdraw his request to recognize the suit as a class-action suit and to reject his personal suit. With this the claim was ended.

Other Contingent liabilities which have been completed

On September 15, 2010, LeAtid filed an action with the court by way of an originating summons with an application to recognize LeAtid as an entity entitled to restructure Atidit Pension Fund Ltd., and to determine that the change of Atidit Pension Fund's name in the Companies Register in 2006 is invalid. The respondents to the originating summons are the minority shareholders Mr. Abraham Sachs and Mr. Israel Meiri, the Superintendent of the Capital Markets Division at the Ministry of Finance, and the Companies Registrar ("the Defendants"). A verdict awarding all of the requested reliefs was given on February 6, 2013. The defendants were also required to pay costs in the sum of NIS 117,000.

Other Contingent liabilities which have been completed after the Reporting Period

In December 2012, a claim was filed against the subsidiary Dikla in Ashdod Magistrates Court, together with an application for certification as a class action. The contention of the class action claim is that Dikla ostensibly did not inform customer insured with a "group LTC policy for "Clalit Mushlam" members ("the Policy") of the existence of a new policy that replaced the previous policy and changed its terms (as far back as June 1, 2004) ("the New Policy"). These change included a new definition of entitlement to receive LCT benefits, which now includes the mentally frail. In addition, it was claimed that since Dikla did not notify its policyholders of their right to receive coverage under the new policy, they were ostensibly deprived of the option to receive insurance benefits on relevant dates, so that Dikla unjustly enriched itself. The plaintiffs estimate the personal damages for the plaintiffs at NIS 140 thousand. The damages claimed for all group members are estimated by the plaintiffs to be about NIS 278 million.

Note 7 - Contingent liabilities and commitments (contd.)

D. Commitments

1. Transaction with the Lloyd's syndicate Broadgate

On December 24, 2012, the Company's Board of Directors and the Board of Directors of Harel Insurance approved the renewal of the contract with Lloyd's Broadgate syndicate for the 2013 underwriting year. Harel will continue to share 10% of Broadgate's insurance portfolio in 2013. According to the business plan presented Harel Insurance by Broadgate, the expected volume of premiums for the 2013 underwriting year is about GBP 920 million. Accordingly, Harel Insurance's share is expected to be GBP 92 million. In the context of the renewal of its contract with Broadgate, Harel Insurance increased the bank guarantee provided Lloyd's by GBP 1.4 million and summed up to GBP 8.2 million. At the reporting period, the premium listed in Harel Insurance was in the sum of NIS 20.5 million.

2. Atidit Pension

Pursuant to several corrections which were made in 2011 and 2012 in the financial statements of LeAtid Pension, in which context comparison figures for previous periods were restated, most of the corrections related to an actuarial deficit in the rights of the fund members. Consequently, on December 9, 2012, the Commissioner appointed a special supervisor for the fund under Section 68(A)(4) of the Supervision of Financial Services (Insurance) Law, 1981. The special supervisor will function by virtue of the powers conferred upon him in Section 71 of the aforementioned law. As part of his duties, the Commissioner is reviewing a range of activities by Atidit in various sectors. At this stage, the findings of this review are not final and it is impossible to estimate whether the findings, insofar as there are any, will affect the reporting of Atidit and/or LeAtid.

The restatement in the financial statements of Atidit and the actuarial deficit of Atidit does not affect the financial results of LeAtid or the Company, given that the Pension Fund's assets are not included in the financial statements of LeAtid or the Company. On a judgment by the District Court, accepting a claim for declarative relief filed by LeAtid concerning a restructuring of the pension fund as required under the Supervision of Provident Funds Law - see section C below.

3. EMI

On November 1, 2012, the Bank of Israel issued a directive limiting the financing rates (LTV) of residential loans, to be applied to loans that have been approved in principle commencing from November 1, 2012 and thereafter. The new directive is a continuation of previous measures introduced by the Supervisor of Banks in the residential credit market. The directive stipulates that a banking institution may not approve a residential loan (mortgage) with LTV rates of more than 70%, except for residential loans intended for purchasing the borrower's only residential unit, which may enjoy LTV rates of up to 75%. The directive also prohibits banking corporations from approving loans intended for the purchase of apartments for investment purposes at LTV rates of more than 50%.

During the Reporting Period EMI recorded a new premium of an insignificant amount and it is not expected to record any significant premium as long as the provision remains in force. The format of EMI's operations was adjusted to the existing scope of activity, at the same time continuing to deal with policies which are in force and maintaining the company's ability to resume underwriting and policy issue activity.

Note 7 - Contingent Liabilities and Commitments (cont'd)

D. Commitments (contd.)

3. EMI (contd.)
   In view of the profit recognition mechanism described above, and with consideration for the need to adjust the expected volume of activities, the impact on the current profitability of EMI in the near future is not expected to be material.

4. Reform of management fees of long-term savings product
   Further to the information in Note 42 to the Company's financial statements at December 31, 2012 concerning the reform of management fees on long-term savings products, the maximum management fees collected from the provident funds were revised to 1.1% (and they are expected to be revised again to 1.05% on January 1, 2014). Concurrently, the provident fund management companies began to collect management fees from the deposits for some of the accounts. As a result of the foregoing, management fee revenues from provident funds declined, relative to the corresponding period last year, and consequently, the profitability of provident fund activity was eroded .
   Based on an economic paper to review the impairment which Harel Insurance prepared at December 31, 2012, Harel Insurance reviewed the recoverable amount of the provident activity at March 31, 2013. Accordingly, it was found that the recoverable amount is higher than the carrying amount.
   Implementation of the reform affects on-going profits and the embedded value (EV) in respect of new life insurance policies that are sold by Harel Insurance.

5. Reduction of distribution fees collected from fund managers with corresponding reduction in management fees collected from unit holders.

   On July 3, 2012, the ISA presented a proposal paper for public comments (to be submitted by August 19, 2012), which proposes the following:

   (a) To reduce the maximum distribution fees collected from fund managers by distributors who are not investment marketers (mainly banks), as follows:
   Equity funds (Class 2) for which the current maximum distribution fees are 0.8% will be merged for this purpose with the residual category (Class 3) for which the present distribution fees are 0.4%, to create a single residual category, for which the maximum distribution fee will be 0.35%.
   The maximum distribution fees for short-term bond funds/low-risk funds (currently Class 1) for which the current maximum distribution fees are 0.25%, will reduced to 0.2%.
   The maximum distribution fees for money-market funds will be reduced from 0.125% to 0.1%.

   (b) In parallel with the introduction of said amendment in regard to distribution fees, fund managers will be obligated to reduce the salaries of fund managers to a level that will reflect the full payments saved as a consequence of the reduction in distribution fees that they pay to said distributors. Notwithstanding this provision, fund managers will be entitled to collect management fees in a way that does not fully embody said reduction, in cases where the management fees collected are not more than 10% higher than the maximum distribution fees according to their new proposed rates. The proposed reduction will remain in force for a period of six months, during which the fund manager’s salary may not be increased. This limitation will subsequently be removed on the assumption that free competition will lead management fees to stabilize on a significantly lower level than is currently accepted.

   The proposal was transferred to the Knesset Finance Committee for approval in October 2012.

   The Company believes that the foregoing will not have any material impact on its financial status, the results of its operations or its cash flows.

Note 7 - Contingent Liabilities and Commitments (cont'd)

D. Commitments (contd.)

6. Agreement to purchase half the rights in a Raanana property

On January 21, 2013, the Company's subsidiaries that are financial institutions ("the Subsidiaries") contracted with Blue Square Real Estate Ltd. ("BSLR"), to acquire half of BSLR's rights to a property on about 1.1 hectares known as part of plot 4 in block 7657, in the north industrial zone of Raanana ("the Land"). The Subsidiaries and BSLR intend to construct an office block on the Land ("the Offices") which subject to its completion will be leased in advance to a third party for a period of 10 years with an option for five additional years.

In the context of the transaction, the parties signed a purchase agreement, whereby the Subsidiaries will purchase 50% of the rights to the Land from BSLR, and a partnership agreement arranging the relationships between the parties as the joint owners of the Land, including the equal sharing of the Offices planning, erection, marketing, management and operational costs.

The Offices will include about 25,500 sq.m for rental on 16 floors (about ground), and 866 parking spaces. There are additional building rights on the land according to a valid urban plan, which have not been utilized in the first stage.
The Subsidiaries are expected to invest NIS 143 million in the project, where 30% is for the Nostro portfolio and the rest is for yield-dependent liability portfolios.

The transaction is not expected to materially impact the operational results of the Company and/or the Subsidiaries.

7. Harel Finance Trade

On March 18, 2013, Harel Institutional Trade announced the suspension of its operations, effective from March 31, 2013. The volume of activity of Harel Institutional Trade, which commenced operations on December 1, 2012, is negligible in terms of the Company, so that suspension of its operations does not affect the Company's financial results.

8. Agreement to acquire rights in the Ir Yamim mall

On March 27, 2013, subsidiaries of the Company that are financial institutions ("the Subsidiaries") entered into agreement to acquire all the rights of a second-tier subsidiary of Azorim Investment in Development & Construction Ltd., Shikun U'Pituach LeIsrael Ltd. ("Azorim"), in land and a mall in Netanya's Ir Yamim neighborhood ("the Property").

The total consideration to be paid for acquisition of the Property is NIS 390 million plus VAT at the lawful rate, plus linkage differences on the CPI ("the Consideration"). Payment of the consideration will be allocated according to the dates stipulated in the agreement between the parties, and it is subject to various adjustments.

Completion of the transaction is subject to meeting several conditions precedent, including not exercising the right of first refusal granted to Shikun U'Pituach to acquire Azorim's share of the Property, obtaining approval from the Antitrust Authority (insofar as this is necessary), and obtaining permits in connection with the Property. Shikun U'Pituach did not exercise the right of first refusal and its option has therefore been terminated.

Insofar as the transaction is completed, it is principally for yield-dependent policies which are managed by the Company's subsidiaries. Consequently, implementation of the transaction, insofar as it takes place, is not expected to significantly affect the financial results of the subsidiaries or the Company.

Note 7 - Contingent Liabilities and Commitments (cont'd)

D. Commitments (contd.)

9. Group LTC policy for members of Clalit Health Services HMO via Dikla

   On the basis of a 1998 agreement, Dikla provides group LTC insurance to customers of Clalit Health Services ("Clalit") who chose to join the LTC Insurance plan ("Supplementary LTC Plan"). The Supplementary LTC Plan is organized so that most of the insurance risk is covered by the Plan's reserves rather than the insurer. The policy is extended from time to time, and at the date of this report it is in force until December 31, 2013, at which time Clalit has the right to terminate the agreement by giving 60 days' notice.

10. Extension of a special reinsurance agreement with National Indemnity

    On January 3, 2013, Harel Insurance renewed its exclusive Quota Share reinsurance treaty with the National Indemnity Company (NICO), which is a leading company in the insurance segment of Berkshire Hathaway. According to the Quota Share reinsurance agreement, originally signed in December 2008, NICO reinsures 20% of the retention in all general (non-life) insurance sectors (but not healthcare and life assurance), including the liability branches of the Harel Group. The agreement applies to all the insurance business recorded from January 1, 2009.

Note 8 - Management and capital requirements

1. Management's policy is to maintain a stable capital base in order to safeguard the Group's ability to continue operations so as to be able to achieve yields to its shareholders and in order to support its future business operations. The institutional bodies, the management companies, are consolidated in the financial statements and the mutual funds subject to regulatory capital requirements.

2. The following is data regarding the required and existing capital of the subsidiaries which are insurance companies according to Supervision Regulations of Insurance Businesses (Minimum Shareholders' Equity required from an Insurer) - 1998 (hereinafter: "the Capital Regulations") and the Supervisor's directives:

	March 31 2013			December 31 2012		
	Harel Insurance	EMI	Dikla	Harel Insurance	EMI	Dikla
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Amount required according to new capital regulations and the Supervisor's instructions (A)	**4,510,086***	**166,383**	**374,053**	4,257,709*	172,004	356,883
Including:						
Primary capital	**3,451,226**	**477,769**	**399,565**	3,313,713	464,305	369,384
Secondary capital						
Subordinated secondary capital	**611,288**	**-**	**-**	687,846	-	-
Complex secondary capital	**926,306**	**-**	**99,795**	926,002	-	99,790
Complex thirdary capital	**360,408**	**-**	**-**	250,835	-	-
	1,898,002	**-**	**99,795**	1,864,683	-	99,790
Existing amount computed according to capital regulations	**5,349,228**	**477,769**	**499,360**	5,178,396	464,305	469,174
Surplus	**839,142**	**311,386**	**125,307**	920,687	292,301	112,291

a. The amount required including, inter alia, capital requirements in respect of:

	March 31 2013			December 31 2012		
	Harel Insurance	EMI	Dikla	Harel Insurance	EMI	Dikla
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Primary capital required in general insurance	**596,625**	**166,383**	**88,595**	587,143	172,004	88,582
Activities in nursing insurance	**68,909**	**-**	**137,774**	68,083	-	130,208
Capital requirements for yield secured programs	**45,656**	**-**	**-**	46,834	-	-
Investment assets and other assets (b)	**952,448**	**-**	**33,198**	963,503	-	31,975
Catastrophe risks in general insurance	**147,303**	**-**	**-**	151,336	-	-
Operating risks	**284,467**	**-**	**42,792**	275,387	-	41,351
Deferred acquisition expenses in life assurance and health insurance and acquisition expenses	**961,535**	**-**	**70,455**	941,614	-	63,945
Investments in consolidated companies and management rights of provident	**1,108,281**	**-**	**-**	916,633	-	-
(extraordinary life assurance risks (c	**292,117**	**-**	**1,166**	260,390	-	771
(Assets unrecognized as their definitions in capital regulations (d	**52,745**	**-**	**105**	46,786	-	52
	4,510,086	**166,383**	**374,085**	4,257,709	172,004	356,883

Note 8 - Management and capital requirements (contd.)

2. (contd.)

* On October 24, 2011, Harel Insurance received the Commissioner's approval to reduce its minimum required equity due to the balance of the original difference attributed to the management companies and provident funds, as defined in Article 5 of the Capital Regulations, by 35% of the balance of the original difference, as of the financial report at December 31, 2011. Notwithstanding the aforesaid, the approval received by Harel Insurance also stipulated that this reduced amount shall be added to the calculation of the required equity ("Supplement to the Required Equity") for the purpose of distributing a dividend.

The Commissioner's approval will be cancelled when the capital requirements according to the first pillar of the Solvency II directive takes effect, which will replace the Capital Regulations. This reduction, which is included in the calculation of the capital required of Harel Insurance, amounted to NIS 212 million at March 31, 2013.

b. The capital requirements of assets for a total value of NIS 546 million in Harel Insurance and NIS 21 million in Dikla, which were rated in an internal rating and according to the directive of the Ministry of Finance, use must be made of the non-rated "category" in order to calculate the capital requirements. The capital requirements for these assets aggregated a total amount of NIS 60 million in Harel Insurance and an amount of NIS 2 million in Dikla.

c. A capital requirement at a rate of 0.17% of the amount at risk in the self-retention, but no less than the requirement on the date of the transfer. The capital requirement for Harel Insurance is for an amount of no less than NIS 190 million.

d. Including an unrecognized assets in an insignificant amount, in respect of a passive exceeding, which was not approved in the investment regulations - the holding of an asset in a foreign country which was unapproved.

e. After the date of the report, subordinate tier-2 capital in the amount of NIS 22 million was derecognized due to the fact that its repayment period was less than two years.

Apart from the general requirements that appear in the Companies Law, the distribution of a dividend out of the capital surpluses in insurance companies is also subject to liquidity requirements and compliance with the regulations in respect of the manner of the investment.

3. Subject to the existence of certain circumstances, as detailed below, the Company has undertaken, within the framework of the license that was granted to it by the Commissioner, for the control over subsidiary companies that are insurers, or management companies of provident funds and pension funds. For the subsidiary companies which are insurers the obligation is to top-up the shareholders' equity that is required of the consolidated insurance companies up to 50% of the shareholders' equity that is required in accordance with the regulations, but in no event more than NIS 537 million (linked to the index that was published in June 2006), in respect of Harel Insurance, NIS 65 million (linked to the index that was published in June 2006), in respect of Dikla and NIS 45 million (linked to the index that was published in October 2009), in respect of EMI. The commitment is in force so long as the Company is the controlling interest in the insurance companies and it will only be exercised if the shareholders' equity of the insurance companies becomes negative. Moreover, the Company has made a commitment in connection with the topping up of the required shareholders' equity of the affiliated company ICIC, up to 50% of the shareholders' equity that is required in accordance with the regulations and in an amount that will not exceed NIS 30 million (linked to the index that was published in January 2006), where this amount relates to the joint commitment together with the other two controlling interests in ICIC (Euler Hermes and Agricultural Insurance). Regarding subsidiaries that are managing companies of provident funds and pension funds, their obligation is to complete the necessary equity in accordance with the equity regulations that will apply from time to time.
   As of the date of these financial statements, the institutional bodies in the Group are in compliance with the capital regulations.

Note 8 - Management and capital requirements (contd.)

4. On February 16, 2012, Control of Financial Services (Provident Funds) (Minimum Equity Required of a Provident Fund or Pension Fund Management Company) Regulations, 5772-2012, were published. The regulations prescribe that the initial equity required of a management company shall be NIS 10 million, and the minimum equity required of a management company at the date of the report (annual and quarterly) shall be no less than the higher of the following amounts: (a) The initial capital required is NIS 10 million; (b) The aggregate amount of: 0.1% of the assets under management up to a maximum limit of assets under management of NIS 15 billion, 0.05% of the assets under management above the aforementioned limit, and 25% of the annual managed expenses.

   Pursuant to the capital regulations, a management company will be obligated, up to the publication date of the financial statements, to increase its equity in respect of the difference between the equity required immediately prior to the amendment and the equity required under the Capital Regulations (“the Difference”). The difference will be calculated for the entire period of the financial statements. The equity will be increased on the following dates and at the following rates:
   Up to publication of the financial statements at March 31, 2012 - at least 30% of the difference;
   Up to publication of the financial statements at December 31, 2012 - at least 60% of the difference;
   Up to publication of the financial statements at December 31, 2013 - at least 80% of the difference;
   Up to publication of the financial statements at December 31, 2014 - the difference must be made up in full.

   At the date of publication of the financial statements, the Group’s management companies are in compliance with the relevant capital requirements.

5. On June 2012, the Knesset Finance Committee approved the Control of Financial Services (Provident Funds) (Investment Rules that apply to management companies and insurers) Regulations, 2011. Article 33 of the Investment Regulations concerning "Control and Holding the Means of Control by an Insurer", prescribes, inter alia, capital requirements with respect to an insurer's holdings in management companies. Most of the reduction in the equity required from the Group's pension fund management companies will also reduce the equity required of Harel Insurance. Commencing from application date of the Regulations, half of the deferred acquisition costs of the management companies that are created from that date will create a capital requirement for Harel Insurance. The second half may be held against loans or capital surplus only. The new Investment Regulations came into force in July 2012.

6. In the context of the Commissioner's approval of Harel Insurance acquisition of provident fund activities, it was agreed that the amortized balance of the acquisition costs will be added as a capital requirement and presented in the assets and liabilities report against the minimum equity. See Section 2 above in regard to the benefit received for this.

7. On February 13, 2013, the Commissioner's approval was received regarding the equity requirements for Harel Insurance Company Ltd. for the acquisition of the life insurance segment from Eliahu Insurance Company Ltd. (see Note 43 below for additional details relating to the acquisition of the life insurance segment from Eliahu). Accordingly, the equity requirement will be calculated as follows: (a) the acquisition cost less the expected tax benefit capitalized to the time of purchase. The present value of the tax benefit is estimated at about 30% of the acquisition cost; (b) the ordinary capital requirements arising from the acquired portfolio under the Capital Regulations (Reserve for extraordinary risks, investment assets and operational risks). The total capital that Harel Insurance will be required to provide for said transaction, commencing from 2013, is expected to be approximately NIS 260 million.
   This requirement will be lessened in the future, in line with the amortization of the acquisition cost which is amortized in accordance with the future profit embedded in the acquired activity.

Note 8 - Management and capital requirements (contd.)

8. On November 13, 2011, the ISA published a document "Principles of the model for the supervising index-linked certificates" that examines the supervisory model put forward by the ISA with respect to the method in which index-linked certificate companies manage their risks and the implications of the various risks for the allocation of capital required of the company. According to the document, in addition to the impact of the different risks present in the Company's operations on the allocation of the capital it is required to hold, investment standards will also be established (as part of the regulations to be promulgated in Amendment no. 16) for the index-linked certificates, that will limit the existing risks in this regard. After the supervisory model has been approved, and until the subject is regulated as part of Amendment no. 16, the ISA intends to instruct the issuers of index-linked certificates to report their capital allocation to investors according to the parameters in the capital allocation model, by way of applying an "adopt or disclose" obligation. The supervisory model is expected to include the following principles:

    1. A requirement to allocate equity in proportion to the actual risk level and the volume of the managed asset starting at NIS 30 million.
    2. The market risks will be measured and estimated using the VaR (Value at Risk) model and extreme scenarios.

    In addition to the allocation of equity, a series of principles was prescribed which are designed to encourage conservative investment policy by index-linked certificate managers, to be written into legislation and the directives of the Securities Authority. These principles include, among others, the regulation of investment rules for assets used for covering index-linked certificates and reporting rules to the ISA and the trustee, enhancing the status of the watchdogs, and particularly strengthening the position of the trustee, and imposing more obligations relating to authorizations to be given by the board of directors and investment committee, similar to the supervisory regime which applies to mutual funds.

    Following application of the model, as above, the equity requirements defined by the model increased from a fixed amount of NIS 36 million, to the sum of NIS 43 million at December 31, 2012 and to the sum of NIS 60 million at March 31,2013.

    At March 31, 2013, Harel Sal is in compliance with the capital requirements derived from the model. In January and March 2013, Harel Sal issued finance products in the form of capital notes in the cumulative amount of NIS 20 million, in view of the expected increase in required capital resulting from the increase in the volume of its assets and activity.

9. Subsidiaries which manage mutual funds and investment portfolios are obligated to hold minimum equity in accordance with the directives of the Israel Securities Authority. The companies work continuously to comply with this requirement. At March 31, 2013, the subsidiaries are in compliance with these requirements.

Note 8 - Management and capital requirements (contd.)

10. The proposed Solvency II Directive ("the Directive") constitutes a fundamental, comprehensive change in the regulations pertaining to guaranteeing the adequacy of the capital of insurance companies. The purpose of the directive is to protect the money of policyholders, to enhance the integration between markets and to increase competition in this sector. The circular on the deployment for Solvency II, which was published in July 2008, is designed to ensure that the insurance companies in Israel make the necessary preparations to implement the Directive. In accordance with the directive's requirement, a steering committee has been established under the leadership of a risk manager responsible for preparing the Company for the implementation of Solvency II. Each quarter, the steering committee and the Board of Directors' committee monitor the Company's preparations for the implementation of the directive.
    On September 9, 2012, the Commissioner issued a letter regarding the Israeli solvency regime. In view of concerns implementation of the directive in Europe may be postponed, the Commissioner announced that he will continue to formulate a solvency regime for Israeli insurance companies, which will not adhere to the progress of the process in Europe, but will be based on the principles of the directives with appropriate adjustments for Israel. The letter included a number of measures that insurance companies are required to take:

A. Additional submission of a regulatory IQIS evaluation survey based on the data presented in the 2011 balance sheets up to the end of December 2012, wherein additional details are to be presented by the end of January 2013.

B. Insurance companies are required to provide regular reports regarding their solvency according to IQIS, commencing from mid-2013, in addition to their regular solvency reports.

C. Submission of an Own Risk and Solvency Assessment (ORSA) report, wherein the guidelines for carrying out the assessment will be published in December 2012. An ORSA report draft will be submitted by the end of 2013, after its findings are discussed by the Board of Directors. The final report will be submitted by the end of 2014.

On December 17, 2012, the Commissioner issued a directive for the implementation of IQIS on the basis of 2011 balance sheet data.
On January 31, 2013 The Company filed the IQIS in accordance to the directive provisions.
The Company continues to follow the Commissioner's directives in its deployment to implement the requirements included as part of the tier-2, which focuses on upgrading the risk management system, controls and corporate management.

Note 8 - Management and capital requirements (contd.)

11. On December 2011 the Commissioner published a letter extending the validity of the restrictions on dividend distribution, as follows: An insurer may apply to the Commissioner requesting permission to distribute a dividend provided that the ratio of the company's recognized equity to required equity is at least 105%. An insurer with a ratio of recognized equity to required equity, after distribution of the dividend, of at least 115% may distribute a dividend without first obtaining the Commissioner's approval, provided that it informs the Commissioner in advance and submits the documents specified in the letter.

    A reduction of the minimum equity required on account of the balance of the original difference attributed to management companies and provident funds will be added to the capital requirement for distribution of a dividend (hereinafter - 'supplement to the required equity) (see also section 2 above).
    To obtain the approval, the insurer must submit an annual profit outlook for two consecutive years, a debt servicing plan approved by the board of directors of the company and the insurance company's holding company, a plan of action for supplementing its capital, and a copy of the minutes of the board of directors' meeting at which the distribution was approved.

    In addition, the Commissioner sent a letter to managers of the insurance companies concerning the monitoring and management of equity, in an effort to ensure that a procedure is constantly in place for reviewing and monitoring the insurance companies own management, against the backdrop of fluctuations in the financial markets. Pursuant to the letter, insurance companies must report to the Commissioner on the state of their equity situation each month.

12. At meetings held on March 24, 2010 and June 15, 2010, the Board of Directors of Harel Insurance adopted a policy for management of its equity, based on the principles prescribed in the Commissioner's draft circular from December 28, 2009, concerning a plan of action for management of an insurer's equity.

    The equity policy of Harel Insurance comprises a range of provisions that define the method by which it manages its equity and capital surpluses at all times. The various pillars arise from the regulatory environment of Harel Insurance which determines that Harel Insurance will be able to distribute a dividend only after significant equity surpluses have been accumulated and from the aforementioned decisions made by Harel Insurance and Harel Investments whereby Harel Insurance will provide a regulatory equity surplus of at least NIS 150 million. Accordingly, it was decided that, at all times, Harel Insurance will strive to comply with the volume of equity recognized under the Capital Regulations, by an amount that is NIS 150 million higher than the capital requirement applicable to it from time to time, pursuant to the regulations. This means that below this level of equity surplus, Harel Insurance or the Company will take active measures to maintain the said minimum surplus.
    Furthermore, it was decided that reports would be submitted to the Board of Directors from time to time regarding compliance with the capital requirements and regarding developments that may affect Harel Insurance's compliance with the applicable capital requirements. The CFO was appointed as responsible for managing, monitoring, and reporting of capital requirements.

13. On March 23, 2010, the Board of Directors of Dikla adopted an equity management policy based on the principles prescribed in the Commissioner's draft circular from December 28, 2009, concerning a plan of action for management of an insurer's equity. Accordingly, it was decided that, at all times, Dikla will strive to meet the volume of equity recognized under the Capital Regulations, at a rate of 105% of the capital requirement that applies to it from time to time, pursuant to the aforesaid regulations. That is, below this rate, Harel Insurance or the Company will take action in order to maintain the minimal aforementioned capital rate.
    Furthermore, it was decided that reports would be submitted to the Board of Directors from time to time regarding compliance with the capital requirements and regarding developments that may affect Dikla's compliance with the applicable capital requirements. The CFO was appointed as responsible for managing, monitoring, and reporting of capital requirements.

Note 8 - Management and capital requirements (contd.)

14. On March 19, 2013, the Harel Insurance Board of Directors decided to distribute a cash dividend in the amount of NIS 100 million, under the green track. The Board of Directors' decision was made after taking Harel Insurance's results for December 31, 2012 into account. The sum of Harel Insurance's surplus suitable for distribution was presented as of December 31, 2012, and the capital surplus and capital requirements of Harel Insurance were examined in accordance with Harel Insurance's equity management policy. The dividend was paid on April 11, 2013.

15. At March 31, 2013, Turk Nippon had a shortfall of regulatory capital (according to capital requirements apply to Turk Nippon as an insurer operating in Turkey) of TL 4.8 million (NIS 9.4 million). The required supplement date according to the regulatory requirements is in the future and at the very latest during the end of 2013.

16. Concerning the raising of tier-3 capital by Harel Insurance during the reporting date, see Notes 9.

Note 9 - Financial liabilities

A. Details of financial liabilities

	March 31 2013 (Unaudited)	
	Book Value	Fair Value
	NIS Thousands	NIS Thousands
Financial liabilities, at amortized cost		
Loans from banks (1)	330,325	330,325
Loans from non-bank entities (1)	101,817	101,817
Short term credits from banks and others	52,148	52,148
Deferred notes (2)	2,159,824	2,384,045
	2,644,114	2,868,335
Financial liabilities at fair value, through profit and loss		
Loans from banks (3)	50,184	50,184
Derivatives	208,106	208,106
Short sales	62,567	62,567
	320,857	320,857
Total financial liabilities	2,964,971	3,189,192
Deferred notes, which are second tier capital	1,997,797	

(1) The loans are for short periods or with variable interest so that their fair value is close to their carrying amount.

(2) Subordinated promissory notes were revalued to fair value based on the price on the stock exchange at March 31, 2013. The average annual linked interest rates used to determine the fair value of non-marketable promissory notes is 2.27%.

(3) Harel Financial Products has arbitrage activity that is performed as part of the index-linked certificates assets (see also Section C(1) below). This activity includes the acquisition of contracts in lieu of the sale of underlying assets as well as the acquisition of underlying assets and the sale of contracts on these assets. Acquisition of the underlying assets is financed with bank credit. Harel Financial Products' policy with respect to this arbitrage is to fully hedge the transactions so that there is no exposure to the underlying assets.

B. Fair value hierarchy of financial liabilities presented at fair value via profit or loss

The table below analyses financial liabilities carried at fair value. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical instruments

Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly

Level 3: inputs that are not based on observable market data (unobservable inputs).

	March 31 2013 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks	-	50,184	50,184
Derivatives	19,156	188,951	208,107
Short sales	62,567	-	62,567
Total financial liabilities stated at fair vale through profit or loss	81,723	239,135	320,858

Note 9 - Financial liabilities (contd.)

C. Additional Information

1. Commencing in the second half of 2010, Harel Sal began arbitrage activities in the context of index-linked certificates for the TA-25 Index. These activities are carried out in regard to the index-linked certificates' assets, and include: purchase of contracts in exchange for the sale of underlying assets, acquisition of underlying assets and sale of contracts for such assets. The purchase of underlying assets is financed through bank credit. This is short-term credit, which is periodically renewed according to the activities being carried out. The average cost of credit is a margin of 0.5%-0.8% above the Bank of Israel interest rate. Underlying index-linked certificate assets were pledged to the bank as collateral for its credit. Harel Sal's policy in regard to said arbitrage activities is to fully hedge transactions in a way that avoids exposing underlying assets. At the report date, the balance of financial obligations for said activities is NIS 18 million.

2. With regard to the credit facility used by Harel Financial Products for its activities, Harel Financial Products has undertaken to meet the following criteria: (a) equity (as defined in the agreement with the bank) of no less than NIS 12 million. The equity amounted to NIS 63 million at March 31, 2013; (b) not to pledge assets; (c) not to issue loans to controlling shareholders or any other party, except for subsidiaries. At March 31, 2013, the balance of loans and credit taken by Harel Financial Instruments from the bank in the context of this commitment amounts to NIS 21 million.

3. In June and July, 2012, the subsidiary deposited a cumulative sum of NIS 185 million and NIS 75 million in Mizrahi-Tefahot Bank Ltd., for the purpose of covering Harel Sal's obligations towards the holders of units in TA-100 series 2 index-linked certificates and holders of units in series 7 TA-25 index-linked certificates. At March 31, 2013, the value of said transactions is about NIS 266 million, carried as an asset of NIS 265 million and a financial obligation of about NIS 1 million ensuing from a decline in the CPI during the period.
In October 2011, the Israel Securities Authority published an instruction whereby agreements that are similar to the agreement described above are subject to certain conditions and restrictions. Inter alia, the scope of new transactions will be limited to 25% of the volume of each series. Existing agreements that as of the effective date (October 31, 2011) did not exceed the limit determined for them (30%) were not required to make adjustments. The ISA's instruction was adopted by the Company in February 2012. At March 31, 2013, the subsidiary is in compliance with the provisions of the instruction.

4. Private Issue - Expansion of bond series 6 and 7

   As part of the completion of the acquisition of the life insurance segment of Eliahu Insurance by Harel Insurance on January 1, 2013 (for additional details regarding this transaction, see Note 43), the sum of NIS 110 million was paid out of the consideration paid through the issuance of subordinated promissory notes of Harel Issues from Series 6 and 7. Accordingly, a private allocation was made by expanding two bond series, in the amount of 48,326,287 par value (series 6 bonds) bonds registered in name of NIS 1 each, at the price of NIS 113.2 per each NIS 100 par value, and the amount of 49,107,143 par value (series 7 bonds) registered bonds of NIS 1 each, at the price of NIS 112.6 per each NIS 100 par value ("the Bonds (Series 6-7)" or "the Additional Bonds"). In addition, Maalot, the rating company that rates the Bonds (Series 6-7) has certified that the bonds will be rated "AA" according to the prior rating of these series.

Note 9 - Financial liabilities (contd.)

C. Additional Information (contd.)

5. Private Issue - Expansion of bond series 6 and 7

As part of the completion of the acquisition of the life insurance segment of Eliahu Insurance by Harel Insurance on January 1, 2013 (for additional details regarding this transaction, see Note 43), the sum of NIS 110 million was paid out of the consideration paid through the issuance of subordinated promissory notes of Harel Issues from Series 6 and 7. Accordingly, a private allocation was made by expanding two bond series, in the amount of 48,326,287 par value (series 6 bonds) bonds registered in name of NIS 1 each, at the price of NIS 113.2 per each NIS 100 par value, and the amount of 49,107,143 par value (series 7 bonds) registered bonds of NIS 1 each, at the price of NIS 112.6 per each NIS 100 par value ("the Bonds (Series 6-7)" or "the Additional Bonds"). In addition, Maalot, the rating company that rates the Bonds (Series 6-7) has certified that the bonds will be rated "AA" according to the prior rating of these series.

At March31, 2013, the outstanding amount of the promissory notes in series 6-7 is NIS 361 million.

6. Loan received by the Company from Financial Institution

In March 2013, the Company received a loan in the amount of NIS 100 million from a financial institution and associated financial institutions.
The loan was issued for a period of six years. It is linked to the CPI and bears a fixed interest rate. The principal will be paid in six unequal installments commencing from the end of the first year following receipt of the loan: about NIS 3.3 million annually during the first three years, then NIS 30 million during each of the fourth to sixth years.
The loan includes conditions whereby when certain events take place (significant change in the rating of Harel Insurance, financial ratios, etc.), the annual interest rate will be updated or a deposit will be made in favor of the lender.
The financial criteria established were: (a) ratio of the Company's separate financial debt to the investment rate in investees - 0.26 (at December 31, 2012, this ratio was less than 0.1); (b) ratio between the Company's own financial debt and its equity - 0.3 (at March 31, 2012, this ratio was less than 0.1); (c) a minimum rating of A- for Harel Insurance (on the report publication date, the rating was AA+); At March 31,2013, the Company is in compliance with the aforementioned financial covenant.

7. For information in connection with the financial covenants for significant loans from banks which the Company took, see Note 26 to the annual financial statements .
At March 31, 2013 the Company is in compliance with the financial covenants which were determined.

Note 10 - investment property for yield-dependent contracts

A. Fair value compared with book value

The book value (carrying amounts) of financial assets and liabilities for yield-dependent contracts corresponds with or is close to their fair value, excluding assets and liabilities for yield-dependent contracts presented by the provisions of circular 2-9-2009 in an adjusted cost. The book value of these assets at March 31, 2013 is NIS 454,401 thousand whereas the fair value of these assets at March 31, 2013 is NIS 485,119 thousand.

B. Fair value hierarchy of financial assets

The table below analyses the assets held against insurance policies and investment contracts carried at fair value by way of profit or loss. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

Level 3: inputs that are not based on observable market data (unobservable inputs).

	March 31 2013			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets	11,878,155	2,819	-	11,880,974
Non negotiable debt assets	-	4,300,997	90,291	4,391,287
Shares	3,561,022	-	476,492	4,037,514
Other	2,968,896	175,506	1,256,241	4,400,642
Total	18,408,073	4,479,322	1,823,023	24,710,418

C. Level 3 assets measured at fair value

	Measuring Fair Value on Report Date			
	Financial Assets at Fair Value through Profit and Loss			
	Non negotiable Debt Assets	Shares	Other financial Assets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Balance as at January 1, 2013	61,948	490,302*	1,198,764	1,751,014
Total profits (losses) recognized				
In statement of income	(1,266)	(12,740)	1,521	(12,485)
Interest and dividend receipts	(765)	(4,102)	(12,920)	(17,788)
Purchases	2,009	3,033	113,979	119,021
Sales	-	-	(45,106)	(45,106)
Transfers to level 3	28,367	-	-	28,367
Balance as at march 31, 2013	90,292	476,492	1,256,238	1,823,023
Total profits (losses) for the period included in the statement of income for assets held in the year ended march 31, 2013	(1,266)	(12,740)	2,006	(12,000)

* Concerning retrospective application, see Note 3B about the first-time application of new standards.
** For shares that changed their rating.

Note 10 - investment property for yield-dependent contracts (contd.)

D. The interest rates used to determine the fair value of non-marketable debt assets

The fair value of non-marketable debt assets measured at fair value by way of profit or loss and of non-marketable financial debt assets, where information about the fair value is given for explanatory purposes only, are determined by discounting the estimated cash flows they are expected to produce. The discounting rates are based on an allocation of the negotiable market into deciles consistent with the yield to maturity of the debt asset, and determining the position of the non-marketable asset according to the deciles, and this in accordance with the risk premium stemming from the prices of transactions/issues on the non-negotiable market. The price quotes and interest rates used for the discounting are determined by "Mercah Hogen" which operates a database of price quotes and interest rates for financial institutions for revaluation of non-marketable debt assets.

Note 11 - Other financial investments

A. Fair value compared with book value

	March 31 2013				
	Presented at fair value through profit and loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets (1)	1,151,185	6,803,709	388,078	-	8,342,971
Non-negotiable debt assets (2)	25	-	-	9,411,420	9,411,445
Shares (3)	15,785	484,195	-	-	499,980
Other (4)	345,227	1,441,065	-	-	1,786,292
Total	1,512,222	8,728,969	388,078	9,411,420	20,040,688

* The assets held for redemption are presented at adjusted cost. The fair value of these assets is NIS 409,169 thousands.

(1) Marketable debt assets

	March 31, 2013 (Unaudited)
	Book Value
	NIS Thousands
Government bonds	
Reported at fair value, through profit and loss, designated upon initial recognition	444,979
Available for sale	3,070,931
Total government bonds	3,515,910
Other debt assets	
Non-convertible	
Reported at fair value, through profit and loss, designated upon initial recognition	692,700
Held to maturity	388,078
Available for sale	3,732,778
Total other debt assets - non convertible	4,813,556
Convertible	
Reported at fair value, through profit and loss, designated upon initial recognition	13,505
Total other debt assets -convertible	13,505
Total marketable debt assets	8,342,971
Impairment balances - recognized through profit and loss in respect of available for sale debt instruments	15,590

Note 11 - Other financial investments (contd.)

(2) Non marketable debt assets

	March 31, 2013 (Unaudited)	
	Book Value	Fair Value
	NIS Thousands	NIS Thousands
Government bonds		
Reported as loans and debts:		
Designated bonds	4,374,961	5,231,360
Total government bonds	4,374,961	5,231,360
Non-convertible other debt assets		
Reported as loans and debts, including bank deposits	5,036,459	5,480,667
Total Non-convertible other debt assets	5,036,459	5,480,667
Convertible other debt assets		
Reported at fair value, through profit and loss, designated upon initial recognition	25	25
Total convertible other debt assets	25	25
Total non convertible debt assets	9,411,445	10,712,053
Impairment balances	68,149	

(3) Shares

	March 31, 2013 (Unaudited)
	Book Value
	NIS Thousands
Marketable	
Reported a fair value, through profit and loss, upon initial designation	15,785
Available for sale	386,336
Total marketable shares	402,121
Non marketable shares	
Available for sale	97,859
Total non marketable shares	97,859
Total	499,980
Impairment balances, charged to profit and loss	79,070

Note 11 - Other financial investments (contd.)

(4) Other Financial Investments

	March 31, 2013 (Unaudited)
	Book Value
	NIS Thousands
Marketable	
Reported at fair vale through profit and loss designated upon initial recognitions	176,087
Available for sale	941,364
Derivative instruments	3,751
Total marketable financial investments	1,121,201
Non marketable	
Classified as held for trading	85,484
Available for sale	499,701
Derivative instruments	79,906
Total non marketable financial investments	665,091
Total other financial investments	1,786,292
Impairment balances - other financial investments reported as available for sale	78,172
Derivative instruments, reported as financial liabilities	131,759

B. Fair value hierarchy of financial assets

The table below presents analyses financial assets carried on a fair value on a seasonal basis, while using the evaluation method based on the fair value hierarchy. Regarding the different levels definitions, see Note 10B.

The balance in the financial statements for cash and cash equivalents, outstanding premiums, trade and other payables, and current tax assets, correspond with or are close to their fair values.

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets	7,954,893	-	-	7,954,893
Non-negotiable debt assets	-	-	25	25
Shares	402,121	-	97,859	499,980
Other	1,121,201	79,906	585,185	1,786,292
Total	9,478,216	79,906	683,069	10,241,190

Note 11 - Other financial investments (contd.)

C. Level 2 and 3 assets measured at fair value

	Measuring fair value on date of report			
	Financial assets at fair value through profit and loss			
	Non negotiable Debt Assets	Shares	Other financial Assets	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Balance as at January 1, 2013	25	100,544	585,721	686,290
Total profits (losses) recognized				
In statement of income	-	999	8,695	9,694
In comprehensive incom	-	(2,737)	(7,900)	(10,637)
Interest and dividend receipts	-	(1,089)	(6,563)	(7,652)
Purchases	-	143	26,344	26,487
Sales	-	(1)	(21,111)	(21,112)
Balance as at march 31, 2013	25	97,859	585,185	683,069
Total profits (losses) for the period included in the statement of income for assets held in the year ended march 31, 2013	-	999	8,656	9,655

D. The interest rates used to determine the fair value of non-marketable debt assets

Regarding the interests rates used to determine the fair value of non-marketable debt assets, see Note 10D.

Note 12 - Subsequent events during the reporting period

1. Distribution of a dividend by Harel Investments
   On March 19, 2013, the Board of Directors of the Company resolved to distribute a dividend of NIS 53 million (NIS 2.5 per share). The decision of the Board of Directors was reached after the financial results of the Company for the year 2012 were presented. The distributable profits, capital surpluses of the Company's subsidiaries, and the cash requirements of the Group under various scenarios, were presented to the Board. The Board also examined the Company's net profit criteria and the solvency criteria as prescribed in Section 203(A) to the Companies Law and subsequent to this examination the Board confirmed that the Company was in compliance with the criteria for distribution.

   The dividend was paid on April 17, 2013.

2. On January 19, 2012 the Board of Directors of the Company and of Harel Insurance resolved to conduct a conversion for salaries by rate of 6.74%,(which is an approximate conversion of the value of the thirteenth salary, on which social benefits re not paid, into a regular wage supplement on which social benefits are paid (“the Update Rate"). Accordingly, in April 2012, the full Update Rate was paid to employees earning up to the average wage in the Israeli economy. Employees and managers earning more than the average wages will be paid the Update Rate gradually until March 2014, based on the wage level of employees.

   On January 27, 2013, the Board of Directors of Harel Insurance decided to reduce the spread of the payment of the Update Rate so that the outstanding Update Rate will be paid in the salary for March 2013 (instead of March 2014). Regarding employees who earn the average wage in the economy, who have already received the full Update Rate in April 2012, the Board of Directors resolved to provide a special bonus of NIS 5,000 per employee.

   Following this decision, the Compensation Committee decided on February 18, 2013 that the change in the date of said wage update will also apply to company officers, since the decision cuts across the board and updates the original decision to convert the thirteenth salary across the board. The Compensation Committee decided that this change is insignificant (it only curtails the time during which the execution of the conversion was delayed) and the decision was therefore applied it to all company officers across the board, according to the authority vested in it under Section 272 (d) of the Companies Law. This decision was approved by the Board of Directors of the Company in its meeting of March 5, 2013.

3. Credit audit

   On February 22, 2013, Harel Insurance Company Ltd. ("Harel Insurance") was informed by the Commissioner of Insurance that he had imposed financial sanctions in the amount of NIS 470,000. The financial sanctions were imposed as a consequence of an audit of the credit sector which was conducted in the second half of 2011. The financial sanctions were imposed due to a small number of flaws of a technical nature. In a decision concerning the imposition of the financial sanctions, the Commissioner used the powers conferred on him by law, and reduced the amount of the penalty by the maximum possible amount, in part after determining that the Company had taken action to remedy the aforementioned technical flaws.

4. General meeting

   An extraordinary general meeting of the Company on January 30, 2013, passed the following resolutions: (1) reappointment of the Company's auditors; (2) reappointment of members of the Board listed below, who are not external directors, for a further term of office: Yair Hamburger (Chairman of the Board), Gideon Hamburger, Yoav Manor, Yoseph Ciechanover, Liora Kavoras Hadar and Doron Cohen; (3) payment of fixed compensation to Mr. Doron Cohen for his service as deputy chair and chairman of the Yield-dependent Investments Committee (Members) of the Harel Group's financial institutions, and chairman of the Credit Committee of Harel Group's financial institutions.

5. Regarding a loan from a financial institution in the sum of NIS 100 million, see Note 9.

Note 13 - Subsequent events after the reporting period

1. Agreement to purchase trust funds and portfolio management operations from Clal Finance

On January 7, 2013, the Subsidiaries, Harel Finance and Harel Finance Investment Management Ltd., a fully owned subsidiary of Harel Finance ("Harel Investment Management") signed an agreement with Clal Finance Batucha Investment Management Ltd. ("Batucha") and Clal Finance Ltd. (jointly: "Clal Finance"), to purchase all the issued share capital of Clal Mutual Funds Management Ltd. ("Clal Funds"), a wholly owned subsidiary of Batucha, and to also purchase the portfolio management operations of Clal Finance (carried out by Batucha), ("the Object of Sale").

Clal Funds is a mutual fund management company under the Joint Investments in Trust Law, 1994 ("the Funds Law"). Clal Funds manages about 90 mutual funds. According to the financial reports of Clal Finance, at September 30, 2012, Clal Funds hold assets under management of about NIS 10 billion it the mutual funds it manages.

The acquisition of portfolio management operations from Clal Finance includes all Clal Finance's management operations, including customers, suppliers, material agreements, goodwill and the obligations involved in these operations, all as detailed in the agreement, except for the management of investments in financial savings policies, which is carried out for Clal Insurance.

According to the financial reports of Clal Finance, at December 31, 2012, the volume of assets managed in the context of the portfolio management operations of Clal Finance (excluding management of the financial savings policies for Clal Insurance) amounts to about NIS 7 billion, of which NIS 3 billion is invested in Clal Funds mutual funds.

On April 4, 2013, the transaction was completed and Clal Funds became a wholly owned subsidiary of Harel Finance. During the course of April 2013, the name of Clal Funds was changed to Harel Mutual Fund Management Ltd. Subsequently, on May 7, 2013, permission was received from the Registrar of Companies for the merger of Harel Mutual Fund Management Ltd. (formerly Clal Funds) into Harel-Pia Mutual Fund Management Ltd. Furthermore, the portfolio management activity was transferred to Harel Investment Management.

The total consideration paid on the completion date was NIS 205 million, according to the following allocation: NIS 180.6 million was paid for the shares of Clal Funds; NIS 24.4 million was paid for the portfolio management activity.
Harel Finance financed the acquisition mainly by means of capital notes which the Company provided it.
Harel Finance is working to merge Clal Funds into Harel-Pia.
As part of the agreement, provisions were prescribed concerning non-competition on the part of Clal Finance with the activity of the Object of Sale, for a four-year period, as well as an undertaking not to compete on the part of Clal Holdings and its subsidiaries with the activity of the Object of Sale for a period of three years .
On May 7, 2013, the merger of Clal Funds into Harel-Pia was completed, and Clal Funds ceased to exist.
On January 9, 2013, Maalot announced that in the wake of the Company's announcement of its agreement to acquire mutual funds and portfolio management operations from Clal Finance, the ilAA+/stable rating of Harel Insurance will remain unchanged.

Note 13 - Subsequent events after the reporting period (contd.)

1. Agreement to purchase trust funds and portfolio management operations from Clal Finance (contd.)

Following are key financial data about the acquired activity, based on data for the mutual fund management and investment portfolio management segment of Clal Finance at December 31, 2012 (which includes both the activity of the Object of Sale and the investment management activity of the financial savings policies for Clal Insurance, which is not part of the sale) as published on the Maya website. For additional financial information about the Object of Sale, see the financial statements of Clal Finance at December 31, 2012, which were published on March 14, 2013:

	December 31 2012 (Audited)	December 31 2011 (Audited)	December 31 2010 (Audited)
NIS millions			
Segment revenues from external sources	135	153	151
Segment results	(52)	(42)	21
NIS billions			
Assets under management			
Mutual funds	10.3	9.0	9.4
Investment portfolios managed in Israel	9.6	10.0	10.3
Total	19.9	19.0	19.7
After adjustment for			
Portfolios invested in mutual funds in the Group	2.9	3.0	3.4
Total assets under management	17.0	16.0	16.3
Mix – mutual funds			
Money-market funds	9%	18%	9%
Tracker funds	3%	6%	8%
Traditional [funds]	88%	76%	83%
Total	100%	100%	100%

* The segment results which are presented do not include a write-down in the amount of NIS 64 million in 2012 and NIS 60 million in 2011, for the impairment of intangible assets that are attributed to the activity of the mutual funds, which are included in the Clal Finance reporting.

** A total of NIS 1.3 billion at December 31, 2012, NIS 1.1 billion at December 31, 2011, and NIS 0.8 billion at December 31, 2010 in respect of financial savings policies managed for Clal Insurance, were not included in the transferred assets.

Note 13 - Subsequent events after the reporting period (contd.)

2. Transaction to acquire an office block in Minneapolis, Minnesota.

   On April 5, 2013, subsidiaries of the Company that are financial institutions ("the Subsidiaries") entered into agreement with an Israeli institutional investor and an American investor to acquire an office block, classified as a Class A+ building consisting of 51 floors and 130,000 sq.m. of space for rent (about 94% is already occupied), which is situated in the center of Minneapolis, in the US state of Minnesota ("the Property").
   The rights were acquired by means of establishing a partnership in which the Company holds 49% of the rights, the additional institutional investor holds 25%, and the American investor holds 26%, and in view of his expertise he will manage the property.
   The total consideration is USD 277 million. The acquisition will be financed by equity provided by the partners and a bank debt to be provided by an American financial institution, where the partners will together provide equity in the total amount of USD 94 million.
   In all, the Subsidiaries are expected to invest USD 46 million in this project.
   The investment by the Subsidiaries is contingent on obtaining the bank financing by the date of completion of the transaction and on other standard approvals that the seller must submit on the date of completion of the transaction.
   The Subsidiaries entered into the transaction principally using funds from reserves held against yield-dependent liabilities and from provident fund and pension fund portfolios. The transaction is therefore not expected to significantly affect the performance of the Company or the Subsidiaries.

3. ICIC

   On April 15, 2013, Euler Hermes and the Company, of the first party, signed an agreement with Bituach Haklai, of the second party (each of the companies holds 33.3% of ICIC) whereby Euler Hermes and the Company will acquire all the holdings of Bituach Haklai in ICIC, so that subsequent to the acquisition, Euler Hermes and the Company will each hold 50% of the shares of ICIC. The consideration which the Company will pay for acquiring half of the shares of Bituach Haklai in ICIC amounts to NIS 61.6 million. Completion of the transaction is subject to obtaining the approval of the Superintendent of the Capital Market, Insurance and Savings at the Ministry of Finance and the approval of the Antitrust Commissioner. The company will finance acquisition of the shares from independent sources. The investment will be presented in the financial statements based on by the equity method. The Company will allocate the surplus costs included in the acquisition price based on a valuation to be received by an external appraiser.

4. After the Reporting Period, Dikla received a letter from the Commissioner concerning the rate of restitution of the expenses paid to Clalit Health Services ("Clalit") in connection with the long-term care insurance policy for members of Clalit, according to which group health insurance regulations apply to the said policy renewals and consequently restitution of expenses to the policyholder is limited to the rate prescribed in the regulations, whereas according to the agreement between Dikla and Clalit, Dikla paid a rate which is higher than the aforementioned rate. The Commissioner, Clalit and Dikla have not yet discussed the subject. The position of Clalit and Dikla is that they acted in accordance with the law, in that the regulations do not apply to the aforementioned policy. It should be noted that any agreement which may be reached on the subject is not expected to affect the financial results of Dikla .

5. Monetary sanctions

   Pursuant to an audit of Harel Insurance which was conducted by representatives of the Commissioner, on May 9, 2013, Harel Insurance was informed by the joint penalties committee of the Commissioner and the Prohibition on Money Laundering Authority, that a monetary sanction of NIS 200,000 had been imposed on Harel Insurance for breach of the reporting provisions to the Prohibition on Money Laundering Authority regarding isolated events from the years 2010-2011.

Note 13 - Subsequent events after the reporting period (contd.)

6. Transaction to acquire an office block in Düsseldorf, Germany

   On May 14, 2013, Harel Insurance entered into an agreement to jointly acquire ("the Investment") a real-estate asset which is used as office space, in the German city of Düsseldorf ("the Property"). Harel Insurance has a 45% stake in the Investment. Ashtrom Properties Ltd. will hold 45% of the rights in the Investment and the Property (through a second-tier subsidiary) and it will also manage the Property, while another investor will hold the remaining 10% of the rights. The property to be acquired, subject to meeting the pre-defined conditions, is an office block with 14,720 sq.m. of floor space and consisting of 192 shops, and the entire property is rented out. The total cost of the transaction is EUR 34.5 million. The acquisition will be financed by equity provided by the partners and a bank debt to be provided by a German financial institution, where the equity to be provided by the partners will amount to EUR 13 million. In all, Harel Insurance is expected to invest EUR 5.9 million in this project. The investment is contingent on additional approvals which the seller must provide at the time of completion of the transaction as well as obtaining a waiver from the Düsseldorf municipality regarding the right of refusal which it has under German law. This transaction is not expected to significantly affect the financial results of Harel Insurance .

7. Transaction to acquire an office block in Frankfurt, Germany

   On May 14, 2013, Harel Insurance entered into an agreement to make a joint acquisition ("the Investment") of two real-estate assets which are used as office space in the German city of Frankfurt ("the Property"). Harel Insurance has a 35% stake in the Investment. The other rights in the Investment and the Property are held by an Israeli institutional investor (35%) and another Israeli investor (30%) who will also manage the Property. The Property to be acquired, subject to meeting certain pre-defined conditions, consists of two adjacent buildings, comprising 35,000 sq.m. of which 30,000 sq.m. are office space for rent, and 2,500 sq.m. of residential space for rent, while the rest is commercial and storage space. In addition, the property includes about 350 shops. Current occupancy of the Property is about 97.5%. The total cost of the transaction is EUR 98 million. The acquisition will be financed by equity provided by the partners and a bank debt to be provided by a German financial institution, where the partners will together provide equity in the total amount of EUR 31 million. In all, Harel Insurance is expected to invest EUR 11 million in this project. The transaction is contingent on obtaining the bank financing by the date of completion of the transaction and on other standard approvals that the seller must submit on the date of completion of the transaction. This transaction is not expected to significantly affect the financial results of Harel Insurance .

HARAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

APPENDIXES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Appendix A - Details of assets for yield-dependent contracts and other financial investments in the Group's insurance companies

a. Assets for yield-dependent contracts

The following are details of assets held against insurance contracts and investment contracts presented at fair value through the statement of income:

	March 31		December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Fixed assets	**834,032**	726,592*	814,307*
Financial investments	**-**	-	-
Marketable debt assets	**11,880,974**	8,783,322	10,769,645
Non marketable debt assets	**4,391,287**	4,084,191	4,315,903
Shares	**4,037,514**	3,499,850*	3,782,881*
Other financial investments	**4,400,642**	3,094,793	3,703,161
Total financial investments	**24,710,418**	19,462,156	22,571,590
Cash and cash equivalents	**1,103,263**	1,243,173	740,754
Accounted for as loans and payables including bank deposits			
Non marketable debt assets*	**454,401**	525,181	480,648
Other	**426,541**	344,378*	390,093*
	27,528,655	22,301,480	24,997,392
Other payables	**2,626**	2,194*	1,748*
**Financial liabilities	**70,363**	70,499	83,489
Financial liabilities in respect of yield dependent	**72,989**	72,693	85,237

* Concerning retrospective application, see Note 3B about the first-time application of new standards.

** Assets held contra to liabilities for yield dependent insurance contracts are presented pursuant to the directives of Circular 2-9-2009 at adjusted cost. The fair value of these assets as at March 31, 2013, is NIS 485,119 thousand (as at March 31, 2012, and as at December 31, 2012, NIS 525,452 thousand and NIS 510,927 thousand respectively).

*** Mainly derivatives and future contracts.

Appendix A - Details of assets for yield-dependent contracts and other financial investments in the Group's insurance companies

b. other financial investments

	March 31 2013 (Unaudited)				
	Reported at fair value, through profit and loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	1,149,097	6,749,647	388,078	-	8,286,822
Non marketable debt assets	25	-	-	9,407,886	9,407,911
Shares	-	484,188	-	-	484,188
Others	334,487	976,729	-	-	1,311,216
Total	1,483,609	8,210,564	388,078	9,407,886	19,490,137

	March 31 2012 (Unaudited)				
	Reported at fair value, through profit and loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	1,087,400	5,043,790	492,918	-	6,624,108
Non marketable debt assets	-	-	-	9,102,769	9,102,769
Shares	-	450,590	-	-	450,590
Others	341,242	811,690	-	-	1,152,932
Total	1,428,642	6,306,070	492,918	9,102,769	17,330,399

	December 31 2012 (Audited)				
	Reported at fair value, through profit and loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	1,178,459	6,251,374	394,423	-	7,824,256
Non marketable debt assets	25	-	-	9,089,431	9,089,456
Shares	-	500,789	-	-	500,789
Others	359,548	888,816	-	-	1,248,364
Total	1,538,032	7,640,979	394,423	9,089,431	18,662,865

* The assets held for redemption are presented at adjusted cost. The fair value of these assets is NIS 409,169 thousands, as at December 31, 2012. (as at March 31, 2012 and as at December 31, 2012, NIS 492,712 thousand and NIS 413,635 thousand respectively).

Appendix A - Details of assets for yield-dependent contracts and other financial investments in the Group's insurance companies (contd.)

b. Details of other financial investments (contd.)

1. Negotiable debt assets

	Book Value			Amortized Cost (**)		
	March 31		December 31	March 31		December 31
	2013	2012	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Government bonds	**3,488,643**	2,683,790	3,286,139	**3,398,695**	2,656,589	3,160,202
Other debt instruments						
Total other debt instruments, non convertible	**4,784,674**	3,913,165	4,524,374	**4,557,154**	3,876,787	4,308,300
Other debt instruments convertible (*)	**13,505**	27,153	13,769	**16,812**	29,457	16,877
Total marketable debt	**8,286,822**	6,624,108	7,824,282	**7,972,661**	6,562,833	7,485,379
Fixed impairments recognized in aggregate in profit and loss	**15,590**	14,997	14,734			

* Convertible bonds presented at cost and not at amortized cost.

** Amortized cost - cost less principal payments plus (less) accumulated amortization by the effective interest method on any difference between cost and the repayment amount less any reduction due to impairment in value recorded to the statement of income.

Appendix A - Details of assets for yield-dependent contracts and other financial investments in the Group's insurance companies (contd.)

b. Details of other financial investments (contd.)

2. Non negotiable debt assets

	Book Value			Fair Value		
	March 31		December 31	March 31		December 31
	2013	2012	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Government bonds						
Designated bonds	**4,374,961**	4,018,451	4,111,966	**5,231,360**	4,738,287	4,983,994
Other bonds	**-**	19,077	-	**-**	19,182	-
Total government bonds	**4,374,961**	4,037,528	4,111,966	**5,231,360**	4,757,469	4,983,994
Other debt instruments		-	-		-	-
other debt instruments, non convertible	**5,032,925**	5,065,241	4,977,465	**5,477,887**	5,115,259	5,418,106
Reported at fair value, through profit and loss, designated upon initial recognition	**25**	-	25	**25**	-	25
Total non marketable debt	**9,407,911**	9,102,769	9,089,456	**10,709,272**	9,872,728	10,402,125
Fixed impairments recognized in aggregate in profit and loss	**68,149**	46,108	69,852			

3. Shares

	Book Value			Cost		
	March 31		December 31	March 31		December 31
	2013	2012	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Marketable Shares	**386,336**	353,754	400,253	**305,672**	312,664	335,513
Non marketable Shares	**97,852**	96,836	100,536	**82,318**	83,664	82,265
Total Shares	**484,188**	450,590	500,789	**387,990**	396,329	417,778
Impairment balances - other financial investments reported as available for sale	**79,070**	91,441	92,165			

Appendix A - Details of assets for yield-dependent contracts and other financial investments in the Group's insurance companies (contd.)

b. Details of other financial investments (contd.)

4. Other financial investments

	Book Value			Cost		
	March 31		December 31	March 31		December 31
	2013	2012	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Marketable Financial investments	**662,210**	576,758	575,754	**621,332**	525,527	524,933
Non marketable Financial investments	**649,006**	576,174	672,610	**634,429**	474,655	619,228
Total other Financial investments	**1,311,216**	1,152,932	1,248,364	**1,255,761**	1,000,181	1,144,161
Fixed impairments recognized in aggregate in profit and loss	**78,172**	81,547	81,319			
Derivative instruments, reported as financial liabilities	**127,202**	55,101	119,430			

The other financial investments include mainly investments in exchange traded notes, notes participating in trust funds, investment funds, financial derivatives, forward contracts, options and structured products.

Harel Insurance Investments and Financial Services Ltd.

Financial data from the interim consolidated statements relating to the Company itself
As at March 31, 2013

Somekh Chaikin
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17 Ha'arbaa Street, P.O. Box 609 | Fax: 03-684 8444
Tel-Aviv 61006 | Internet: www.kpmg.co.il

To: The shareholders of Harel Insurance Investments and Financial Services Ltd.
3 Abba Hillel Street, Ramat Gan

Dear Sirs,

Re: Special Auditor's Report on Interim Separate Financial Information pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Introduction

We reviewed the separate interim financial information presented pursuant to Regulation 38d of the Securities Regulations - 1970 of Harel Insurance Investments and Financial Services Ltd. (hereinafter - "the Company") as at March 31, 2013 and for the three months periods ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for the interim periods, based on our review.

We did not reviewed the separate interim financial information from the financial reports of the investee companies, in which the investment in them is NIS 470,345 thousand as at March 31, 2013, and the Company's loss from the investee companies is NIS 8,423 thousand to the three months periods ended on that date. The condensed interim financial information of these companies was reviewed by other auditors, whose reviewed reports were furnished to us, and our conclusion, to the extent that it relates to the amounts included for those subsidiaries, is based on the reviewed reports of the other auditors.

Scope of the review

We performed our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods performed by the entity's auditor". The review of the separate financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is far more limited in scope than an audit performed in accordance with generally accepted auditing standards, and therefore does not enable us to be confident that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an opinion of an audit.

Conclusion

Based on our review and on the review reports of the other auditors, nothing came to our notice which would cause us to think that the separate interim financial information is not in all material aspects, in accordance with the provisions of Regulation 38d of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Somekh Chaikin
Certified Public Accountants

May 29, 2013

Financial data from the consolidated statements on the financial position as at

	March 31		December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**17**	144	22
Fixed assets	**1,599**	2,976	1,704
Investments in investee companies	**4,088,808**	3,570,034**	3,967,285
Loans to investee companies	**191,121**	184,747	190,709
Real estate for investment	**18,325**	17,766	18,325
Other receivables	**95,638**	28,559	78,534
Other financial investments			
Marketable debt assets	**-**	30,723	-
Non marketable debt assets	**3,534**	3,611	3,567
Others	**329,840**	322,961	265,864
Total financial investments and others	**333,374**	357,295	269,431
Cash and cash equivalents	**107,278**	62,843	47,978
Total assets	**4,836,160**	4,224,364	4,573,988
Capital			
Share capital and premium on shares	**308,555**	306,296	308,446
Treasury stock	**(145,632)**	(137,285)	(142,300)
Capital reserves	**306,854**	162,416	328,173
Retained earnings	**3,823,264**	3,458,657*,**	3,652,909*
Total capital	**4,293,041**	3,790,084	4,147,228
Liabilities			
Liabilities for deferred taxes	**1,092**	1,741*	1,853*
Liabilities for benefits to employees, Net	**17,517**	23,332*	15,747*
Other payables	**83,297**	33,372	73,765
Liabilities for current taxes	**9,737**	3,022	3,558
Financial liabilities	**431,476**	372,813	331,837
Total liabilities	**543,119**	434,280	426,760
Total liabilities and capital	**4,836,160**	4,224,364	4,573,988

Yair Hamburger	Michel Siboni	Shimon Alkabetz	Ronen Agassi
Chairman of the Board of Directors	Company's joint CEO	Company's joint CEO	Deputy Chief Executive Officer and Chief Financial Officer

Date of Approval of the Financial Statements: May 29, 2013.

* Concerning retrospective application, see Note 2 about the first-time application of new standards.

* Regarding insignificant adjustment of comparison figures - see Note 1(d).

Financial data from the consolidated statements on profit and loss

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profits from investments, net, and financing revenues	**4,825**	1,890	15,084
Revenues from management fees	**22,285**	18,537	73,499
Total revenues	**27,110**	20,427	88,583
General and administrative expenses	**7,662**	7,962*	26,323*
Other expenses	**-**	145	177
Financing expenses	**3,442**	4,751	17,570
Total expenses	**11,104**	12,858	44,070
Company's shares in profits (losses) of investee companies	**209,758**	186,443	414,016
Income before taxes on income	**225,764**	194,012	458,529
Taxes on income	**3,525**	1,631*	8,296*
Income for period ended 30 June relating to the Company's shareholders	**222,239**	192,381	450,233

* Concerning retrospective application, see Note 2 about the first-time application of new standards.

Financial data from the consolidated statements on the comprehensive profit

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profit for the year	**222,239**	192,381*	450,233*
Other items of comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss			
Net changes in fair value of financial assets available for sale	**493**	(673)	1,315
Net changes in fair value of financial assets available for sale transferred to statement of income	**(2,552)**	(218)	(6,348)
Loss from impairment in value of financial assets available for sale transferred to statement of income	**-**	-	336
Foreign currency transaction's difference in respect of overseas operations	**(3,377)**	(1,848)	(3,000)
The Group share in the comprehensive income (loss) of investee companies	**(17,252)**	97,994	260,620
Tax on income for items of other comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss	**515**	224	1,174
Total other comprehensive income for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	**(22,173)**	95,478	254,096
Other items of comprehensive income which will not be transferred to profit or loss			
Remeasurement of a defined benefit plan	**42**	-	-
Taxes on income for other items of comprehensive income which will not be transferred to profit or loss	**(10)**	-	-
Other comprehensive income for the period which will not be transferred to profit or loss, net of tax	**32**	-	-
Other comprehensive income (loss) for the year	**(22,141)**	95,478	254,096
Total income for the year Attributed to the company's owners	**200,098**	287,859	704,329

* Concerning retrospective application, see Note 2 about the first-time application of new standards.

Financial data from the condensed interim financial statements of changes in capital

	Share capital and premium	Capital reserve for financing assets available for sale	Transactions with non-controlling interests	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of investment Fixed assets	Balance of retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the three months ended March 31, 2013 (Unaudited)									
Balance as at January 1, 2013	308,446	303,691	(48,908)	(6,881)	40,327	(142,300)	39,944	3,652,909	4,147,228
Comprehensive income for year									
Profit for year	-	-	-	-	-	-	-	222,239	222,239
Total other comprehensive income (loss)	-	(12,609)	-	(10,648)	-	-	-	1,116	(22,141)
Total comprehensive income (loss) for year	-	(12,609)	-	(10,648)	-	-	-	223,355	200,098
Transactions with owners credited directly to equity									
Dividends declared	-	-	-	-	-	-	-	(53,000)	(53,000)
Share based payment	-	-	-	-	1,938	-	-	-	1,938
Purchase of treasury stock	-	-	-	-	-	(4,335)	-	-	(4,335)
Reissuing of treasury stock	109	-	-	-	-	1,003	-	-	1,112
Balance as at March 31, 2013	308,555	291,082	(48,908)	(17,529)	42,265	(145,632)	39,944	3,823,264	4,293,041

Financial data from the condensed interim financial statements of changes in capital

	Share capital and premium	Capital reserve for financing assets available for sale	Transactions with non-controlling interests	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of investment Fixed assets	Balance of retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the three months ended March 31, 2012 (Unaudited)									
Balance as at January 1, 2012	306,895	79,087	(48,908)	(4,834)	30,175	(138,583)	8,405	3,266,276*	3,498,513
Comprehensive income (loss) for year									
Profit for year	-	-	-	-	-	-	-	192,381*	192,381
Total other comprehensive income (loss)	-	69,567	-	(999)	-	-	26,910	-	95,478
Total comprehensive income for year	-	69,567	-	(999)	-	-	26,910	192,381	287,859
Transactions with owners credited directly to equity									
Share based payment	-	-	-	-	3,013	-	-	-	3,013
Purchase of treasury stock	(599)	-	-	-	-	2,503	-	-	1,904
Reissuing of treasury stock	-	-	-	-	-	(1,205)	-	-	(1,205)
Balance as at March 31, 2012	306,296	148,654	(48,908)	(5,833)	33,188	(137,285)	35,315	3,458,657	3,790,085

* Concerning retrospective application, see Note 2 about the first-time application of new standards.

Financial data from the condensed interim financial statements of changes in capital

	Share capital and premium	Capital reserve for financing assets available for sale	Transactions with non-controlling interests	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of investment Fixed assets	Balance of retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as at December 31, 2012 (Audited)									
Balance as at January 1, 2012	306,895	79,087	(4,834)	30,175	(138,583)	(48,908)	8,405	3,266,276*	3,498,513
Comprehensive income for year									
Profit for year	-	-	-	-	-	-	-	450,233*	450,233
Total other comprehensive income (loss)	-	224,604	(2,047)	-	-	-	31,539	-	254,096
Total comprehensive income for year	-	224,604	(2,047)	-	-	-	31,539	450,233	704,329
Transactions with owners credited directly to equity									
Dividends paid	-	-	-	-	-	-	-	(63,600)	(63,600)
Share based payment	-	-	-	10,152	-	-	-	-	10,152
Purchase of treasury stock	-	-	-	-	(13,356)	-	-	-	(13,356)
Reissuing of treasury stock	1,551	-	-	-	9,639	-	-	-	11,190
Balance as at December 31, 2012	308,446	303,691	(6,881)	40,327	(142,300)	(48,908)	39,944	3,652,909	4,147,228

* Concerning retrospective application, see Note 2 about the first-time application of new standards.

Financial data from the interim consolidated statements of cash flows

		For the three months ended March 31		For the year ended December 31
		2013	2012	2012
		(Unaudited)	(Unaudited)	(Audited)
	Appendix	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities				
Before taxes on income	A	**19,418**	30,275	30,094
Income tax (paid) refund		**1,892**	(1,480)	(7,778)
Net cash provided by operating activities		**21,310**	28,795	22,316
Cash flows from investing activities				
Investment in investee companies		**-**	(22,355)	(38,211)
investment in fixed assets		**-**	(1,454)	(650)
Proceeds from realizing fixed assets		**-**	326	630
Acquisition of real estate for investment		**-**	-	(559)
Dividends from investee companies		**-**	-	61,905
Net Financial investments		**(62,010)**	(101,147)	(8,591)
Loans to investee companies		**-**	(16,000)	(64,931)
Repayment of loans given to investee companies		**-**	110,755	116,746
Net cash provided by (used for) investing activities		**(62,010)**	(29,875)	66,339
Cash flows from financing activities				
Dividends paid		**-**	-	(63,600)
Loans from banks and others		**100,000**	-	-
Repayment of loans to banks and others		**-**	-	(41,000)
Net cash provided by (used for) financing activities		**100,000**	-	(104,600)
Increase (decrease) in cash and cash equivalents		**59,300**	(1,080)	(15,945)
Cash and cash equivalents at beginning of year		**47,978**	63,923	63,923
Cash and cash equivalents at end of the period		**107,278**	62,843	47,978

Financial data from the consolidated statements of cash flows

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Appendix A – Cash flows from operating activities before taxes on income	**222,239**	192,381*	450,233*
Items which are not connected with cash flows			
Company's shares in revenues of investee companies	**(209,758)**	(186,443)	(414,016)
Net loss (profits) from financing activities	**(3,994)**	(1,337)	(9,832)
Financing expenses (income), net	**4,933**	3,939	520
Taxes on income (tax benefit)	**3,525**	1,631*	8,296*
Depreciation and amortization	**110**	148	626
Gains from realizing fixed assets	**-**	20	(171)
Share-based payment	**459**	346	1,487
Changes in other balance sheet items			
Other receivables	**(17,104)**	(2,414)	(52,389)
Other payables	**17,238**	19,551	50,473
Liabilities for benefits to employees, net	**1,770**	2,452*	(5,133)*
Total adjustments required to present cash flows from operating activities	**(202,821)**	(162,106)	(420,139)
Total cash flows from operating activities, before taxes on income	**19,418**	30,275	30,094

* Concerning retrospective application, see Note 2 about the first-time application of new standards.

Note 1 - Method of preparing the financial information from the Company's consolidated financial statements relating to the Company itself

a. General

The financial information from the consolidated interim statements relating to the Company itself are presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) - 1970, and do not include all the information required in Regulation 9C and in the details required in the Tenth Addendum of the Securities Regulations (Periodic and Immediate Reports)-1970 regarding corporate separate financial information. The financial information from the condensed consolidated interim statements relating to the Company itself must be read together with the financial information from the condensed consolidated interim statements relating to the Company itself with the condensed consolidated financial statements for December 31, 2012.

b. Definitions

The Company	-	Harel Insurance Investments and Financial Services Ltd.
Investee companies	-	Subsidiaries, subsidiaries by proportional consolidation and companies in which the Company's investment in them is included, directly or indirectly, in the financial statements by the equity method.
Date of report	-	Date of the statement of financial condition.

c. Method of preparing the financial data

The separate financial data was prepared in accordance with the accounting principles detailed in Note 1 to the separate yearly financial statements of the Company, excluding the mentioned in Note 2 below.

d. Insignificant adjustment of comparison figures

During the third quarter of 2012, a technical error was discovered in the calculation of the reserve for "claims in payment" for work disability claims. Correction of the error refers to previous reporting periods.

In reviewing the materiality of the error with respect to the relevant reporting periods, it was found, after examining the quantitative and qualitative parameters, that this error will not affect the economic decision-making process and/or analysis of the aforesaid financial statements by users of the statements. Consequently, this is not a significant error which necessitates republication of the Company's amended consolidated financial statements for 2011 or earlier years. This amendment is included as part of the comparison figures in these financial statements, by way of marking the amended reporting items as "an insignificant adjustment" to comparison figures.

The effect on the statement of financial position at March 31, 2012 is an increase in the amount of NIS 17.7 million in liabilities for insurance contracts and a reduction of NIS 17.7 million in surpluses.

The effect on the statement on profit and loss for the three month periods ended March 31, 2012 is insignificant.

Note 2 - First implementation of new standards

1. Amendment to IAS 19, Employee Benefits

- Employee benefits will be classified as short or long term depending on when the entity expects the benefits to be wholly settled and will not be classified according to the date the employee will be able to use the benefit.
- All actuarial gains and losses will be recognized immediately through other comprehensive income.
- The interest to be recognized in profit or loss will be calculated on the net balance of the liabilities (the asset) for a defined benefit, according to the discounting rate used to calculate the liability.
- Costs for past services will be recognized immediately, unrelated to the date on which the benefits vest.

The amended standard will be applied retrospectively, except for the alleviation in relation to discounting costs to assets. Accordingly, the carrying amount of assets outside the application of IAS 19 will not have to be adjusted for changes in costs in respect of employee benefits which were included in the carrying amount prior to the initial date of application.

Following application of the amendment to IAS 19, the Group recognizes actuarial profits and losses by way of other comprehensive income directly to surpluses, instead of to profit or loss. The retrospective application of this standard had no significant effect on the Group's financial statements and the comparison figures were therefore not corrected. Additionally, in the wake of implementation of the amendment to IAS 19, the cost of past services for revising the terms of retirement of the controlling shareholders from December 2011, was recognized retrospectively, as specified below.

At the end of 2011, the salary conditions of the controlling shareholders were approved. As part of the approved conditions, approval was also given so that when the employment relationship ends for any reason whatsoever, the controlling shareholders will be entitled to compensation equal to the compensation owed by law. Additionally, approval was given so that subject to completion of a minimum period of employment, the controlling shareholders will be entitled to double severance pay when their employment for the Company terminates. The Company made provision in its financial statements for 2011 and 2012 for obligations for additional several pay for the relative period accrued, and this due to the fact that the additional severance pay is conditional upon a minimum period of employment. During the Reporting Period, based on the amendment to IAS 19, Employee Benefits, the Company made provision for the outstanding amount by way of restatement. For additional information, see also section 3(B) below.

2. Amendment to IAS 1, Presentation of Financial Statements, Other Comprehensive Income

The amendment to IAS 1 changes the presentation of items of other comprehensive income (hereinafter - “OCI”) in the financial statements, so that items of OCI that may be reclassified to profit or loss in the future, would be presented separately from those that would never be reclassified to profit or loss.

The Amendment will be implemented retrospectively. The report on comprehensive income during the comparison periods was restated pursuant to the amendment.

Influence on the Financial Report

1. Influence on the financial position

	March 31 2012			
	NIS thousands			
	As reported in the past	Effect of restatement for work disability insurance	Effect of the retrospective application of IAS 19	As reported in these financial statements
Investments in investee companies	3,587,771	(17,737)	-	3,570,035
Retained earnings	3,484,832	(17,737)	(8,437)	3,458,658
Liabilities for deferred taxes	4,554	-	(2,813)	1,741
Liabilities for benefits to employees, Net	12,082	-	11,250	23,332

	December 31 2012		
	NIS thousands		
	As reported in the past	Effect of the retrospective application of IAS 19	As reported in these financial statements
Retained earnings	3,659,659	(6,750)	3,652,909
Liabilities for deferred taxes	4,103	(2,250)	1,853
Liabilities for benefits to employees, Net	6,747	9,000	15,747

2. Influence on profit and loss

	For the three months ended March 31 2012		
	NIS thousands		
	As reported in the past	Effect of the retrospective application of IAS 19	As reported in these financial statements
General and administrative expenses	8,712	(750)	7,962
Income taxes	1,443	188	1,631
Profit for the year	191,819	562	192,381

	For the year ended December 31 2012		
	NIS thousands		
	As reported in the past	Effect of the retrospective application of IAS 19	As reported in these financial statements
General and administrative expenses	29,323	(3,000)	26,323
Income taxes	7,546	750	8,296
Profit for the year	447,983	2,250	450,233

Note 2 - First implementation of new standards (cont'd)

3. Influence on the Capital

	January 1, 2012		
	NIS thousands		
	As reported in the past	Effect of the retrospective application of IAS 19	As reported in these financial statements
Retained earnings	3,275,276	(9,000)	3,266,276

Note 4 - Subsequent events during the reporting period

1. Distribution of a dividend

   On March 19, 2013, the Board of Directors of the Company resolved to distribute a dividend of NIS 53 million (NIS 2.5 per share). The decision of the Board of Directors was reached after the financial results of the Company for the year 2012 were presented. The distributable profits, capital surpluses of the Company's subsidiaries, and the cash requirements of the Group under various scenarios, were presented to the Board. The Board also examined the Company's net profit criteria and the solvency criteria as prescribed in Section 203(A) to the Companies Law and subsequent to this examination the Board confirmed that the Company was in compliance with the criteria for distribution.

   The dividend was paid on April 17, 2013.

2. Loan received by the Company from Financial Institution

   In March 2013, the Company received a loan in the amount of NIS 100 million from a financial institution and associated financial institutions.
   The loan was issued for a period of six years. It is linked to the CPI and bears a fixed interest rate. The principal will be paid in six unequal installments commencing from the end of the first year following receipt of the loan: about NIS 3.3 million annually during the first three years, then NIS 30 million during each of the fourth to sixth years.
   The loan includes conditions whereby when certain events take place (significant change in the rating of Harel Insurance, financial ratios, etc.), the annual interest rate will be updated or a deposit will be made in favor of the lender.
   The financial criteria established were: (a) ratio of the Company's separate financial debt to the investment rate in investees - 0.26 (at March 31, 2013, this ratio was less than 0.1); (b) ratio between the Company's own financial debt and its equity - 0.3 (at March 31, 2013, this ratio was less than 0.1); (c) a minimum rating of A- for Harel Insurance (on the report publication date, the rating was AA+); At March 31,2013, the Company is in compliance with the aforementioned financial covenant.

Note 4 - Subsequent events during the reporting period (cont'd)

3. On January 19, 2012 the Board of Directors of the Company and of Harel Insurance resolved to conduct a conversion for salaries by rate of 6.74%,(which is an approximate conversion of the value of the thirteenth salary, on which social benefits re not paid, into a regular wage supplement on which social benefits are paid (“the Update Rate"). Accordingly, in April 2012, the full Update Rate was paid to employees earning up to the average wage in the Israeli economy. Employees and managers earning more than the average wages will be paid the Update Rate gradually until March 2014, based on the wage level of employees.

4. General meeting

   An extraordinary general meeting of the Company on January 30, 2013, passed the following resolutions: (1) reappointment of the Company's auditors; (2) reappointment of members of the Board listed below, who are not external directors, for a further term of office: Yair Hamburger (Chairman of the Board), Gideon Hamburger, Yoav Manor, Yoseph Ciechanover, Liora Kavoras Hadar and Doron Cohen; (3) payment of fixed compensation to Mr. Doron Cohen for his service as deputy chair and chairman of the Yield-dependent Investments Committee (Members) of the Harel Group's financial institutions, and chairman of the Credit Committee of Harel Group's financial institutions.

Note 5 - Subsequent events after the reporting period

1. ICIC

   On April 15, 2013, Euler Hermes and the Company, of the first party, signed an agreement with Bituach Haklai, of the second party (each of the companies holds 33.3% of ICIC) whereby Euler Hermes and the Company will acquire all the holdings of Bituach Haklai in ICIC, so that subsequent to the acquisition, Euler Hermes and the Company will each hold 50% of the shares of ICIC. The consideration which the Company will pay for acquiring half of the shares of Bituach Haklai in ICIC amounts to NIS 61.6 million. Completion of the transaction is subject to obtaining the approval of the Superintendent of the Capital Market, Insurance and Savings at the Ministry of Finance and the approval of the Antitrust Commissioner. The company will finance acquisition of the shares from independent sources. The investment will be presented in the financial statements based on by the equity method. The Company will allocate the surplus costs included in the acquisition price based on a valuation to be received by an external appraiser.

2. Regarding a loan Loan provided to Harel-Pia by Harel Investments, see Note 3.

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Harel Insurance Investments & Financial Services Ltd.

Report concerning the effectiveness of internal control over financial reporting and disclosure

Quarterly report concerning the effectiveness of the internal control over financial reporting and disclosure as per Article 38g (a):

Under the oversight of the Board of Directors of Harel Insurance Investments and Financial Services Ltd. ("the Company"), management is responsible for defining and maintaining due internal control over the Company's financial reporting and disclosure.

In this instance, management consists of:

(a) Co-CEOs:

Mr. Michel Siboni, who also serves as CEO of Harel Insurance Ltd. and chairman of the boards of directors of the Group's subsidiaries that are financial institutions.

Mr. Shimon Elkabetz, who also serves as chairman of the board of directors of Harel Finance Holdings Ltd., chairman of the board of directors of Harel-Pia Mutual Funds Ltd., chairman of the board of directors of EMI - Ezer Mortgage Insurance Company Ltd. and holds other positions in the Group's companies.

(b) Mr. Ronen Agassi - the Company's CFO, deputy CEO and head of the finance and resources division of Harel Insurance Company Ltd.

(c) Mr. Sami Babkov - CEO of Harel Finance Holdings and CEO of Harel-Pia Mutual Funds Ltd.

(d) Mr. Avi Keller, CEO of Dikla Insurance Company Ltd.

(e) Mr. Hanan Fridman, legal advisor to the Cormpany and the Group's companies, deputy CEO of Harel Insurance Company Ltd.

(g) Mr. Amir Hessel, VP of the Company and manager of the Group's investments, deputy CEO and manager of the investment division of Harel Insurance Company Ltd.

Internal control over financial reporting and disclosure includes the Company's existing controls and procedures that were planned by the general manager and the most senior financial officer or are monitored by them or by the person who actually performs these duties, under the oversight of the Company's board of directors. The purpose of the controls and procedures is to provide a reasonable measure of assurance certainty regarding the reliability of financial reporting and the preparation of the financial statements pursuant to the provisions of the law, and to ensure that the information that the Company is required to disclose in its published reports in accordance with the provisions of the law, is collected, processed, summarized and reported on the dates and in the format prescribed by law.

Among other things, the internal control consists of controls and procedures designed to ensure that the information that the Company is required to disclose, as noted, is accumulated and transferred to the Company's management, including to the CEO and most senior financial officer, or to the person who actually performs these duties, so as to ensure that decisions are made at the appropriate time, with respect to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure may not provide absolute assurance regarding the prevention or detection of misstatements.

Harel Insurance Company Ltd. and subsidiaries of the Company, are financial institutions governed by the instructions of the Superintendent of the Capital Market, Insurance and Savings Division at the Ministry of Finance, regarding the assessment of the effectiveness of the internal control over financial reporting.

With respect to the aforementioned subsidiaries, the Company apply the following provisions:

- Financial Institutions Circular 2010-9-7 from November 2010 – "Internal control over financial reporting – attestations, statements, and disclosures";
- Financial institutions Circular 2010-9-6 from November 2010 – "Management's responsibility for the internal control over financial reporting – Amendment" (amendment to Financial Institutions Circular 2009-9-10);
- Financial Institutions Circular 2009-9-10, from June 2009 – "Management's responsibility for the internal control over financial reporting";

In the annual report on the evaluation of effectiveness, which was attached to the periodical report for the period ended in December 31, 2012 ("last annual report concerning the effectiveness of internal control over financial reporting and disclosure), the Company's Board of Directors and management evaluated the internal control in the Company; based on the mentioned evaluation, the Company's Board of Directors and management concluded that the internal control, at December 31, 2012, is effective.

Until the date of the report, there was no event, to the knowledge of the management, to change the evaluation of the effectiveness of internal control, as was reviewed in last the annual report concerning the effectiveness of internal control over financial reporting and disclosure.

At the date of the report, based on the effectiveness of internal control evaluation, in the last annual report and based on information that was brought to the knowledge of the management and the board of directors, as stated above, the internal control is effective.

Declaration

I, Michel Siboni, hereby attest that:

(1) I have reviewed the Periodic Report of Harel Insurance Investments & Financial Services Ltd. ("the Company") for the first quarter of 2013 ("the Reports").

(2) Based on my knowledge, the Reports contain no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the statements that they contain, in light of the circumstances under which such statements were included, shall not be misleading with respect to the period covered in the Reports;

(3) Based on my knowledge, the financial statements and other financial information contained in the Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and periods covered in the Reports.

(4) I disclosed to the Company's external auditor, the Board of Directors and the Audit Committee and Financial Reports Committee, based on my most recent evaluation of the internal control over financial reporting:

(a) Any significant flaws and material weakenesses in the determination or application of the internal control over financial reporting and disclosure that may reasonably have an adverse effect on the Company's ability to collect, process, summarise or report financial information in a manner that may cast doubt on the credibility of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and -

(b) Any fraud, whether material or immaterial, that involves the general manager (CEO) or any person directly accountable to him or other employees who have a significant role in the Company's internal control over financial reporting and disclosure;

(5) I, myself or together with others in the Company:

(a) Defined controls and procedures, or ensured that controls and procedures are in place under my oversight, to ensure that material information pertaining to the Company, including its subsidiaries as defined in the Securities (Annual Financial Statements) Regulations, 5770 – 2010, is brought to my attention by others in the Company and in the subsidiaries, specifically during the period in which the Reports are prepared; and -

(b) I defined controls and procedures, or ensured that controls and procedures under my supervision are in place, designed to ensure with reasonable certainty that the financial reports are reliable and that they are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting standards;

(c) No event or matter which took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report was brought to my attention, which may change the conclusion of the Board of Directors and Management in relation to the effectiveness of the corporation's internal control over financial reporting and disclosure.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, under any law.

May 29, 2013

Michel Siboni

Co-CEO

Declaration

I, Shimon Elkabetz, hereby attest that:

(1) I have reviewed the Periodic Report of Harel Insurance Investments & Financial Services Ltd. ("the Company") for the first quarter of 2013 ("the Reports").

(2) Based on my knowledge, the Reports contain no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the statements that they contain, in light of the circumstances under which such statements were included, shall not be misleading with respect to the period covered in the Reports;

(3) Based on my knowledge, the financial statements and other financial information contained in the Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and periods covered in the Reports.

(4) I disclosed to the Company's external auditor, the Board of Directors and the Audit Committee and Financial Reports Committee, based on my most recent evaluation of the internal control over financial reporting:

(a) Any significant flaws and material weakenesses in the determination or application of the internal control over financial reporting and disclosure that may reasonably have an adverse effect on the Company's ability to collect, process, summarise or report financial information in a manner that may cast doubt on the credibility of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and -

(b) Any fraud, whether material or immaterial, that involves the general manager (CEO) or any person directly accountable to him or other employees who have a significant role in the Company's internal control over financial reporting and disclosure;

(5) I, myself or together with others in the Company:

(a) Defined controls and procedures, or ensured that controls and procedures are in place under my oversight, to ensure that material information pertaining to the Company, including its subsidiaries as defined in the Securities (Annual Financial Statements) Regulations, 5770 – 2010, is brought to my attention by others in the Company and in the subsidiaries, specifically during the period in which the Reports are prepared; and

(b) I defined controls and procedures, or ensured that controls and procedures under my supervision are in place, designed to ensure with reasonable certainty that the financial reports are reliable and that they are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting standards;

(c) No event or matter which took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report was brought to my attention, which may change the conclusion of the Board of Directors and Management in relation to the effectiveness of the corporation's internal control over financial reporting and disclosure.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, under any law.

May 29, 2013

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Shimon Elkabetz

Co-CEO

Declaration

I, Ronen Agassi, hereby attest that:

(1) I have reviewed the Interim Financial Statements and other financial information included in the Interim Financial Statements of Harel Insurance Investments & Financial Services Ltd. ("the Company") for the first quarter of 2013 ("the Reports" or "the Interim Financial Statements").

(2) Based on my knowledge, the Interim Financial Statements contain no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the statements that they contain, in light of the circumstances under which such statements were included, shall not be misleading with respect to the period covered in the Reports;

(3) Based on my knowledge, the financial statements and other financial information contained in the Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and periods covered in the Reports.

(4) I disclosed to the Company's external auditor, the Board of Directors and the Audit Committee and Financial Reports Committee, based on my most recent evaluation of the internal control over financial reporting:

(a) Any significant flaws and material weakenesses in the determination or application of the internal control over financial reporting and disclosure, as it relates to the Interim Financial Statements and other financial information contained in the Reports, that may reasonably have an adverse effect on the Company's ability to collect, process, summarise or report financial information in a manner that may cast doubt on the credibility of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and -

(b) Any fraud, whether material or immaterial, that involves the general manager (CEO) or any person directly accountable to him or other employees who have a significant role in the Company's internal control over financial reporting and disclosure;

(5) I, myself or together with others in the Company:

(a) Defined controls and procedures, or ensured that controls and procedures are in place under my oversight, to ensure that material information pertaining to the Company, including its subsidiaries as defined in the Securities (Annual Financial Statements) Regulations, 5770 – 2010, is brought to my attention by others in the

Company and in the subsidiaries, specifically during the period in which the Reports are prepared; and -

(b) I defined controls and procedures, or ensured that controls and procedures under my supervision are in place, designed to ensure with reasonable certainty that the financial reports are reliable and that they are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting standards;

(c) No event or matter which took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report was brought to my attention, which may change the conclusion of the Board of Directors and Management in relation to the effectiveness of the corporation's internal control over financial reporting and disclosure.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, under any law.

May 29, 2013

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Ronen Agassi

CFO

Report Regarding Embedded Value Of

Harel Insurance Company Ltd.

(Including Pension Fund Management Companies and Dikla)

as at 31.12.2012

Table of contents

1. General

1.1. Background and extent of disclosure

According to the Commissioner for Insurance’s circular dated 12 August 2007 (insurance circular 1-11-2007) (“**the circular**”), together with financial reports for the first quarter, insurance companies must publish annual information regarding embedded value (**EV** or **embedded value**) of long term insurance policies (life and medical insurance) for the end of the previous year. In accordance with the circular, Harel Insurance Co. Ltd. (“**the company”**) hereby publishes the embedded value of company long term insurance business as at 31 December 2012.

This report has been made according to the rules and principles determined by the Commissioner for Insurance who adopted the rules and principles in the report of a joint committee for the insurance companies and Commissioner for Insurance, assisted by Israeli and foreign consultants (hereinafter: “the committee” and the “committee report”), except for the matter of handling particular risks described in paragraph 1.5.3 below, as specified in said paragraph.

On January 1, 2013, Harel Insurance completed a transaction whereby it acquired the operations included in the life insurance segment of Eliahu Insurance Co. Ltd. ("Eliahu Insurance"). The transaction included the acquisition of all the rights and obligations of Eliahu Insurance in the life-assurance sector, including the life and healthcare insurance segments, and all of its rights and obligations towards policyholders, reinsurers, agents and the like. The EV of Eliahu Insurance is not included in the EV of the company in the forthcoming report.

Apart from insurance businesses whose publication is obliged by the circular, this report also includes the embedded value of Harel Pension Fund Management Ltd. and Yedidim Holding and Management (1984) Ltd., subsidiaries that are fully owned by the company, which were calculated according to the aforementioned principles, mutatis mutandis.

The rules and principles determined in the committee report are published on the Ministry of Treasury website – Capital Market, Insurance and Savings Division (www.mof.gov.il).

The method of disclosure in this report is in accordance with the general disclosure regulations prescribed in the committee report and the instructions specified in the "disclosure format" prepared by the committee, in conjunction with the commissioner. The "disclosure format" has yet to be published by the commissioner as an addition to the circular.

1.2. Clarification regarding forward looking information

Determination of embedded value and value of new business (in accordance with the definition of this term hereunder) is based on forecasts, estimates and valuations of future events whose realization is not certain and not controlled by the company and must be regarded as "forward looking information" as defined in paragraph 32a of the Securities Law – 1968. The above forecasts, estimates and valuations may, all or part thereof, not be realized or be realized in a manner differing from the manner presented in the embedded value report, therefore causing actual results to differ from the forecast.

1.3. Major chapters in the document

- General background and explanation of calculation method
- Discussion of assumptions on which calculations were based
- Embedded value and new business value results
- Analysis of change in the embedded value
- Results of embedded value sensitivity analysis

1.4. Definitions

The following definitions provide a concise explanation of major terms used to understand the following report. Complete descriptions and explanations are to be found in the Committee Report Rules and Principles.

Present value of future profits (PVFP)	Capitalization of the future anticipated flow of profit, emanating from the existing portfolio on the date of the included business' report (see paragraph 2.5.2 hereunder).
Adjusted Net Worth (ANW)	The company equity, after adaptation in order for same to be consistent with the in force portfolio value (see paragraph 2.5.1).
Cost of required capital	The influence on the embedded value – from company shareholders point of view – following the minimal equity holding requirement imposed on the company (see paragraph 2.5.3 hereunder).
Value In Force (VIF)	Current value of future profits, less the required capital cost.
Embedded value (EV)	Comprised of a combination of the in force portfolio value (VIF) and the adjusted equity. It is to be clarified that the adjusted equity is the company equity relating to the array of the activities of the entire company and not only in respect of the businesses included in the embedded value. It should also be clarified that the in force portfolio value does not include: General (elementary) insurance business. . Other company fields of operation controlled by the company, such as insurance agencies and provident fund management. The ability to generate future business (reputation).
Value of new business (VNB)	Current value of profits of businesses sold during the 12 months preceding the report date.
Included businesses	Businesses included in calculation of in force portfolio value: Long term personal policies in life and medical insurance portfolios, valid on 31 December 2012, including increases in premium and one-time future deposits emanating from an increase in wages in respect of the aforementioned policies. . Group life and medical insurance policies valid on 31 December 2012. According to the rules and principles in the committee report, the profits of these policies have only been valued until the next renewal date of these policies.

The pension fund management business which are managed by management companies which are owned by the company (including 79% of La'atid Pension Fund Management Company Ltd.)

1.5. Comments, clarifications and exceptions

1.5.1. General

As mentioned above, the embedded value was calculated by methodology, rules and principles determined in the committee report. The assumptions in the model are based on best estimate assumptions, i.e. assumptions which emanate from extrapolation of existing experience in respect of the future in the framework of the environment in which insurance companies operate without conservative coefficients. Naturally, since we are relating to long term future estimates, actual results may differ from the estimates made when calculating the embedded value.

Deviation from the parameters and assumptions made in predicting the embedded value may have substantial influence over the result. Inter alia, these parameters include:

1. Financial factors (e.g. – capitalization interest, yields)
2. Demographic factors (e.g. – changes in mortality and morbidity)
3. Legislation and legislative arrangements on relevant matters
4. Taxation
5. Changes in the business environment

Future results deviating from assessments based on 'best estimate assumptions' are natural and expected to occur, even if no change whatsoever occurs in the aforementioned parameters. Therefore, it is expected that the actual annual results will differ from the results forecast in the embedded value model, if only due to regular random fluctuations.

1.5.2. Reforms and legislation

Reform to Encourage Competition

In February 2012, the Finance Committee approved the Control of Financial Services (Provident Funds) (Management Fees) Regulations, 5772-2012 ("the Regulations"), after the Commissioner of Insurance had published a position paper in November 2011 concerning the plan to encourage competition in the pension savings market. Accordingly, the Commissioner intends to take a series of measures to improve the market and enhance competition and transparency in an effort to improve the quality and price of the products offered and to allow savers to better adapt the products to their needs.

According to the regulations, there will be a gradual change in the maximum annual management fee rates for managers' insurance (for new policies) and in provident funds and in a supplementary pension fund (also for existing members as well). In addition, the rates of management fees on the accounts of deceased members or members whom contact has been severed will also be reduced.

The reform described above should lead to a significant reduction in the management fees collected by the Company due to a reduction in the management fees that will be collected on insurance products which are sold from January 1, 2013, and to a reduction in the management fees to be collected for existing and new policyholders with whom the Company has no contact. Likewise, the entering into force of the reform may cause an increase in the cancellation rate of existing policies, with high management fees that were sold in the past, instead of which new policies with lower management fees will be purchased. As a direct result of the foregoing, the management fee reform may also affect the value of new business (VNB) to be sold in the future, and the embedded value (EV) in respect of its life assurance and pension fund activity.

The embedded value calculations relate to the aforementioned reforms in that the calculations include assumptions related to reduction in future management fees.

Circular concerning guaranteed annuity coefficients in life assurance policies

On November 29, 2012, the Commissioner published a circular, concerning annuity coefficients, which incorporate a longevity guarantee, limiting the sale of life assurance plans with annuity coefficients. Among other things, the circular stipulates that an insurance company may not market combined life-assurance and savings plans with annuity coefficients which incorporate a longevity guarantee, except in certain circumstances that are detailed in the circular. The provisions of the circular become applicable on January 1, 2013. The prohibition to market these plans from January 1, 2013 caused an increase in sales of these plans at the end of 2012.

At this stage it is impossible to estimate the overall impact of these changes on the Company's future EV, which may affect a decrease in lapse rates for these plans, given that it is difficult to estimate the behavior of policyholders with respect to cancellation or movement of funds.

1.5.3. Handling risks

Hereunder, are exceptions regarding the estimated embedded value detailed in this report emanating from the manner in which the company calculated the embedded value:

The embedded value calculation did not take extreme risks into account, having extremely low probability of occurrence in regard to which the company cannot estimate the probability of the occurrence of such risks, as well as other risks, whose impact the company cannot estimate, such as operational risks. Furthermore, the demographic assumptions on which the model is based were developed mainly on the basis of studies and analyses which rely on the company experience over recent years, which do not include extreme events. Therefore, there is a possibility of extreme events occurring in the future which the company did not take into account when determining the assumptions on which the model is based, notwithstanding the attempt to determine real assumptions which correspond with the actual long term experience.

- The model is based on the assumption that there is no correlation between the model assumptions regarding risks which are not market risks and market risks which may significantly impact embedded value. Due to lack of sufficient data to inspect the above correlation, the company did not examine this assumption.

- According to the committee instructions and rules, inter alia, the determination of assumptions must be based on the expectancy of the embedded value share owners will obtain. In the absence of clear statistical data for which is appropriate to value the distribution of the embedded value for all demographic and operational factors, the company used realistic assumptions for each parameter separately, according to the expectancy of each relevant factor.

- The embedded value is based on the theory in terms of which investors do not require compensation in respect of risks which are not market risks, provided that they are hedgeble or the investors are able to distribute the uncertainty by possessing a diverse and distributed investment portfolio. In actual fact, it is possible that part of the demographic and operational risks will be impossible to be distributed or which investors cannot hedge ("non hedgeable risks"). In the absence of a deep liquid market which will serve to estimate the ‘risk price’ given to these risks by the market, and in the absence of an agreed methodology to quantify the theoretical market price of these risks –The EV in respect of these risks was not reduced

- It should be noted that during 2011 the Committee entered into agreement with foreign actuarial consultants to formulate an appropriate, practical methodology whereby the EV will be adjusted to reflect the cost of non-hedgeable risks. This adjustment is expected to be reflected in a reduction of the EV, both in relation to the value of the portfolio in force (VIF) and to the value of new business (VNB), so that they will more appropriately reflect their value when taking all the risks into account, including the un-hedged risks, and this consistent with accepted practice for EV reporting around the world. At the publication date of this report, no detailed or final recommendations have been received from the aforementioned consultants, and the Committee has therefore not yet formulated a proper methodology on this matter. In view of the foregoing, it was impossible to make the adjustment in this report.

In order to reflect the estimation of the risks which have not been taken into account as aforementioned, the readers of the report may adapt the presented embedded value at their discretion, by means of the sensitivity analyses presented in paragraph 3.5. It should be emphasized that, as already noted above, the company cannot estimate from a quantity, scientific and objective point of view, the influence of the aforementioned matters on the embedded value and therefore the sensitivity analysis presented by the company does not constitute an estimate by the company, but rather is intended to serve as a tool for the readers of the report in order to assess the possible influence of the realization of the risks detailed above and other matters, at their discretion.

1.5.4. Asset revaluation by fair value

According to committee report rules and principles, the accounting value of all company assets has not been adjusted to fair value, rather only the assets overlapping with the included businesses have been adjusted in the embedded value. It should be noted that dedicated debentures (both in life insurance and in the new pension funds) were estimated for technical reasons in accordance with their adjusted cost in the books, taking into account the interest due to the holders of these debentures, in a manner which caused their fair value to be included in the embedded value.

1.5.5. Pension fund governmental subsidization arrangements

In calculating the embedded value and the value of pension management business' new businesses, the company assumed that no changes will occur in the various governmental subsidization arrangements, expressed in the guaranteed yield rates on existing dedicated debentures and/or which are anticipated to be issued in the future in the new and the veteran pension funds, in addition to the yield on assets in the veteran pension fund.

1.5.6. Embedded value is not intended to represent the company's - or its holding company's financial or market value

As aforementioned the in force portfolio value does include not include general (elementary) insurance business and does not other fields of operation by companies controlled by the company

or the ability to generate future business (reputation). Furthermore, it should be emphasized that the embedded value does not relate to Harel Insurance Investments and Financial Services Ltd., the company's holding company which has additional operations and businesses.
Furthermore, embedded value does not include certain risks specified in paragraph 1.5.3 above.

Therefore, in light of the above, embedded value does not represent the market value or the inclusive economic value of the company and its subsidiaries, and market value or the economic value of Harel Insurance Investments and Financial Services Ltd.

2. Embedded value calculation methodology

2.1. General

Embedded value calculation principles are based on committee report rules and principles, subject to the matter of handling certain risks described above in paragraph 1.5.3, as specified in the above paragraph. The assumptions in the model are based on best estimate assumptions, i.e. without conservative coefficients. The model does not include future sales value, however, from a level of expenses point of view etc., the calculation assumes that business activities will continue.

2.2. Handling risks

- Financial (or market) risks – every flow is capitalized according to the capitalization interest, conforming to the risk entailed therein. In effect the model makes use of a financing technique known as Certainty Equivalent Approach, in which cash flows area adjusted to market risks embedded therein and therefore same are capitalized according to risk-free interest. This risk-free interest also serves to assess the anticipated yield on investments.

- As part of the consultation being carried out by the Committee and the foreign consultants, as noted above, the Committee and the consultants, have begun for formulate a methodology which will reflect the fact that surplus yields may be assumed on risk-fee interest, in view of the fact that investments can be made in non-negotiable assets against non-liquid insurance liabilities. An assumption can therefore be made that there will be a supplement to the risk-free interest rate which is appropriate for negotiable assets ("non-liquid premium"), as accepted for EV reports worldwide, and in other areas of the global insurance industry. An adjustment of the risk-free interest rate for the non-liquid premium is expected to produce an increase in the EV. At the publication date of this report, the Committee has not yet formulated detailed and final recommendations, and the non-liquid premium is therefore not reflected in this report.

- Risks which are not market risks – embedded value is calculated based on the financial theory whereby investors do not require additional compensation in the form of capitalization interest for risks which are not market risks, provided they are able to distribute the uncertainty by keeping a diversified, varied investment portfolio. Therefore, on the basis of this assumption, the embedded value was calculated on the basis of demographic and operational assumptions which are ‘the best estimated assumptions’ and by capitalization of the cash flows by the rate of the risk-free interest, without adding margins for discounts or capitalization interest rates in respect of these risks.

2.3. Financial assumptions

2.3.1. Yield, interest, capitalization and inflation

Future yield and capitalization interest were determined according to the yield curve of the index linked risk-free interest. The risk free (spot) interest rates at the end of 2012 were:

End of	Interest Rate	End of	Interest Rate	End of	Interest Rate
2013	-0.15%	2023	1.47%	2033	2.24%
2014	-0.19%	2024	1.59%	2034	2.30%
2015	-0.13%	2025	1.70%	2035	2.34%
2016	0.03%	2026	1.79%	2036	2.39%
2017	0.31%	2027	1.87%	2037	2.44%
2018	0.58%	2028	1.94%	2038	2.48%
2019	0.80%	2029	2.01%	2039	2.52%
2020	1.00%	2030	2.08%	2040	2.56%
2021	1.17%	2031	2.13%	2041	2.59%
2022	1.33%	2032	2.19%	2042	2.63%

It is to be noted that there is no need for an expressed assumption regarding future inflation since all sums in the model are linked. When it is anticipated that a particular parameter will vary not in accordance with future inflation, an expressed assumption has been taken into account regarding the anticipated deviation from the future inflation.

2.3.2. Taxation

Statutory tax applied to financial institutions (including profit tax) (*)

Year	2012	2013	2014	2015	2016	2017	2018	2019+
Tax rate	35.5%	35.9%	35.9%	35.9%	35.9%	35.9%	35.9%	35.9%

(*) Profit tax rate included above is 17.0% from 2013 and thereafter.

2.4. Demographic and operational assumptions

All assumptions with significant impact on embedded value were determined according to the company's best estimates for each demographic and operational factor and reflect company future expectations for such factors (also see section 1.5).

2.4.1. Demographic assumptions

The demographic assumptions included in the calculations were based on internal company studies and conclusions stemming from professional discretion, based both on relevant experience and also information integrated from external sources, e.g. information from reinsurers and published mortality and morbidity tables.

2.4.2. Future management and general expenses

The management and general expenses were calculated according to results of an internal pricing model generated by the company for expenses relating to the included businesses, including: allocation of expenses by different spheres (life and health insurance) and loading expenses onto different activities (production, ongoing administration, investments, etc.).

The company assumed that in the future, the expenses will rise by the index rate, the rate of rise in premiums/ benefits or by the rate of increase in the asset portfolio, in accordance with the loading of expenses in respect of the various activities.

2.5. Calculation method

2.5.1. Adjusted equity (ANW)

Equity value is taken from the financial reports of the company as at 31 December 2012. This sum was reduced by the deferred purchase expenses according to the balance appearing in the balance sheet, minus the reserve for deferred tax in respect thereof. In addition, the value of the insurance portfolios which were purchased, were deducted from the equity according to their value in the company financial reports – less tax in respect thereof and less the reputation of the purchased pension funds, according to the value in the company financial reports.

2.5.2. Present value of future profits (PVFP)

The present value of future profits was calculated using an actuarial model based on policy data, management of the pension rights of the pension fund members and other data in the possession of the company and the pension fund management companies. This model enables generating projected future cash flows and capitalization of these cash flows.

2.5.3. Cost of capital (CoC)

A forecast of the required capital was compiled according to the existing demands and the anticipated future development of included businesses. The cost of capital is capitalization of taxes on investment profits in respect of the required capital for the included businesses. In 2012, capital requirements were modified in respect of companies that manage pension businesses and the cost of capital is calculated consistent with the new requirements.

2.5.4. Value of new business (VNB)

As mentioned above, the value of new business is calculated as the present value of profits from the time of sale, until the lapse of the transaction (the policy or pension plan). The present value of profits was calculated using an actuarial model based on policy data, details regarding the pension fund members and other data, all in order to reflect the contribution of the year's production to embedded value.

VNB was calculated for the following populations:

- All the policies which were issued in 2012
- New coverage issued in 2012 as an addition to policies which were issued before 2012.
- Group policies which were renewed in 2012.
- One-time premiums on existing policies which do not emanate from a wage increase.
- New members of the pension funds during 2012.

It should be clarified that the present value of future profits (PVFP) includes the value of profits from the end of 2012 onwards in respect of new businesses as aforementioned.

2.6. Handling options and financial guarantees

There are no substantial options and financial guarantees in the included businesses in favor of the insureds.

2.7. Analysis of the EV change and the profit on an EV basis

The table in paragraph 3.4 hereunder presents the change in the embedded value, distributed into the adjusted capital and portfolio value components (less the capital cost), including transfers between these two components. All the sums are presented after deduction of tax. The change is broken down into its various influential causes as follows:

1. Adjustments to embedded value as at 31 December 2011 – this paragraph includes corrections in respect of the opening data. The amendments include, inter alia, refinement of the model regarding of policies in arrears and data regarding annuity recipients. In addition, during the third quarter of 2012, a technical error was discovered in the

calculation of the reserve for "claims in payment" for work disability claims, which reduced the company's capital by NIS 18 million.

2. Changes in operational and demographic assumptions – each year the company updates the various assumptions according to which it assesses the embedded value, inter alia, on the basis of new data regarding the actual experience and the changes in the company management’s expectations. The main changes in these spheres were:

    a. Life insurance: a reduction from a revision of annuity take-up rates and updating mortality rates for annuitants, in accordance with the Commissioner's Circular 2012, and from a revision of the expense assumption.

    b. Health insurance: an increase arising from a revision of the assumptions for lapses, morbidity and expenses.

    c. Pension: a reduction stemming from a revision of the assumption for expenses and an estimate of the decline in future management fees.

3. Anticipated profit which is included in the embedded value – the embedded value includes profits which the company is anticipated to gain, even if it does not sell new businesses and does not operate in additional spheres which are not included in the embedded value. These profits emanate from three sources:

    a. The anticipated yield on the in-force portfolio value, valid at the end of the previous period – this anticipated income is based on the real yield rate (above the index) anticipated at the beginning of the year, including margins above the no-risk interest which was anticipated to be received.

    b. The anticipated yield on the adjusted equity – the anticipated income on investments from assets placed against the adjusted capital - this anticipated income is based on the real yield rate (above the index) anticipated at the beginning of the year, including margins above the anticipated no-risk interest to be received.

    c. Profit anticipated to transfer from the in force portfolio value to the adjusted equity during 2012 – during 2012the anticipated profit for the year 2012 was removed from the portfolio value and added to the adjusted capital so that in total, this source did not influence the sum of the embedded value in its entirety, but rather brought about a transfer from the in force portfolio value component to the adjusted capital component. In accordance with the method of determining the adjusted equity, this profit did not include the influence of reduction of the DAC.

4. The influence of the deviations from the operational and demographic assumptions during this period the actual experience regarding the rate of claims, cancellations, expenses, etc. were different than the assumptions based on section 2 above for the purpose of calculating the embedded value. These deviations also influence the anticipated profits from the end of the year and the profits of the year itself. The influences are presented separately in this paragraph in respect of the in force portfolio value and the adjusted capital respectively. In addition, this paragraph includes the influence from a number of causes, each of which is immaterial in the company estimate which include inter alia, changes in existing insurance policies, reinsurance conditions or commission agreements with agents.

5. Profit from new businesses – the embedded value does not include the value which is anticipated to be added from new businesses which will be sold in the future. Therefore, this paragraph presents the addition to the embedded value as at the end of the previous period, following the sale of new insurance policies during the year and the joining of new members to the pension funds. The addition is distributed into actual influence of new businesses on profits during the period itself (presented in the framework of the adjusted capital) and anticipated profits from new businesses in the future (presented in the framework of the in force portfolio value).

   The summary of the changes appearing in paragraphs 2-5 above are usually referred to as ‘the operational real profit on an embedded value basis’. This sum reflects the value which was added to the embedded value, or the profit in value terms emanating from the company’s current activities, except the influence from businesses which are not included in the embedded value (such as general insurance) before the influence of inflation and unexpected economic factors, such as unanticipated changes in the market interest rates, the capital market and inflation.

6. Development expenses not included in the embedded value – the influence on the actual profits during the year is reflected due to extraordinary expenses which were not included in the embedded value but rather were attributed to future sales. During 2012, there were no expenses which were not included in the embedded value.

7. Profit from special items – include:

   a. Personal Accident covers that were sold in Dikla Insurance Company were exchanged from annual to long-term covers during 2012. As a result, these covers are first included in the

EV as of December 31, 2012. The contribution to the EV of these covers, in the amount of NIS 99 million, is shown on this line.

b. The effect of changes to minimum capital requirements on the cost of capital in respect of companies that manage pension businesses. The effect on EV, a decrease of NIS 21 million, is shown on this line.

8. Influence of inflation during 2012 – this paragraph includes the influence of inflation during 2012 (1.4%) on the opening balance of the embedded value. The influence of inflation was mainly in respect of linking the policies to the index, a fact which influences the in force value of the portfolio and the influence of the expected yield in the index rate on the adjusted capital.

9. Profit resulting from deviation from the economic assumptions during 2012 and changes in the economic assumptions – this paragraph includes three components:

   a. Influence on the portfolio value from changes occurring in the economic assumptions which are based on the market interests. Such assumptions include the capitalization interest and anticipated yields.

   b. Influence from the deviations of the actual economic parameters during the year as opposed to expected yields including expected spreads over risk free rates. The influence is in two of the embedded value components:

      1. In the adjusted capital – due to the influence on the profit, mainly from yields which were different from those anticipated on the company assets which are placed vis-à-vis the capital and against the insurance reserves in respect of the included businesses.

      2. In the value of the portfolio – due to the changes in the anticipated profits from the portfolio caused by the change in the risk free yield curve.

   c. Increase in future tax rates. The effect of this increase amounts to NIS 84 million in the insurance segment and to NIS 21 million in pension segment.

It is customary to refer to the changes appearing in paragraphs 2-9 above as ‘the operational real profit on an embedded value basis’. This sum reflects the value which was added to the embedded value, or the profit in value terms emanating from the company’s current activities, including the influences of economic factors and including special items, however, excluding the influence businesses not included in the embedded value (such as general insurance).

10. Profit from non-included businesses – the embedded value sum includes the company's entire equity and therefore a part of the increase/ decrease of the embedded value is explained by the profits/ losses of spheres of activity which are not included in the portfolio value. Also included in this paragraph (increase to capital adapted) are financing expenses in a sum of NIS 159 million (after taxes).

The summary of the changes in paragraphs 2-10 constitutes the 'sum of the profit on an embedded value basis' (including inflation effect).

11. Capital movements – this paragraph presents the change in the embedded value emanating from capital movements, including payment of dividends during the year.

2.8. Sensitivity tests

The sensitivity tests presented in paragraph 3.6 hereunder have adopted the following approaches:

a. Unless stated otherwise, the sensitivity relates to all included businesses.

b. The sensitivity tests relate to each assumption separately without measuring accumulating or offsetting influences or derivative changes on other factors, etc.

c. The sensitivity in respect of the value of new businesses relates to changes from the end of 2012 onwards, not to the period from the time of sale until the end of 2012.

d. Mortality before retirement age – mortality rate sensitivity tests (including death by accident) not including mortality of insureds who are receiving retirement pensions or monthly restitution for loss of ability or nursing.

e. Mortality among retirement pension recipients – sensitivity test of mortality rate among retirement pension recipients only, not including mortality among other pension recipients.

f. Morbidity – sensitivity tests include all claims except for mortality included in section 4 above, including morbidity from severe diseases, loss of ability to work, nursing, surgery and hospitalization, disability from accidents, etc. The test relates to frequency of claims and not period of payment for inability in respect of work or nursing claims.

g. Interest – sensitivity test results include:

1. Impact of changes in interest rate serving as capitalization interest and the expected yield on company asset investments on present value of future profits (PVFP).

2. Impact of changes in interest rate on value of assets bearing Shekel or linked interest, placed vis-à-vis the included businesses.

2.9 Embedded value report review

Annexed to this report is an external reviewer's report that performed a review of the report regarding the embedded value as at December 31, 2012 and value of new businesses for the year ending on that date, as well as the sensitivity analysis presented in this report.

3. Results

3.1. Embedded value on 31.12.2012* (in NIS millions)

	Included businesses in life and health insurance	Pension fund management businesses	Adjustment to joinder of pension fund management businesses into the company's Embedded Value	Total Embedded Value of life and health insurance and pension fund management businesses
Adjusted equity (see paragraph 3.3 below)	2,872	98	(342)	2,628
Present value of future profits, less taxes (see paragraph 1.5.3)	5,290	1,507	0	6,797
Less cost of required capital	(226)	(29)	0	(255)
Embedded value	7,936	1,576	(342)	9,170

*Includes Dikla.

3.2. Value of new businesses for sales during 2012 (in NIS millions)*

	VNB for included life and health insurance businesses	VNB for pension fund management businesses	Total VNB for insurance and pension
Value of new businesses before required capital cost	852	175	1,027
Value of required capital in respect of new businesses	(29)	(4)	(33)
Total value of new businesses	823	171	994

* Includes Dikla.

3.3. Adjustment between adjusted equity and the equity in the financial reports

Table 3.3a – Insurance Business*

	NIS millions
Equity (company's balance)	3,314
Reevaluation of overlapping assets of included businesses and displayed in financial reports by cost of fair value, less taxes	225
Less deferred acquisition costs (DAC)	(1,018)
Plus reserves for deferred tax on DAC	351
Adjusted equity in respect of long-term insurance included businesses	2,872

*Includes Dikla

Table 3.3b – Pension fund management companies

	NIS millions
Equity (company's balances)	190
Less deferred acquisition costs (DAC)	(126)
Plus reserves for deferred tax and future tax benefits on DAC	35
Less reputation in respect of purchased pension funds, appearing in the company's balance sheet of the pension fund management company	(1)
Adjusted equity in respect of pension businesses	98

Table 3.3c – Harel Insurance Company: inclusion of pension fund management business*

	NIS millions
Adjusted equity in respect of long-term insurance policies (life and health insurance), from table 3.3a above	2,872
Less deferred acquisition costs (balance sheet DAC) in respect of pension	(126)
Plus reserves for deferred tax and future tax benefits on DAC, Pension	35
Less the value of purchased pension fund management companies and reputation in respect thereof included in the equity	(153)
Adjusted equity of Harel Insurance, taking pension fund management businesses into account	2,628

*Includes Dikla.

3.4. Analysis of the change in embedded value and profits on an embedded value basis (in NIS millions)

Table 3.4a –Insurance business

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2011 (opening balance)		2,014	4,241	6,255
Adjustment to embedded value in respect of the opening balance	2.7.1	(18)	(21)	(39)
Embedded value adjusted to the opening balance		1,996	4,220	6,216
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	(84)	50	(34)
- Anticipated profit on the value in force	2.7.3	63	268	331
- Inclusive profit predicted in 2012, transferred from portfolio value to equity	2.7.3	507	(507)	0
- Influence of deviations from the operational and demographic assumptions during 2012, plus other changes to the inforce portfolio	2.7.4	(22)	80	58
Total		464	(109)	355
Profit from new businesses	2.7.5	(226)	1,049	823
Real operational profit according to embedded value		238	940	1,178
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	99	99
Influence of inflation in 2012	2.7.8	19	63	82
Profit (loss) from deviations from the economic assumptions during 2012 and amendments of the economic assumptions	2.7.9	487	(258)	229
Total real profit on an embedded value basis		744	844	1,588
Profit from pension businesses		26	0	26
Profit from non-included businesses	2.7.10	159	0	159
Total real profit on an embedded value basis - including all business of the company		929	844	1,773
Capital Movements		(53)	0	(53)
Embedded value as at 31.12.2012		2,872	5,064	7,936

Table 3.4b - Pension fund management businesses

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2011 (opening balance)		41	1,335	1,376
Adjustment to embedded value in respect of the opening balance	2.7.1	0	33	33
Embedded value adjusted to the opening balance		41	1,368	1,409
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	0	(125)	(125)
- Anticipated profit on the value in force	2.7.3	1	30	31
- Inclusive profit predicted in 2012, transferred from portfolio value to equity	2.7.3	40	(40)	0
- Influence of deviations from the operational and demographic assumptions during 2012, plus other changes to the inforce portfolio	2.7.4	(1)	(27)	(28)
Total		40	(162)	(122)
Profit from new businesses	2.7.5	(37)	208	171
Real operational profit according to embedded value		3	46	49
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	(21)	(21)
Influence of inflation in 2012	2.7.8	0	20	20
Profit (loss) from deviations from the economic assumptions during 2012 and amendments of the economic assumptions	2.7.9	3	65	68
Total real profit on an embedded value basis		6	110	116
Capital Movements		51	0	51
Embedded value as at 31.12.2012		98	1,478	1,576

Table 3.4c - Total Insurance and Pension fund management businesses

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2011 (opening balance)		**1,789**	**5,577**	**7,366**
Adjustment to embedded value in respect of the opening balance	2.7.1	(18)	12	(6)
Embedded value adjusted to the opening balance		1,771	5,589	7,360
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	(84)	(75)	(159)
- Anticipated profit on the value in force	2.7.3	56	298	354
- Inclusive profit predicted in 2012, transferred from portfolio value to equity	2.7.3	547	(547)	0
- Influence of deviations from the operational and demographic assumptions during 2012, plus other changes to the inforce portfolio	2.7.4	(22)	52	30
Total		497	(272)	225
Profit from new businesses	2.7.5	(263)	1,257	994
Real operational profit according to embedded value		**234**	**985**	**1,219**
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	78	78
Influence of inflation in 2012	2.7.8	17	83	100
Profit (loss) from deviations from the economic assumptions during 2012 and amendments of the economic assumptions	2.7.9	500	(193)	307
Total real profit on an embedded value basis		**751**	**953**	**1,704**
Profit from non-included businesses		159	0	159
Capital Movements		(53)	0	(53)
Total Change in EV		**857**	**953**	**1,810**
Embedded value as at 31.12.2012		**2,628**	**6,542**	**9,170**

3.5. Adjustment between the changes in adjusted equity and the net profit of the company for 2012 (in NIS millions)

a. Insurance business

Net profit for 2012	436
Items attributed directly to equity	256
Total After-Tax Profit	**692**
Changes in DAC, before tax	(76)
Tax in respect of changes in DAC not included in the in force portfolio value	21
Changes in the difference of fair value, less tax	292
Total Profit Adjusted to EV Basis	**929**
Opening Adjustment to Adjusted Equity	(18)
Capital Movements	(53)
Total Change in Adjusted Equity	**858**

b. Pension management businesses

Net profit for 2012	30
Items attributed directly to equity	1
Total After-Tax Profit	**31**
Changes in DAC, before tax	(31)
Tax in respect of changes in DAC not included in the in force portfolio value	6
Changes in the difference of fair value, less tax	0
Total Profit Adjusted to EV Basis	**6**
Capital Movements	51
Total Change in Adjusted Equity	**57**

3.6. Sensitivity analysis for included businesses as at 31.12.2012

a. Insurance businesses

	Change in embedded value		Change in value of new business	
	NIS millions	%	NIS millions	%
Base result	**7,936**	**100%**	**823**	**100%**
0.5% reduction in risk-free interest	(162)	(2.0%)	21	2.5%
10% increase in administration and general expenses	(239)	(3.0%)	(35)	(4.2%)
Relative 10% increase in cancellation rate (including redemptions and settlements)	(325)	(4.1%)	(93)	(11.3%)
10% increase in mortality rates among pre-retired insureds	(53)	(0.7%)	(23)	(2.8%)
10% increase in morbidity rates	(484)	(6.1%)	(68)	(8.3%)
Relative 10% decrease in mortality rate among recipients of old-age pensions	(194)	(2.4%)	(5)	(0.7%)
Relative 10% increase in risk-free interest	160	2.0%	(21)	(2.6%)
10% decrease in administration and general expenses	239	3.0%	35	4.2%
Relative 10% decrease in cancellation rate (including redemptions and settlements)	367	4.6%	111	13.4%
10% decrease in mortality rates among pre-retired insureds	32	0.4%	21	2.6%
10% decrease in morbidity rates	432	5.4%	71	8.7%
Relative 10% increase in mortality rate among recipients of old-age pensions	172	2.2%	10	1.2%

b. Pension businesses

	Change in embedded value		Change in value of new business	
	NIS millions	%	NIS millions	%
Base result	**1,576**	**100%**	**171**	**100%**
0.5% reduction in risk-free interest	85	5.4%	13	7.9%
10% increase in administration and general expenses	(119)	(7.6%)	(19)	(11.2%)
Relative 10% increase in cancellation rate (including redemptions and freezing)	(145)	(9.2%)	(30)	(17.7%)
1% decrease in wages rises	(89)	(5.7%)	(17)	(10.1%)
Increase in governmental interest by 0.5%	(77)	(4.9%)	(12)	(7.1%)
10% decrease in administration and general expenses	119	7.6%	19	11.2%
10% decrease in cancellation rate (including redemptions and freezing)	165	10.5%	36	21.1%
1% increase in wages rises	100	6.4%	19	11.3%

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May 29, 2012

Addendum A

To:
The Board of Directors
Harel Insurance Company Ltd.

Dear Sir or Madam,

Re: Review of embedded value report dated 31.12.2012

A. In accordance with your request, we reviewed the information prepared by Harel Insurance Company Ltd. (hereinafter the 'company') regarding its embedded value as at 31.12.2012, value of new business for the year ending on the above date, analysis of movement in embedded value and sensitivity tests regarding them, relating to long term life and health insurance policies and pension fund management businesses (hereinafter "embedded value report").

B. Inter alia, our review included:

1. Discussions and inquiries with relevant staff within the company, execution of analytical procedures relating to the results displayed in the embedded value report and to other financial and statistical information.

2. Reconciliation between calculated results and company financial information.

3. Comparison of demographic and operational assumptions according to which the embedded value report was prepared, with past company experience and relevant external information.

4. Examination of the compliance of the methodology, assumptions and method of presentation, according to which the embedded value report was prepared, with Circular No. 2007-1-11 issued by the Commissioner for Insurance and its appendices (hereinafter: Commissioner's circular). The Commissioner's circular adopted the rules and principles established in the report of the joint committee of the insurance companies and the Commissioner for Insurance (hereinafter the 'committee') which operated together with Israeli and foreign consultants.

C. On the basis of our review and relying on the information and data provided by the company, we note as follows:

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1. The methodology and assumptions described in the embedded value report substantively comply with the Commissioner's circular, subject to item D(3) below.

2. The method of disclosure in the embedded value report substantively complies with the Commissioner's circular and with instructions specified in the "Disclosure Format" which was prepared by the committee, in coordination with the Insurance Commissioner.

3. Nothing came to our attention indicating that the demographic and operational assumptions presented to us during the review were unreasonable in relation to the company's past and present experience and the management's expectations regarding the future, subject to paragraph D(2) hereunder.

4. Nothing came to our attention indicating that the embedded value of NIS 9,170 million, value of new business of NIS 994 million, the sensitivity tests in respect thereof and the analysis of movement in embedded value were improperly evaluated according to the methodology and assumptions specified in the embedded value report and which were presented to us during the review.

D. We draw your attention to the following issues:

1. The embedded value report was based on assumptions which are derived from the extrapolation of existing experience to the future, in reference to the environment in which the company operates. Naturally, when dealing with long term future estimations, actual results may be expected to differ from those assumed when calculating the embedded value.

2. There is uncertainty regarding the ramifications of the reforms in the long-term savings market. The calculation of the embedded value does not include the possible effects, if any, as detailed in paragraph 1.5.2 of the embedded value report.

3. Comments, clarifications and limitations relating to the treatment of risks described in paragraph 1.5.3 of the embedded value report.

Yours faithfully,

Kost Forer Gabbay & Kasierer C.P.A.
Certified Public Accountants.