HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Interim Statement
As at June 30, 2013

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

For your peace of mind | HAREL Insurance & Finance

Contents **Page**

Condensed Interim Financial Statements at June 30, 2013

For your peace of mind | HAREL Insurance & Finance

Board of Directors' Report

Harel Insurance Investments & Financial Services Ltd.

Board of Directors' Report

For the six months ended June 30, 2013

The Board of Directors' Report for the six months ended June 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 50% stake) (Regarding the increasing of holdings in ICIC, see Note 5(3) 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 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 7.7%. In the mutual fund management sector, the Group has a market segment of about 11.1%.

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) 50.37% 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. General Meeting

On January 30, 2013, a special Annual General Meeting of the Company took place. The items on the agenda were: (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) approval of payment of fixed compensation to Mr. Doron Cohen for his service as deputy 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.

The meeting approved all the items on the agenda.

2.1.2. Distribution of a dividend

Regarding the resolution to distribute a dividend, which was made in March 19, 2013 and was executed on April 17, 2013, see Note 12(4) to the financial statements.

2.1.3. A loan from a financial institution

Regarding a loan the Company took from a financial institution and relating financial institutions - see Note 9.C(8) to the financial statements.

2.1.4. Agreement in a transaction to acquire half of the rights in a piece of real estate in Raanana

Concerning an agreement between subsidiaries which are financial institutions and Blue Square Real Estate Ltd. in connection with the purchase of half of the rights in an office block in Raanana - see Note 7.D(9) to the Financial Statements.

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

Regarding the completion of an agreement to acquire the life assurance portfolio of Eliahu Insurance Company Ltd. ("Eliahu") - see Note 5(1) to the financial statements.

2.1.6. Credit audit

Regarding a sanction imposed on Harel Insurance, see Note 12(6) to the financial statements.

2.1.7. 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 5(2) to the financial statements.

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

Regarding a transaction to purchase an office building in Minneapolis, see Note 7.D(7) to the financial statements.

2.1.9. Financial sanction

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

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

Regarding a transaction to acquire an office block in Düsseldorf, Germany, see Note 7.D(5) to the financial statements.

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

Regarding a transaction to acquire an office block in Frankfurt, Germany, see Note 7.d(4) to the financial statements.

2.1.12. ICIC

Concerning acquisition of all the holdings of Bituach Haklai in ICIC, see Note 5(3) to the Financial Statements.

2.1.13. Bonus for the controlling shareholders for 2012

Concerning the calculation of a bonus for the Company's controlling shareholders in respect of 2012, see Note 12(2) to the Financial Statements.

2.1.14. Maalot rating

Concerning a rating published by Maalot on June 11, 2013, see Note 7.D(1) to the Financial Statements.

2.1.15. Issuance of bonds (Series 8) by Harel Share Issues

Concerning an issuance of bonds (Series 8) by Harel Share Issues, see Note 9.C(5) to the Financial Statements.

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

2.2.1. Acquisition of rights in the Ir Yamim mall

Concerning the completion of an agreement to acquire rights in the Ir Yamim mall, see Note 13(7) to the Financial Statements.

2.2.2. Highway 6 (Trans-Israel Highway)

Concerning an investment in a special-purpose partnership which was established by the Israel Infrastructures Fund, which completed a transaction to acquire all the holdings of Property & Building in Derech Eretz, which holds the franchise for Highway 6, see Note 13(5) to the Financial Statements.

2.2.3. Internal credit-rating model

Concerning revised approval received for an internal credit-rating model, see Note 8(7) to the Financial Statements.

2.2.4. Maalot Rating in view of revised methodology

Concerning the affirmation of a rating issued by Maalot in view of a revised methodology for rating insurance companies, see Note 7.D(1) to the Financial Statements.

2.2.5. Agreement for architectural services

Concerning entering into an agreement to obtain architectural services from Mr. Miki Kornhauser, see Note 13(7) to the Financial Statements.

2.2.6. Sale of a real-estate asset in Manhattan, New York (USA)

Concerning an agreement to sell a real-estate asset in Manhattan, New York, see Note 13(2) to the Financial Statements.

2.2.7. Harel Share Issues - expansion of Series 7

Concerning a private placement of Series 7 bonds of Harel Share Issues, see Note 9.C(7) to the Financial Statements.

2.2.8. Dividend distribution

Concerning a decision from August 27, 2013 concerning the distribution of a dividend, see Note 13(1) to the Financial Statements.

2.2.9. General Meeting

On August 22, 2013, a special General Meeting of the Company took place. The following items were on the agenda: (1) review of the periodic report for 2012; (2) approval of the Company's compensation policy (for details see Section 2.14); (3) approval of revised employment conditions of Mr. Michel Siboni, Co-CEO of the Company (for details see Section 2.15); (4) approval of revised employment conditions of Mr. Shimon Elkabetz, Co-CEO of the Company (for details see Section 2.16); (5) approval of a bonus for 2012 for Mr. Shimon Elkabetz, Co-CEO of the Company (for details see Section 2.17); (6) equity split and amendment to Section 10 of the Company's Articles of Association (for details see Section 2.2.10).

The meeting approved all the items on the agenda.

2.2.10. Equity split and amendment to Section 10 of the Articles of Association

At a special general meeting of the Company which took place on August 22, 2013 (see Section 2.2.10), a resolution was passed to split the registered share capital (including the Company's issued and paid-up capital) so that each NIS 1 par value share of the Company was split into 10 ordinary shares of NIS 0.1 par value. Accordingly, the number of shares in the registered share capital of the Company will increase to 500,000,000 ordinary shares each of NIS 0.1 par value, without any change in the total registered share capital in shekels.

Accordingly, an amendment to Section 10 of the Company's Articles of Association was approved which specifies the registered share capital and the par value of each share.

Actual splitting of the share capital is subject to the approval of the Stock Exchange which at the date of the report has not yet been received.

2.2.11. Guidelines for equity management

Concerning the approval of guidelines for management of the Group's equity, see Note 8(18) 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. Circulars

2.3.1.1.1. On April 24, 2013, the Commissioner published a circular concerning the introduction of an insurance plan and provident fund articles, which prescribes a procedure for submission of notice of a new insurance plan or articles, or changes therein.

2.3.1.1.2. 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.

2.3.1.1.3. During the Reporting Period, the Commissioner published different parts of the consolidated circular which will replace all the Commissioner's circulars and incorporate all their provisions in one framework, including:

- Introduction to the consolidated circular - which defines the application and commencement of the provisions of the consolidated circular with respect to the source circulars that were and will be embedded in the various chapters of the consolidated circular and the status of the provisions.

- Provisions regarding a non-life insurance policy - this chapter contains the definitions of a general (non-life) insurance policy and provisions concerning the obligations of an insurance company prior to launching a non-life insurance policy, when entering into agreement with a policyholder for non-life insurance, during the period in which the non-life policy is in force and when handling a claim in a non-life insurance policy.
- Provisions regarding a pension fund - this chapter contains provisions concerning the obligations of a pension fund management company prior to launching a pension fund, provisions for managing a pension fund and managing the account of a pension-fund member, and the obligations of the pension-fund management company when entering into agreement with a customer and when handling withdrawals, transfers and claims in a pension fund.
- Provisions regarding a provident fund which is not an insurance fund or a pension fund - this chapter contains provisions concerning the obligations of a management company prior to launching a provident fund which is not an insurance fund or a pension fund, provisions for a provident fund and an account in the said provident fund, and the obligations of a provident fund management company.
- Management of investment assets and the provision of investment-related credit - this chapter contains provisions concerning organizational and operating infrastructure, conditions and rules for the management of investment assets by a financial institution, specific conditions for management of investment assets by an institutional investor, for management of assets held against liabilities which are not yield dependent of insurance companies, and for management of assets held against the equity of a management company.

The provisions enter into force on January 1, 2014 and from that date new provisions and amendments to existing provisions will be published as part of the consolidated circular only.

2.3.1.1.4. The Commissioner's position

On July 10, 2013, the Commissioner published a position concerning principles for the wording of insurance plans, which include principles the purpose of which is to provide guidelines for the insurer when compiling an insurance plan so that it does not include discriminatory conditions and to ensure that it is clear and simple. Likewise, a list of practices which should be included in these insurance plans and a list of practices which should not be included in these insurance plans, was attached to the document of principles. The provisions of the document of principles with respect to insurance plans (including group insurance plans) which will be marketed for the first time commencing December 1, 2013, will become applicable on that date. Regarding insurance plans which are marketed before December 1, 2013, the provisions of the document of principles will be applied gradually based on the class of plan and the provisions and time schedules prescribed in the document of principles.

2.3.2. Life insurance and long-term savings

2.3.2.1. 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.

On April 24, 2013, the Commissioner published a circular concerning the introduction of an insurance plan and provident fund articles, which prescribes a procedure for submission of notice of a new insurance plan or articles, or changes therein. The circular replaces previous circulars from 2005 and 2006.

2.3.2.2.2. Regarding insurance plans and provident fund articles, the circular commences on July 1, 2013, and its provisions will also apply to announcements submitted prior to this date insofar as they have not been lawfully permitted for marketing. Regarding a group health insurance plan, the provisions of the circular will apply from January 1, 2014.

2.3.2.3. Instructions and clarifications

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.

2.3.2.4. Changes in the model of tax benefits applicable to provision made for pension savings

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. Health insurance

2.3.3.1. Circulars

On August 19, 2013, the Commissioner published a circular concerning prescription in an insurance contract which includes cover for disability insurance. The purpose of the circular is to prescribe provisions regulating the handling of applications for an extension of the prescription period in disability claims, beyond the prescription period prescribed by law (3 years). The circular stipulates that the insurer must accede to a written request from the insured to extend the prescription period by at least two years, from three years after the accident or illness has occurred, as well as to further requests to extend the extended prescription period by at least one year each time. A condition for such requests for extension is that the insured's medical condition makes it impossible to investigate the disability during the prescription period or that the disability is still under medical investigation. The circular prescribes provisions for disclosure to the insured concerning the option for extending the prescription period, as above. According to the Commissioner's position which was published on that day, if the insurer fails to comply with the disclosure obligation specified in the circular, the insured will be deemed to have submitted a request to extend the prescription period on the dates stipulated in the circular, according to the circumstances of the case.

The provisions of the circular will apply to policies for accidental disability, personal accident, and any other policy which includes cover for disability insurance, except for policies in accordance with the requirements of the Motor Vehicle Insurance Ordinance [New Version], 5730-1970, liability insurance, work disability insurance, including work disability which includes total, permanent disability, and professional liability insurance. The circular will commence on January 1, 2014 and the provisions pertaining to the disclosure to the insured for the option to extend the prescription period in an insurance policy and in the Schedule will apply only to policies which are marketed or renewed after December 1, 2014.

2.3.3.2. 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.

2.3.3.3. Draft Commissioner's position concerning compensation in cover for private surgery in Israel

On July 8, 2013, the Commissioner published a draft position concerning compensation in cover for private surgery in Israel. The draft document stipulates that commencing from the date of publication of the provision as binding, an insurance plan which covers private surgery in Israel and allows the insured to choose between indemnity for the cost of the surgery and monetary compensation for surgery performed as part of the Supplementary Health Services or in the public health system will no longer be approved, and that from January 1, 2014 such plans may no longer be marketed.

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.

2.3.4.3. Circulars

On July 3, 2013, the Commissioner published a circular concerning variables in the compulsory motor branch, in which context an appendix in the circular was updated with respect to compulsory motor insurance premiums and the variables and categories which may be used for defining the premiums by category of vehicle. The provisions of the circular will apply to premiums in policies which enter into force commencing February 1, 2014. Insurance companies may set the insurance tariff in the compulsory motor insurance branch according to some of the variables listed in the circular commencing July 7, 2013, subject to obtaining the Commissioner's prior approval.

2.3.5. Capital Market and Financial Services

2.3.5.1. Provisions of law

On April 5, 2013, Joint Investments in Trust (Distribution Fees) Regulations (Amendment), 5773-2013 were published which entered into force on May 5, 2013. According to the regulations, the maximum rates of distribution fees which distributors who are not investment marketers (mainly banks) may charge fund managers for distribution of a fund, were reduced in line with the fund's maximum level of exposure to shares. Following the entering into force of the regulations and subsequent to an undertaking by Harel-Pia, as part of an outline agreed upon with the Securities Authority ("the Outline"), commencing on May 5, 2013 the rate of management fees which Harel-Pia collects from the funds which it manages was reduced, in line with the Outline. Harel-Pia believes that the effect of the foregoing on its financial position, the results of its operations and its cash flows is not significant.

2.4. Capital market development

2.4.1. General

The global economy continued to present a mixed macroeconomic picture in the second quarter of 2013: figures for the US were stronger in relative terms, the emerging markets were weaker, and the Eurozone continued to shrink.

Second-quarter macroeconomic data published in the US were for the most part positive, mainly in the housing market and in private consumption, where the employment figures continued to improve. In Europe, macroeconomic data continue to indicate a restrained environment, but less so in comparison to the previous quarter, and fears of a liquidity crisis continued to abate. Growth in China remained slow. Against the backdrop of global weakness, many central banks continued their expansionist monetary policy.

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.

2.4.2. Stock markets

The TA-100 index declined 2.6% in the second quarter but at the end of the first half of the year, the index had risen 2%.

2.4.3. Bonds Market

The general bond index rose by 1.5% in the second quarter of 2013, completing an increase of 2.1% in the first half of 2013. During the quarter, the government bond index rose 1.2%, increasing 1.0% overall from the beginning of the year. The corporate bond index rose 2.1% in during the quarter, completing a total increase of 4% from the beginning of the year.Provident funds.

2.4.4. Mutual Funds

Net amounts of NIS 14.5 billion were raised in the mutual funds market during the second quarter of 2013, and the sector raised NIS 31.6 billion overall in the first half of the year, in contrast with NIS 20 billion for the whole of 2012. Almost all the amounts raised in the first half of the year can be attributed to the funds specializing in bonds (NIS 15 billion) and the money-market funds (NIS 16.6 billion).

2.4.5. Index products

According to the Association of ETFs, the index-linked certificate market manages assets in the amount of NIS 84.5 billion at the end of the second quarter of 2013, compared with NIS 69 billion at the end of 2012, a 22% increase. In the first half of the year the deposit certificates were particularly strong and raised NIS 7.4 billion, as were the ETFs specializing in foreign shares, which raised NIS 4 billion.

2.4.6. Foreign Currency Market

During the second quarter of 2013, the shekel strengthened by 0.8% against the dollar (to NIS 3.618 / 1 USD) and overall it was 3% stronger against the dollar from the beginning of the year. The dollar weakened 1.3% against the euro during the second quarter (to NIS 4.7197 / 1 EUR) but from the beginning of the year it was 4% stronger.

2.4.7. Inflation

According to the last known index during the second quarter of 2013 the inflation amounted during the last 12 months until the index of the month of May to 0.9%, below the inflation target, after a rose of 0.7% during the second quarter.

2.4.8. Bank of Israel Interest

During the second quarter of 2013, the Bank of Israel lowered the interest rate by 0.5% to 1.25%.

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 six months ended June 30		% change	For the three months ended June 30		For year ended December 31
	2013	2012		2013	2012	2012
Life assurance and long-term savings segment						
Gross premiums earned	1,909,174	1,596,050	20	975,004	793,285	3,297,033
Income from management fees	368,970	277,622	33	161,471	140,193	632,920
Profit (loss) from life assurance business	194,282	(12,313)	-	43,260	(122,796)	130,463
Profit from provident fund management	14,798	27,805	(47)	7,117	13,653	54,979
Profit from pension fund management	27,441	22,110	24	16,919	11,977	49,341
Total profit (loss) from life assurance and long-term savings	236,521	37,602	-	67,296	(97,166)	234,783
Total comprehensive income (loss) from life assurance and long-term savings	213,391	73,131	-	61,295	(110,566)	356,817
Non-life insurance segment						
Gross premiums earned	1,543,507	1,419,396	9	776,700	706,647	2,916,265
Premiums earned on retention	893,430	830,989	8	438,986	403,598	1,690,981
Total profit from non-lie insurance	114,222	112,283	2	41,028	32,713	215,084
Comprehensive income from non-life insurance	94,331	117,106	(19)	33,322	9,711	316,643
Health insurance segment						
Gross premiums earned	1,528,142	1,362,026	12	769,311	705,591	2,850,224
Premiums earned on retention	1,426,378	1,272,990	12	715,801	660,064	2,654,493
Total profit from health insurance	90,384	90,438	-	27,159	56,436	183,695
Comprehensive income from health insurance	85,159	95,724	(11)	26,430	51,081	225,433
Insurance companies overseas segment						
Gross premiums earned	87,150	87,854	(1)	44,291	43,222	172,232
Premiums earned on retention	54,793	56,615	(3)	27,892	26,767	109,492
Total loss from insurance companies overseas	(7,350)	(6,735)	-	(3,066)	(2,031)	(21,138)
Total comprehensive loss from insurance companies overseas	(10,770)	(3,790)	-	(3,955)	(2,266)	(20,264)
Capital market and financial services segment						
Revenues from capital market and financial services	110,713	99,610	11	68,538	49,924	194,672
Total expenses from capital market and financial services	103,700	90,138	15	60,587	45,944	179,182
Total profit from capital market and financial services	7,088	9,472	(25)	8,026	3,980	15,478

	For the six months ended June 30		% change	For the three months ended June 30		For year ended December 31
	2013	2012		2013	2012	2012
Total comprehensive profit from capital market and financial services	6,945	9,472	(27)	7,789	3,989	15,866
Items not included in operating segments						
Net profit from investments and financing income	156,723	83,479*	88	77,712	(239)*	226,719*
Income from commissions	41,566	30,600	36	19,282	15,325	70,872
Other income	-	4,415	-	-	1,071	5,871
General & administrative expenses not charged to reports for operating segments	56,427	51,627*	9	25,530	22,089*	102,600*
Financing expenses	70,764	72,474	(2)	43,786	46,104	134,678
Pre-tax profit (loss)	517,019	260,993	98	167,230	(42,124)	698,218
Net profit (loss) for the period	336,374	173,187	94	113,988	(19,454)	450,710
Other comprehensive profit (loss) for the period	(47,006)	59,470	-	(24,879)	(36,134)	254,216
Total comprehensive profit (loss) for the period	289,368	232,657	24	89,109	(55,588)	704,926
Net profit (loss) for the period attributed to the Company's shareholders	336,111	173,113	94	113,872	(19,268)	450,233
Net profit (loss) attributed to non-controlling interests	263	74	-	116	(186)	477
Return on equity in terms of annual comprehensive income in percent	12%	12%	3.3	7%	(6%)	18%

* Concerning retrospective application, see Note 3A 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):

	June 30			December 31
	2013	2012	% change	2012
Total balance sheet	71,424	57,936	23.3	63,362
Assets for yield-dependent contracts	28,573	22,412*	27.5	24,997*
Other financial investments	19,958	18,301	9.1	19,167
Intangible assets	1,623	1,445	12.3	1,431
Reinsurance assets	5,351	5,158**	3.7	4,975
Insurance liabilities (insurance reserves and outastanding claims) in life assurance				
For yield-dependent investment contracts and insurance contracts	25,369	20,162**	25.8	22,350
For insurance contracts that are not yield dependent	10,558	9,813**	7.6	10,166
In non-life insurance	10,167	9,754	4.2	9,653
In health insurance (yield dependent and non-yield dependent)	5,410	4,239	27.6	4,719
(Insurance companies overseas segment (yield dependent and non-yield dependent	218	217	0.7	223
Adjustments and Offsets	(8)	(9)	(14.4)	(9)
Total insurance liabilities	51,714	44,176	17.1	47,102
Equity attributedt to holders of the Company's equity	4,377	3,738	17.1	4,147

* Concerning retrospective application, see Note 3A in the interim consolidated statements about the first-time application of new standards.
** Concerning insignificant adjustment of comparison figures - see note 2C to the Financial Statements.

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

	June 30			December 31
	2013	2012	% change	2012
For yield dependent invetsment contracts and insurance contracts	28,573	22,413	27.5	24,997
For members of provident funds and pension funds *	47,092	38,033	23.8	43,630
For mutual fund customers *	30,905	18,731	65.0	19,486
For customers portfolios *	8,211	3,831	-	2,876
Index linked certificates (ETFs)	8,880	4,129	-	6,039
Total assets under management for the Group's policyholders and members	123,661	87,137	41.9	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 5.06 billion compared with NIS 4.46 billion during the corresponding period last year, a growth of 14% compared with the corresponding period last year.

The total earned premium from insurance business amounted to NIS 2.6 billion in the second quarter of 2013, compared with NIS 2.2 billion in the corresponding period last year, an increase of 14% compared with the same 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 Insurance Company Ltd. ("Eliahu Activity") (Regarding the acquisition of the life insurance segment from Eliahu Insurance Company Ltd. see Note 5(1) 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 4.94 billion compared with NIS 4.46 billion during the corresponding period last year, a growth of about 11% compared with the corresponding period last year.

The comprehensive income, 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 289 million for the Reporting Period, compared with comprehensive profit of NIS 233 million for the corresponding period last year, a growth of 24% compared with the corresponding period last year. The growth in the comprehensive profit is due mainly to the effect of the capital market, where yields were higher than those in the corresponding period last year. Due to the fact that the index was lower during the Reporting Period than it was during the corresponding period last year, and given that during the corresponding period last year Harel Insurance revised its estimates with regard to its obligations for annuity - see Section 2.7 below, comprehensive income was reduced before tax by NIS 24 million and by NIS 16 million after tax.

Comprehensive income in the second quarter of 2013 amounted to NIS 89 million, compared with a loss of NIS 56 million for the corresponding quarter last year. The shift from comprehensive income to comprehensive loss can be attributed largely to the impact of the capital market where yields were positive, compared to the negative yields in the corresponding quarter last year, and to the effect of the index, which was lower in the second quarter of 2013 than in the corresponding quarter last year.

Net profit for the Reporting Period was NIS 336 million, compared with NIS 173 million for the corresponding period last year, growth of 94% compared with the corresponding period last year.

Net profit in the second quarter of 2013 amounted to NIS 114 million, compared with a net loss of NIS 19 million for the corresponding quarter last year.

Pre-tax profit during the Reporting Period amounted to NIS 517 million compared to pre-tax profit of NIS 261 million during the corresponding period last year, an increase of about 98%.

Net pre-tax profit for the second quarter of 2013 was NIS 167 million, compared with net pre-tax loss of NIS 42 million for the corresponding period last year.

During the Reporting Period profits from net investments and funding income amounted to NIS 1,739 million, compared with losses of NIS 1,273 million during the corresponding period last year. The increase stems from the fact that yields on the capital market during the Reporting Period were higher than during the corresponding period last year.

The Group's funding expenses, not attributed to the branches of activity during the Reporting Period amounted to NIS 71 million, similar to the corresponding period last year.

The Company's equity as of June 30, 2013, relating to the Group shareholders amounts to NIS 4,377 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 289 million; and (b) a dividend distribution 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, 2012, see Note 8(5) to the financial statements.

2.7. Life Assurance and Long Term Savings

Comprehensive income in life insurance and long-term savings during the Reporting Period amounted to NIS 213 million, compared with comprehensive loss of NIS 73 million in the corresponding period last year.

The incline in profit can be attributed mainly to following trends: (a) the impact of the capital market, in which yields were higher than those for the corresponding period last year (b) that during the Reporting Period, the Company collected variable management fees of NIS 68 million, compared with no collection of variable management fees in the corresponding period last year; (c) that the index during the Reporting Period was lower than during the corresponding period last year; (d) that during the corresponding period last year, the estimates of Harel Insurance concerning its obligations for annuity were revised, based on revised estimates of longevity and future improvements in life expectancy, as detailed in the draft position paper published by the Commissioner on July 11, 2012, as a result of which comprehensive income before tax was reduced by NIS 24 million; (e) the increase in comprehensive income in the life insurance and long-term savings segments was partially offset by a reduction in the profitability of provident fund activity due to the management fees reform. For additional information about the reform of management fees - see Note 7.D(2) to the Financial Statements.

Comprehensive income in the life assurance and long-term savings segment in the second quarter of 2013 was NIS 61 million, compared with a comprehensive loss of NIS 111 million in the corresponding quarter last year. The shift from loss to profit is mainly due to the impact of the capital market where yields were higher than those in the corresponding period last year, to the effect of the index (CPI) which was lower during the Reporting Period than for the corresponding period last year, to the fact that in the second quarter of 2013, the Company collected variable management fees of NIS 5 million, whereas during the same quarter last year it did not collect any variable management fees, and to the fact that in the corresponding period last year the reserve for obligations for annuity was increased, as noted above. Comprehensive income in the second quarter of 2013 was also affected by a decline in the profitability of provident fund activity due to the reform of management fees (for additional information about the reform of management fees, see Note 7.D(2) to the Financial Statements).

Pre-tax profit in life assurance branch and long term savings during the Reporting Period amounted to NIS 237 million, compared to pre-tax profit of NIS 38 million during the corresponding period last year.

Pre-tax profit in life assurance branch and long term savings during the second quarter of 2013 amounted to NIS 67 million, compared to pre-tax loss of NIS 97 million during the corresponding period last year.

Life assurance

2.7.1. Total premiums earned during the Reporting Period amounted to NIS 1,909 million, compared with NIS 1,596 million during the corresponding period last year, a 20% increase compared to the corresponding period last year. Premiums earned during the Reporting Period constituted 38% from the total premiums earned in the Group during the Reporting Period.

Total premiums earned during the second quarter of 2013 amounted to NIS 975 million, compared with NIS 793 million during the corresponding period last year, a 23% increase compared to the corresponding period last year.

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 1,801 million, compared with about NIS 1,596 million during the corresponding quarter last year, a 13% increase compared to the corresponding quarter last year.
Single premiums were recorded during the Reporting Period in a total amount of NIS 18 million, received from Bezeq's retirees transaction and from Discount's transaction, as opposed to single premiums at the amount of NIS 88 million, received from Bezeq's and Discount's transaction during the corresponding period last year.

Comprehensive income in life insurance during the Reporting Period amounted to NIS 172 million, compared with comprehensive income in life insurance of NIS 24 million in the corresponding period last year. The increase in comprehensive profit stems mainly from the effect of the capital market, where yields were higher than those in the corresponding period last year and due to the fact that during the Reporting Period, the Company collected variable management fees of NIS 68 million in the corresponding period last year.

Comprehensive income from life assurance in the second quarter of 2013 amounted to NIS 38 million, compared with a comprehensive loss of NIS 136 million in the corresponding quarter last year. The shift from comprehensive loss to comprehensive income is mainly due to the impact of the capital market where yields were higher than those in the corresponding period last year, to the effect of the index (CPI) which was lower during second quarter of 2013 than for the corresponding period last year, to the fact that in the second quarter of 2013, the Company collected variable management fees of NIS 5 million, whereas during the same quarter last year it did not collect any variable management fees, and to the fact that in the corresponding period last year the reserve for obligations for annuity was increased, as noted above.

Pre-tax profit in life assurance during the Reporting Period amounted to NIS 194 million compared with pre-tax loss of NIS 12 million during the corresponding period last year.

Pre-tax profit in life assurance during the second quarter of 2013 amounted to NIS 43 million compared with pre-tax loss of NIS 123 million during the corresponding period last year.

During the Reporting Period revenues amounted to NIS 457 million and constituted approximately 2.8% of the average reserve in life assurance, compared to revenues for the amount of approximately NIS 382 million during the corresponding period last year that constituted 2.8% from the average reserve last year.

The total amount of life assurance reserves as of June 30, 2013, amounted to NIS 35.9 billion.

Yield-dependent policies:

	Policies issued from 1992-2003			
	1-6.2013 (in percent)	1-6.2012 (in percent)	4-6.2013 (in percent)	4-6.2012 (in percent)
Real yield before payment of management fees	3.34	2.11	0.40	(2.69)
Real yield after payment of management fees	2.61	1.82	0.22	(2.83)
Nominal yield before payment of management fees	4.07	3.39	1.10	(1.47)
Nominal yield after payment of management fees	3.34	3.09	0.92	(1.61)

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

	Policies issued from 2004			
	1-6.2013 (in percent)	1-6.2012 (in percent)	4-6.2013 (in percent)	4-6.2012 (in percent)
Real yield before payment of management fees	3.26	2.18	0.36	(2.86)
Real yield after payment of management fees	2.66	1.58	0.07	(3.14)
Nominal yield before payment of management fees	4.00	3.46	1.06	(1.64)
Nominal yield after payment of management fees	3.39	2.85	0.77	(1.93)

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):

	1-6.2013	1-6.2012	4-6.2013	4-6.2012
Profits (losses) after management fee	754	555	210	(308)
Total management fees	164	75	55	38

Pension funds

2.7.2. The number of members in the pension funds managed by the Group as of June 30, 2013, is 754 thousand members, 412 thousand of which are active members, a 2% increase in the number of active members compared with December 31, 2012.

The extent of assets managed by pension funds as of June 30, 2013, amounted to NIS 21.9 billion compared with NIS 15.5 billion on June 30, 2012, a 41% increase and compared with the extent of assets of NIS 19.4 billion as of December 31, 2012, an increase of 13%. The increase in comparison to the corresponding period last 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 1,898 million, compared with NIS 1,367 million on the corresponding period last year, a 39% 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 106 million, compared with NIS 92 million in the corresponding period last year, a 14% increase.

Total revenues from management fees which were collected from the pension funds managed by the Group amounted to NIS 57 million in the second quarter of 2013, compared with NIS 47 million for the corresponding quarter last year, an increase of 19%.

Expenses in connection with the management of pension funds amounted to NIS 80 million, compared with NIS 73 million for the corresponding period last year.

Total expenses in pension activity amounted to NIS 41 million for the second quarter of 2013, compared with NIS 37 million for 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 27 million, compared with NIS 22 million during the corresponding period last year.

Pre-tax profit from the management of pension funds and the operation of an old pension fund amounted to NIS 17 million for the second quarter of 2013, compared with NIS 12 million for the same 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 six months ended June 30, 2013

Fund name	Comprehensive yield (in percent)	Investment yield (in percent)	Demographic yield (in percent)
Harel Gilad Pension	4.55	4.14	0.39
Harel - Manof	4.77	4.19	0.56

For the three months ended June 30, 2013

Fund name	Comprehensive yield (in percent)	Investment yield (in percent)	Demographic yield (in percent)
Harel Gilad Pension	1.25	1.02	0.22
Harel - Manof	1.39	1.18	0.20

Provident funds

2.7.3. As of the Reporting Date (June 30, 2013) the Group managed 14 provident funds (provident funds, education funds, central and personal severance pay funds, a provident fund for sick pay and budgetary pension fund).

On July 1, 2013, some of the provident funds were merged, so that as of the publication date of the report, the Group manages 10 provident funds which together have 35 investment tracks for members to choose from.

The volume of assets in the provident funds managed by the Group as of June 30, 2013, amounted to NIS 25.2 billion compared with NIS 22.5 billion as of June 30, 2012, and compared with NIS 24.2 billion as of December 31, 2012, a 12.1% increase in relation to June 30, 2012, and an increase at the rate of 4.1% 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 99 million, compared with NIS 110 million for the corresponding period last year, a 9.8% 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.D(2) to the financial statements).

Total Income from management fees collected from the provident funds managed by the Group during the second quarter of 2013 amounted to NIS 50 million, compared with NIS 54 million for the corresponding period last year.

Provident fund expenses amounted to NIS 86 million, compared with NIS 83 million for the corresponding period last year. Provident fund expenses in the second quarter of 2013 amounted to NIS 43 million, compared with NIS 41 million for the corresponding quarter 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 15 million compared with NIS 28 million during the corresponding period last year. The decline in profit stems from the erosion of the average management fee's rate (For additional information about the reform of management fees - see Note 7.D(2) to the financial statements).

The total pre-tax profit of the provident funds activity in the second quarter of 2013 amounted to NIS 7 million, compared with NIS 14 million during the corresponding period last year.

The provident funds' net accumulation (excluding profits from investments) during the Reporting Period was negative and amounted to NIS 285 million compared with negative accrual of NIS 307 million for the corresponding quarter last year.

2.8. Health Insurance

Premiums earned in the health insurance sector totaled NIS 1,528 million for the Reporting Period, compared with NIS 1,362 million for the corresponding period last year, a 12% increase. Total premiums earned in health insurance during the Reporting Period, accounted for 30% of all premiums earned by the Group.

Total premiums earned in the healthcare insurance segment during the second quarter of 2013 amounted to NIS 769 million, compared with NIS 706 million for the corresponding period last year, an increase of 9%.

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 1,509 million, compared with NIS 1,362 million during the corresponding quarter last year, a 11% increase compared to the corresponding quarter last year.

During the Reporting Period the health insurance sector posted comprehensive profit of NIS 85 million compared with a comprehensive profit of NIS 96 million in the corresponding period last year, a 11% decrease. The decrease in comprehensive profit during the Reporting Period compared with the comprehensive profit in the corresponding period last year stems due to a decrease in the underwriting performance.

Comprehensive income in the healthcare insurance segment in the second quarter of 2013 was NIS 26 million, compared with NIS 51 million for the corresponding quarter last year. The decline in profit in the second quarter can be attributed to a deterioration of underwriting performance compared with the corresponding period last year.

Pre-tax profit in health insurance sector totaled NIS 90 million for the Reporting Period, compared with NIS 90 million, similar to the corresponding period last year.

Pre-tax profit in health insurance sector totaled NIS 27 million for the second quarter of 2013, compared with NIS 56 million in the corresponding period last year.

Total payments and change in gross liabilities in respect of insurance contracts in the health insurance sector during the Reporting Period amounted to NIS 1,226 million, compared with NIS 1,061 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 58 million were recognized in the plan, compared with investment profits of NIS 51.8 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					
	1-6.2013	1-6.2012	% change	4-6.2013	4-6.2012	2012
Compulsory motor	304,121	310,662	(2.1)	97,377	118,846	509,792
Motor property	581,513	513,931	13.2	174,973	200,632	872,363
Property & other branches	448,697	446,290	0.5	225,798	236,501	822,754
Other liabilities branches	402,679	323,580	24.4	153,908	140,172	687,186
Credit & mortgage insurance*	(6,436)	19,682	-	(4,643)	11,557	47,649
Total	1,730,574	1,614,145	7.2	647,413	707,708	2,939,744

*Net of settlements

	Pre-tax profit					
	1-6.2013	1-6.2012	% change	4-6.2013	4-6.2012	2012
Compulsory motor	59,575	74,731	(20.3)	30,677	20,301	186,944
Motor property	9,331	4,431	-	3,068	1,088	10,926
Property & other branches	11,679	20,497	(43.0)	3,621	7,410	41,772
Other liabilities branches	(2,999)	4,879	-	(10,592)	(13,947)	35,982
Credit & mortgage insurance	16,745	12,568	33.2	6,548	(5,141)	41,019
Total	94,331	117,106	(19.4)	33,322	9,711	316,643

Gross premiums during the Reporting Period totaled to approx. NIS 1,731 million, compared with NIS 1,614 million during the corresponding period last year, a 7% 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 2.9.1.1 below).

Gross premiums during the second quarter of 2013 totaled to approx. NIS 647 million, compared with NIS 708 million during the corresponding period last year, a 9% decrease.

Premiums in retention during the Reporting Period totaled to approx. NIS 1,000 million, compared with NIS 917 million in the corresponding period last year, a 9% increase.

Premiums in retention during the second quarter of 2013 totaled to approx. NIS 310 million, , compared with NIS 354 million in the corresponding quarter last year, a 12% decrease.

Comprehensive income in non-life insurance during the Reporting Period amounted to NIS 94 million, compared with comprehensive income of NIS 117 million for the corresponding period last year. The decline in comprehensive income during the Reporting Period is due to the fact that during the corresponding period the surplus revenues which were released in respect of previous periods were higher than the surplus released during the Reporting Period and due to an extraordinary claim in the liabilities branch during the Reporting Period.

Comprehensive income in non-life insurance in the second quarter of 2013 was NIS 33 million, compared with comprehensive income of NIS 10 million for the corresponding quarter last year. The increase in comprehensive income is due mainly to the effect of the capital market, where yields were higher than those in the corresponding period last year, to the effect of inflation which was lower in the second quarter of 2013 relative to the corresponding quarter last year, but which was partially offset by an extraordinary claim in the liabilities branch during the Reporting Period.

Pre-tax profit in general (non-life) insurance during the Reporting Period amounted to NIS 114 million compared with NIS 112 million in the corresponding period last year, a 2% increase.

Pre-tax profit from non-life insurance in was NIS 41 million in the second quarter of 2013, compared with NIS 33 million in the corresponding quarter last year.

2.9.1. Motor property

In motor-vehicle property insurance gross premiums during the Reporting Period amounted to NIS 582 million, compared with gross premiums of NIS 514 million during the corresponding period last year, an increase in 13%. Increase in 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 corresponding period last year.

Total premiums from motor property insurance amounted to NIS 175 million in the second quarter of 2013, compared with NIS 201 million in the corresponding quarter last year, a decline of 13%.

Premiums in retention during the Reporting Period totaled to approx. NIS 459 million, compared with NIS 408 million in the corresponding period last year, a 13% increase.

Premiums in retention during the second quarter of 2013 totaled to approx. NIS 137 million, , compared with NIS 158 million in the corresponding quarter last year, a 14% decrease.

Comprehensive income in motor-vehicle property insurance in the Reporting Period amounted to NIS 9 million, compared with comprehensive income of about NIS 4 million in the corresponding period last year. The increase in the comprehensive income stems mostly from improved underwriting performance.

Comprehensive income in motor-vehicle property insurance during the second quarter of 2013 amounted to NIS 3 million, compared with comprehensive income of about NIS 1 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 higher than those in the corresponding period last year.

Pre-tax profit in motor-vehicle property insurance in the Reporting Period amounted to NIS 11 million compared with pre-tax profit of about NIS 4 million in the corresponding period last year.

Pre-tax profit in motor-vehicle property insurance during the second quarter of 2013 amounted to NIS 4 million compared with pre-tax profit of about NIS 3 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 increase in the number of state employees' vehicles that Harel Insurance insured 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 304 million, compared with gross premiums of NIS 311 million during the corresponding period last year, a decrease in 2%.

Total premiums from motor property insurance amounted to NIS 97 million in the second quarter of 2013, compared with NIS 119 million in the corresponding quarter last year, a decline of 18%.

As to compulsory motor insurance for vehicles owned by state employees - see Par. 2.9.1 above.

During the Reporting Period, premiums in retention amounted to NIS 242 million compared with NIS 248 million in the corresponding period last year.

Premiums in retention during the second quarter of 2013 totaled to approx. NIS 77 million, compared with NIS 95 million in the corresponding quarter last year, a 18% decrease.

Comprehensive income in compulsory motor insurance in the Reporting Period amounted to NIS 60 million compared with NIS 75 million profits in the corresponding period last year. The decrease in profit stems from 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.

Pre-tax profit for compulsory motor insurance during the second quarter of 2013 amounted to NIS 31 million, compared with NIS 20 million during the corresponding quarter last year. The increase in comprehensive income is due to the fact that yields in the capital market were higher than those in the corresponding quarter last year, and to the index (CPI) which was lower than in the corresponding quarter last year. These trends were partially offset by the release in the second quarter of 2013 of surplus income over expenses for previous underwriting years of an amount which was lower than that released in the corresponding period last year.

Pre-tax profit from compulsory motor insurance amounted to NIS 69 million for the Reporting Period, compared with profit of NIS 72 million for the corresponding period last year .

Pre-tax profit from compulsory motor insurance was NIS 34 million in the second quarter of 2013, compared with NIS 30 million in 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 403 million, compared with NIS 324 million during the corresponding period last year, an increase in 24%.

Gross premiums during the second quarter of 2013 totaled to approx. NIS 154 million, compared with NIS 140 million during the corresponding period last year.

Premiums in retention in the Reporting Period amounted to NIS 188 million compared with NIS 144 million during the corresponding period last year, a 31% increase.

Premiums in retention during the second quarter of 2013 totaled to approx. NIS 47 million, compared with NIS 49 million in the corresponding quarter last year, a 3% decrease.

Comprehensive loss in liabilities insurance and others in the Reporting Period amounted to NIS 3 million compared with profit of about NIS 5 million in the corresponding period last year. Performance in the second quarter of 2013 was affected by an extraordinary claim in the liabilities branch. This effect was partially offset by yields in the capital market which were higher than those of the corresponding period last year, and by the CPI which was lower than the CPI for the corresponding quarter last year.

Comprehensive loss in liabilities insurance and others during the second quarter of 2013 amounted to NIS 11 million compared with loss of about NIS 14 million in the corresponding period last year. Performance in the second quarter of 2013 was affected by an extraordinary claim in the liabilities branch. This effect was partially offset by yields in the capital market which were higher than those of the corresponding period last year, and by the CPI which was lower than the CPI for the corresponding quarter last year.

Pre-tax profit in others liabilities insurance in the Reporting Period amounted to NIS 3 million, similar to the corresponding period last year.

Pre-tax loss in others liabilities insurance during the second quarter of 2013 amounted to NIS 8 million, compared with loss of about NIS 9 million in 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 449 million, similar to the corresponding period last year.

Premiums in property and other branches during the second quarter of 2013 amounted to NIS 226 million compared with NIS 237 million during the corresponding period last year, a 5% decrease.

Premiums in retention during the Reporting Period amounted to NIS 116 million compared with NIS 98 million during the corresponding period last year, an 18% increase.

Premiums in retention during the second quarter of 2013 amounted to NIS 53 million compared with NIS 40 million during the corresponding period last year, an 33% increase.

Comprehensive profit in property and other branches in the Reporting Period amounted to NIS 12 million, compared with NIS 20 million in the corresponding quarter last year.

Comprehensive profit in property and other branches during the second quarter of 2013 amounted to NIS 4 million, compared with NIS 7 million in the corresponding quarter last year.

Pre-tax profit in property insurance and other branches during the Reporting Period amounted to NIS 12 million, compared with NIS 20 million in the corresponding quarter last year.

Pre-tax profit in property insurance and other branches during the second quarter of 2013 amounted to NIS 4 million, compared with NIS 8 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.D(12) to the financial statements.

Premiums in retention in credit risks inherent in mortgage assets during the Reporting Period amounted to NIS 25 million compared with premiums in retention of about NIS 28 million in the corresponding period last year.

Premiums in retention during the second quarter of 2013 amounted to NIS 11 million compared with NIS 12 million during 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 17 million compared with NIS 13 million in the corresponding period last year. The increase in profit stems mostly from the influence of the capital market during the Reporting Period in which yields were higher than yields in the corresponding period last year and by the CPI which was lower than the CPI for the corresponding quarter last year..

The comprehensive profit in credit risks inherent in mortgage assets during the second quarter of 2013 amounted to NIS 7 million compared with loss of NIS 5 million in the corresponding period last year, which stems mostly from the influence of the capital market during the second quarter of 2013 in which yields were higher than yields in the corresponding period last year and by the CPI which was lower than the CPI for the corresponding quarter last year..

Pre-tax profit in credit risks inherent in mortgage assets during the Reporting Period amounted to NIS 19 million compared with NIS 13 million in the corresponding period last year.

Pre-tax profit in credit risks inherent in mortgage assets during the second quarter of 2013 amounted to NIS 8.2 million compared with NIS 0.4 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 in the general Insurance sector.

During the Reporting Period, the operating segment for insurance companies overseas earned premiums of NIS 87 million, compared with NIS 88 million for the corresponding period last year. Total premiums earned by the insurance companies operating overseas segment for the Reporting Period account for 2% of all premiums earned by the Group.

Total premiums earned in the insurance companies operating overseas segment during the second quarter of 2013 amounted to NIS 44 million, similar to the corresponding period last year. Total premiums earned by the insurance companies operating overseas segment in the second quarter of 2013 account for 2% of all premiums earned by the Group.

The insurance companies in the overseas operating segment posted a comprehensive loss of NIS 11 million, compared with a comprehensive loss of NIS 4 million for the corresponding quarter last year.

The comprehensive loss in the segment for insurance companies operating overseas in the second quarter of 2013 was NIS 4 million, compared with a 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 7 million, similar to the corresponding quarter last year.

During the second quarter of 2013, the insurance companies abroad posted a pre-tax loss of NIS 3 million, compared with with a loss of NIS 2 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 June 30, 2013, Turk Nippon had a shortfall of regulatory capital (In accordance with the capital requirements which apply to Turk Nippon as an insurer operating in Turkey) of TL 7.9 million (about NIS 14.8 million).

Concerning the approval of a capital transfer to Turk Nippon, see Note 8(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 111 million, compared with NIS 100 million for the corresponding period last year, a 11% increase compared with the corresponding period last year. The increase in revenues during the Reporting Period, compared with the corresponding period last year is mainly due to the acquisition of the portfolio management activity and activity of the mutual funds of Clal Finance - see Note 5(2) to the Financial Statements, and to further growth of activity in index-linked and deposit certificates. In contrast, revenues from Stock Exchange services declined due to the sale of the TASE Member in November 2012.

Total management fees from the mutual funds and managed cases during the Reporting Period totaled NIS 96 million, compared with NIS 71 million for the corresponding period last year.

The volume of assets under management in the capital market and financial services segment at June 30, 2013, was NIS 48 billion, compared with NIS 27 billion at June 30, 2012, and compared with NIS 28.4 billion at December 31, 2012.
This increase in the volume of assets under management in this operating segment, relation to data as of December 31, 2012, can be attributed mainly to the acquisition of the portfolio management activity and activity of the mutual funds of Clal Finance, to the growth of assets under management in the mutual funds, as well as to the Group expanding its ETF and certificates deposit activity.
These amounts include mutual fund assets in the amount of NIS 31 billion at June 30, 2013, compared with NIS 18.7 billion at June 30, 2012 and NIS 19.5 million at December 31, 2012, as well as ETF assets and the deposit, which at June 30, 2013 amounted to NIS 9 billion against to NIS 4.1 billion at June 30, 2012 and NIS 6 billion at December 31, 2012. The assets under management, excluding the assets of the ETF Company and the deposit, 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 7 million, as against a pre-tax profit of NIS 9 million for the corresponding period last year.

During the second quarter of 2013, the capital market and financial services sector recorded pre-tax profit of NIS 8 million, as against a pre-tax profit of NIS 4 million for the corresponding period last year.

2.12. Income tax

Income tax during the Reporting Period amounted to an expense of NIS 181 million, compared with expenses for income tax of NIS 88 million during the corresponding period last year. Income tax during the second quarter of 2013 amounted to an expense of NIS 53 million, compared with expenses for income tax of NIS 23 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(2) 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 2,307 million. Net cash flows used for investment activity amounted to NIS 224 million. Net cash flows provided by activity and fluctuations in exchange rate amounted to NIS 2,995 million. The outcome of the entire activity is showing through the increase in cash flow in the sum of NIS 464 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(3) 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 June 31, 2013, the Company and the other companies in the Group short term loan amounted approximately NIS 80.2 million.

2.13.2.7. Harel Share Issues - expansion of Series 6 bonds and Series 7 bonds as part of the Eliahu transaction.

With regard to an expansion of Series 6 bonds and Series 7 bonds as part of the Eliahu transaction, see Note 9.C(4) to the Financial Statements.

2.13.2.8. Harel Share Issues - issuance of bonds (Series 8)

Concerning an issuance of bonds (Series 8) by Harel Share Issues, see Note 9.C(5) to the Financial Statements.

2.13.2.9. Harel Share Issues - expansion of Series 7

Concerning a private placement of Series 7 bonds of Harel Share Issues, see Note 9.C(7) to the Financial Statements.

2.14. Compensation policy for officers of the Company

In the wake of the enactment of Amendment no. 20 to the Companies Law, as noted in Section 4.2.1.11 of the Periodic Report, the Company's Compensation Committee discussed the adoption of a revised compensation policy for its officers over a period of several months. The compensation policy will also serve as a guiding policy for the Company's subsidiaries, with the relevant changes. The new compensation policy replaces the policy applied by the Group's financial institutions, by virtue of the Commissioner's circular from 2009. For information about the previous compensation policy, see Article 21 (A)(1) in Chapter 5 of the Periodic Report, Additional Information about the Company.

The new compensation policy was approved by the Compensation Committee on July 15, 2013, and by the Board of Directors on July 17, 2013. The policy was approved by the general meeting on August 22, 2013.

The purpose of the compensation policy is to motivate and direct the senior managers in line with the Company's goals and strategic plan, emphasizing increased competition in the recruitment and retention of quality manpower in the Group's senior management positions. All this with the purpose of creating long-term economic value for the Company and its shareholders. The compensation policy was devised, taking into account, inter alia, the size of the Company and the nature of its operations, advancement of the Company's goals, its strategy, long-term work plan and risk-management policy, as well as the employment conditions and bonuses that were Company practice in previous years, salary levels and terms of service and employment which are generally accepted among Israel's insurance and finance companies and large banks, and based on organizational considerations, including the wage costs of different groups of employees and the desired wage differences between them.

The compensation plan relates to different categories of officer: (a) directors who are not outside directors, are not controlling shareholders, and do not hold any other position in the Group - for this category it was determined that the terms of compensation will continue to be based on the compensation prescribed in the Companies (Rules Concerning Compensation and Expenses for an Outside Director) Regulations, 5760-2000 ("the Compensation Regulations") without the limitation of maximum payment for attending meetings for service in subsidiaries; (b) directors who are controlling shareholders - given that their salary was approved based on Amendment no. 16 to the Companies Law, the policy will be applied to them when their employment conditions are submitted for re-approval by the Company's competent organs (including the general meeting) at the end of the present period of approval; (c) directors who hold additional positions in the Group - will receive payment for their service as directors based on sub-section (a) above and compensation for their additional duties, as determined by the competent organs in each individual case depending on the nature of the additional duties, the scope of activity in those positions, as well as the details of the specific director, for example, experience, etc.

The compensation policy addresses a range of employment conditions for officers who are not directors, including the following components: (a) the compensation to be determined for each officer in line with his seniority, knowledge, experience, qualifications and contribution to the Group's results, and based on the defined benchmark group; (b) it was determined that a significant margin will be maintained between the CEO's salary and that of the other officers who report to the CEO; (c) minimum ratios were defined between the fixed components in the employment conditions and the overall employment conditions; (d) it was determined that a fixed salary component may be paid which does not entitle the recipient to social benefits; (e) it was determined that guaranteed bonuses which are part of the officer's employment conditions will be reduced by 50% and in the new agreements guaranteed bonuses will only be given on special grounds, and no more than 2 salaries; (f) provisions were prescribed concerning performance-linked annual bonuses, including the maximum amount of such bonuses for CEOs and for officers who report to the CEOs (for additional information about the annual bonuses, see below); (g) provisions were prescribed concerning the possibility of payment of special bonuses, which are not related to the annual bonuses, for outstanding performance in special projects. Special bonuses are designed for officers who are not the CEO and are not controlling shareholders, and they are limited in the budget to an insignificant amount; (h) provisions were prescribed concerning a capital bonus, which may only be given to CEOs; (i) provisions were prescribed concerning insurance and indemnity for officers and directors; (j) provisions were prescribed concerning termination of the employment conditions, including with respect to the following components: (i) severance pay at a maximum rate of 200% (double that required by law), subject to meeting conditions of seniority and other conditions; (ii) a period of advance notice (of termination) of no more than 6 months; (iii) an adjustment bonus of up to 6 monthly salaries; (iv) compensation for a non-competition commitment. It was determined that a non-competition agreement will be drawn up in exceptional cases only and subject to that the commitment is made in advance and not at the time of departure, and that it is made in cases of genuine concern of damage to the Company business. The maximum non-competition period is two years, and the compensation for this period was limited to a percentage of the current salary prior to termination of office, where the maximum payment, as noted, declines over the non-competition period, taking into account that the initial stage of the non-competition period is more significant from the Company's perspective. If a term of office is terminated under circumstances in which severance pay may be denied, the Company has a unilateral option to cancel the non-competition agreement and not to pay the compensation for the non-competition.

Details about the annual bonuses: provisions were prescribed whereby performance-linked bonuses will only be paid in years in which the Company achieves satisfactory results, at least. Likewise, to prevent the taking of short-term risks, the volume of the performance-linked bonuses is limited, according to a multiple of the monthly salaries, where the maximum amount is for CEOs - 12 salaries (the normative bonus is 10 salaries, including a discretionary component of up to 2 salaries); for chairman of the Board of Directors - 9.6 monthly salaries (the normative bonus is 8 salaries and there is no discretionary component); and 7.2 monthly salaries for other senior officers. It was also determined that the bonuses will be calculated based on meeting long-term goals and not only one-time, current annual targets. To this end, the compensation plan stipulates that different parameters will be computed for the current year and for the two preceding years, so that when determining the overall score for calculation of the annual bonus, the parameters in the current year will be given a weighting of 50%, the weight of the preceding year will be 30%, and the weight of the year preceding that year will be 20%. Notwithstanding the foregoing, transition provisions were prescribed regarding officers who had no compensation plan prior to approval of this compensation policy, as follows: when calculating the bonus for 2013, the current year will have a weight of 100%; when calculating the bonus for 2014 - 2014 will account for 67% and 2013 will account for 33%; and when calculating the bonus for 2015 and thereafter, the weight of the current year will be 50%, the preceding year will have a weight of 30%, and the year preceding that will have a weight of 20%.

The performance-linked annual bonus includes a discretionary component which is limited to 20% for the CEOs and the other officers (excluding for officers in positions of oversight and control).
The compensation plan prescribes a provision whereby the Company will generally honor existing agreements, even where they deviate from the compensation policy, unless the compensation policy contains a different specific instruction.

2.15. Revised terms of employment of Mr. Michel Siboni:

Concurrent with the approval of the compensation policy, and based on the provisions prescribed in the compensation policy, on July 15, 2013 and July 17, 2013, the Compensation Committee and Board of Directors, respectively, approved revised employment conditions for Mr. Michel Siboni, Co-CEO of the Company, CEO of Harel Insurance and Chairman of the Board of Directors of the Group's financial institutions. The revised employment conditions were approved by the general meeting on August 22, 2013. The revised employment conditions are consistent with the Company's compensation policy, while maintaining previous employment conditions.

Details of the revised terms of employment:

2.15.1. Period of employment

The provisions of the new employment agreement apply from October 1, 2013, for an unlimited period. Notwithstanding the foregoing, both parties may terminate the agreement at any time, by giving 90 days advance notice (no change from the present employment agreement).

2.15.2. Current salary

Mr. Siboni's salary will remain unchanged compared with his present salary, which is NIS 190,000 (in this section: "the Salary"). The Salary will be linked to the CPI each monthly, according to the present conditions, namely monthly linkage to the CPI.

2.15.3. Annual performance-linked bonus

According to the Company's compensation policy, Mr. Siboni will be entitled to an annual performance-linked bonus, as follows:

Threshold conditions:

Payment of the annual bonus takes into account the Company's financial position. Accordingly, the annual bonus is conditional on meeting the following conditions:

The Company must achieve a return on equity - comprehensive income (RoE-CI) of 7% ("threshold yield) or higher in the year of the bonus. If the yield is less than 4% ("the Minimum Yield"), the quantitative annual bonus will not be paid, at yield rates of 4%-7%, a proportion of the annual bonus will be paid, calculated as specified below, on a linear basis (if the yield is 4%, 4/7 of the quantitative bonus will be paid, calculated as detailed below; if the yield is 5%, 5/7 of the quantitative bonus will be paid, as detailed below, and so on). Nevertheless, the foregoing is not intended to derogate from the possibility of paying

the discretionary component in full, subject to the approval of the Compensation Committee and the Board of Directors.

After all the annual bonuses have been paid to the officers and other senior Company employees, Harel Insurance must be in compliance with the regulatory capital, based on the instructions of the Commissioner of the Capital Market, Insurance and Savings, plus NIS 150 million.

The sum total of the performance-linked annual bonuses paid to all the Company's senior officers must not exceed 5.5% of comprehensive income before tax.

Maximum annual performance-linked bonus:

The annual bonus paid to Mr. Siboni will be limited to 12 monthly salaries (the normative amount of the annual bonus is 10 monthly salaries, including the discretionary component which is up to 2 monthly salaries).

Composition of the annual bonus:

The annual performance-linked bonus payable to Mr. Siboni, will include the following components:

Measurable component - an amount derived from multiplying Mr. Siboni's multi-year personal score by 80% of his normative bonus.

Discretionary component - a supplement of up to 20% of the officer's normative annual bonus, or a reduction of up to 50% of that amount, as recommended by the Chairman of the Board, and approved by the Compensation Committee and Board of Directors;

Method of calculating the measurable component (80% of the normative bonus):

The amount of the bonus in respect of the measurable component will be determined by multiplying the score calculated according to the following parameters, by 80% of the "normative bonus" (i.e. 8 monthly salaries). For example, if the score calculated for the measurable component is 100%, then 8 monthly salaries will be paid for this component, if the score is 80%, then 6.4 monthly salaries will be paid for the measurable component; if the score calculated is 125%, the maximum bonus will be paid for the measurable component, namely 10 monthly salaries.

Parameters for determining the score for the measurable component for Mr. Siboni:

The score will be determined according to the Company's performance for the last three years, where the current year has 50% weighting, the previous year will be given a weight of 30% and the year preceding that 20%.

Components of the compensation:

Return on equity - comprehensive income (RoE-CI) (30% weighting):

The score for the criteria for the year of the bonus will be given according to the RoE-CI achieved according to the financial statements of Harel Investments, compared with the yield attained according to the financial statements of the four other largest insurance and finance companies (Migdal, Clal, The Phoenix, and Menorah Mivtachim) (in this section: "the Benchmark Companies), as follows:

The highest yield in the benchmark group (including Harel Investments) will receive a maximum score of 125%, and the lowest yield will receive a minimum score of (-25%). The score will be determined according to the Company's RoE-CI on a linear basis, based on the two extreme points, as mentioned.

Notwithstanding the foregoing:

- At a rate of RoE-CI of 17% or higher, a maximum score of 125% will be given.
- At a rate of RoE-CI of 13%, a score of 90% will be given;
- At a rate of RoE-CI of between 13% and 17%, a score will be given on a linear basis as described above, but in any event no less than a score of 90%.
- At a rate of RoE-CI of 5% or lower, a score of (-25%) will be given;

VNB/VIF index (25% weighting):

The score for this criterion for the year of the bonus will be given by comparing the ratio of the embedded value in new business performed in the year of the bonus (VNB) with the value in force of the portfolio (VIF), compared to the ratio for the four largest insurance and finance companies, as noted above. The VNB and VIF data are published in the first quarter reports of the subsequent year. The score will be determined as follow:

The highest ratio in the benchmark group (including Harel Investments) will receive a maximum score of 125%, and the lowest ratio will receive a minimum score of (-25%). The score will be determined according to the position of the VNB/VIF ratio of Harel Insurance, between the two extreme points, as noted.

Notwithstanding the foregoing:

- If the VNB/VIF ratio equals 8% or higher, a maximum score of 125% will be given;
- If the VNB/VIF ratio is 5%, a score of 100% will be given;
- If the VNB/VIF ratio is between 5% and 8%, a score will be given according to the position of the VNB/VIF ratio between the two extreme points as described above, but under no circumstances will the score be less than 100%.
- If the VNB/VIF ratio is 3.5% or lower, a score of (-25%) will be given;

The rate of increase in VIF compared with the other four largest insurance companies (25%):

The score for the criteria of the year of the bonus will be given according to the rate of change in VIF relative to the previous year, compared with the four benchmark companies. The score will be determined as follow:

The highest rate of increase (or lowest rate of decline) in the benchmark group (including Harel Investments) will receive a maximum score of 125%, and the lowest rate will receive a minimum score of (-25%). The score for Harel will be determined according to its rate of growth on a linear basis, based on the two extreme points, as mentioned.

Notwithstanding the foregoing:

- At a growth rate of 15% or more, a maximum score of 125% will be given;
- At a growth rate of 10%, a score of 100% will be given;
- At a growth rate of between 10% and 15%, a score will be given on a linear basis based on two extreme points as described above, but in any event no less than a score of 100%.
- A negative rate of change of (-2%) or lower will receive a minimum score of (-25%).

Rate of increase in gross insurance premiums (20% weight):

The score for the criteria of the year of the bonus will be given according to the weighted rate of change in the volume of premiums compared with the weighted rate of change for the four benchmark companies. The calculation will be made for personal lines premiums (after adjustment for group insurance policies), and separating the following sectors: long-term savings, health insurance, and non-life insurance. The rate of change in the volume of premiums and benefit contributions in each segment will be weighted to a general weighted rate of change, so that the long-term savings and health segments will each receive 40% of the weighting and the non-life insurance segment will receive 20% of the weighting. The comparison with the insurance companies will be made as follows:

The highest weighted growth rate in the benchmark group (including Harel Investments) will receive a maximum score of 125%, and the lowest rate will receive a minimum score of (-25%). The score will be determined according to the Company's rate of growth on a linear basis, based on the two extreme points, as mentioned.

Notwithstanding the foregoing:

- At a growth rate of 12% or more, a maximum score of 125% will be given;
- At a growth rate of 10%, a score of 100% will be given;
- At a growth rate of between 10% and 12%, a score will be given on a linear basis based on two extreme points as described above, but in any event no less than a score of 100%.

- A negative rate of change of (-2%) or lower will receive a minimum score of (-25%).

Method of determining the discretionary component (20% of the normative bonus):

The discretionary component will be influenced, in part, by the extent to which the Company's goals, as set by the Board of directors, are met. These include risk management, compliance with laws, compliance with regulatory provisions and Company procedures, relying, inter alia, on internal audit reports and control studies which will form part of the considerations in supplementing or reducing the bonus.

Insofar as it is positive, the discretionary component may be paid in full even if the threshold conditions mentioned above are not met.

The discretionary component will be determined by the Compensation Committee and approved by the Board of Directors, after receiving a recommendation from the Chairman of the Board.

If annual bonuses are paid to the CEO on the basis of data which at a later stage are found to be erroneous due to an error by the Company which is a significant error (irrespective of whether the error is a material error in the financial statements or is a material error in calculations prepared for determining the annual bonus), the CEO will return the surplus bonus amounts, and if the bonus was underpaid, the Company will make up the shortfall within one year of the date of the Company's notification of such, linked to the CPI. After informing the CEO 15 days in advance, the Company may offset the surplus bonus amounts or part thereof from bonuses owed to the CEO for the subsequent years.

If Mr. Siboni's employment is terminated during the course of the calendar year, the annual bonus will be calculated pro rata to the period during which he worked for the Company in that year.

The results of the calculation of the annual bonus must be approved by the Company's compensation committee each year, after the date of approval of the financial statements for the year ended, and no later than the end of June.

2.15.4. Fixed compensation which does not provide entitlement to social or pension benefits

Mr. Michel Siboni will be entitled to fixed compensation which does not entitle him to social or pension benefits in the total annual amount of NIS 1,000,000. Fixed compensation which does not provide entitlement to social provisions is the type of compensation included in the Company's compensation plan, as part of the on-going salary components. Concerning Mr. Siboni - this compensation is paid as compensation for cancellation of the fixed bonuses and retention bonuses which Mr. Siboni received in the past (in similar amounts) and which he will not receive in the future. With respect to the cost of Mr. Siboni's current salary relative to the benchmark group, this component is taken into account as part of the cost of the current salary.

2.15.5. Related conditions

Michel Siboni will be entitled to a refund of reasonable expenses incurred while fulfilling his duties, including costs of a telephone / mobile phone, membership fees of professional organizations, subscription to newspapers and professional literature, professional liability insurance, periodic surveys, health insurance policy / group dental insurance for Harel Group employees, group risk policy for senior Harel Group executives, group work disability policy for Harel Group employees, participation in study days and incentive trips for agents (with spouse), wellbeing activities as accepted in the Harel Group (e.g. pre-festival gifts, vacation, meals, team-building activities, etc.), purchase of Harel Group insurance products under conditions given to the Group's employees, purchase of Harel Finance financial products under conditions given to Group employees.

Additionally, Mr. Siboni is entitled to a company car, as is accepted practice for the Company's CEO. The cost of car maintenance, including the tax charged for use of the vehicle, will be paid by the Company.

The Company will make provision for social benefits according to generally accepted standards for pension, severance pay and work disability. Likewise, Michel Siboni will be entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Michel Siboni will be entitled to 10 days convalescence a year according to the tariff published by the Coordinating Bureau of Economic Organizations (no change from the present employment agreement).

Michel Siboni will be entitled to 24 days paid vacation a year. Unutilized vacation days, including in respect of the period of Mr. Siboni's employment from the commencement date of his employment for the Company, will be accumulated and may be redeemed when his employment terminates (no change from the present employment agreement).

Michel Siboni will be entitled to 30 days paid sick leave a year, and he may accumulate these days up to a total of 180 days, although he will not be entitled to redeem them when his employment for the Company terminates (no change from the present employment agreement).

Michel Siboni will be given a letter of indemnity, as part of the Company's decisions as approved by the general meeting in July 2006 and by a general meeting in March 2012.

2.15.6. Termination of employment

Mr. Siboni will be entitled to a salary for an 8-month adjustment period (no change from the present employment agreement).

It should be noted that in accordance with the Company's compensation policy, the adjustment bonus is for a period of up to 6 months. Nevertheless, the Compensation Committee and Board of Directors believe that, in this regard, there is no reason to change the provisions of Michel Siboni's present agreement, for the reasons which form the basis of the instruction concerning compensation policy, in which as a rule, except for those matters which were expressly prescribed in the compensation policy, it is company policy not to infringe upon conditions prescribed in existing agreements. Furthermore, in view of the fact that the advance notice period defined in Mr. Siboni's employment agreement is 3 months, whereas the maximum period of advance notice defined in the compensation policy is 6 months, the total period of advance notice and adjustment does not deviate from the total period defined in the compensation policy.

Michel Siboni will be entitled to severance pay of 200% (double the severance pay by law) for the period commencing August 1, 2009 until the date on which his employment for the Company is terminated (according to the present employment agreement). For the period from the commencement of his employment for the Company and up to July 31, 2009, Michel Siboni will be entitled to 150% severance pay (in the present employment agreement the amount is 100% for this period). According to the Company's present compensation policy for senior officers, employees with considerable seniority are entitled to 200% severance pay. Payment of increased severance pay is accepted practice for senior officers of companies of a comparable size to the Company and in companies in the benchmark group, and reflects the desire to remunerate the CEO and encourage him to continue working for the development and progress of the Company, Harel Insurance and its subsidiaries in achieving profits for the Group and attaining its goals.

In his present employment agreement, Mr. Siboni undertook not to compete with the Company when his employment ends for a period of 7 years from the termination of his employment, in return for a non-competition bonus of NIS 5,000,000 (no change from the present employment agreement). Based on the non-competition commitment, Michel Siboni undertook that during the non-competition period he will not serve as the CEO of an insurance company in Israel, either as a salaried employee or as a service provider, and he also undertook not to utilize the knowledge he gained and will gain in the Company in the area of health insurance, and accordingly he undertook not to serve as a consultant to insurance companies in the area of health insurance.

Based on the Company's compensation policy, Mr. Siboni will be entitled, together with members of his family, to continue to be included in the group insurance policy of Harel employees even after his employment terminates, in return for payment of premiums, according to the amounts which were accepted for all Group employees.

2.15.7. Ratio of the terms of service and employment of Michel Siboni to those of all the Company's employees

Data comparing Michel Siboni's on-going salary and total cost of his employment conditions with the current median and average salary and the median and average cost of employment of all the Group's employees were presented to the Compensation Committee and the Board of Directors.

Following are data regarding these ratios:

The ratio between Mr. Siboni's current salary (excluding provision for social benefits) and the current average wage (excluding provision for social benefits) is 18.7.

The ratio between Mr. Siboni's current salary (excluding provision for social benefits) and the current median wage (excluding provision for social benefits) is 25.3.

The ratio between the total cost of Mr. Siboni's employment conditions (excluding non-recurring influences) and the average wage[1] in the Group: 35

The ratio between the total cost of Mr. Siboni's employment conditions (excluding non-recurring influences) and the median wage[2] in the Group: 54.5

The ratio between the total cost of Mr. Siboni's employment conditions (excluding non-recurring influences) and the overall average cost of employing the Group's employees: 25.5.

The ratio between the total cost of Mr. Siboni's employment conditions (excluding non-recurring influences) and the overall median cost of employing the Group's employees: 38.

After reviewing these ratios, in light of Mr. Siboni's centrality and significant contribution to the Group's performance, in light of the broad responsibility imposed on him in his positions, as well as the excellent work relationships prevailing in the Group, the Compensation Committee and Board of Directors are of the opinion that the ratio is fair and reasonable.

[1] Regarding this, "wage" is the income on which National Insurance fees are paid under Chapter 16 of the National Insurance Law [Consolidated Version], 5765-1995.

[2] Regarding this, "wage" is the income on which National Insurance fees are paid under Chapter 16 of the National Insurance Law [Consolidated Version], 5765-1995.

2.15.8. The following details the total cost to the Company of Michel Siboni's employment conditions:

Details of the expected compensation for 2013 (based on the revised compensation plan and taking into account that it will become applicable, subject to approval, only from October 1, 2013, and will include non-recurring provisions):

Compensation recipient				**Compensation for services**							**Other compensation**			**Total**
Name	Position	Scope of position	Percentage holding of company equity	Wage	Bonus	Share-based payment	Management fee	Consulting fee	Commission	Other	Interest	Rental	Other	Total
Michel Siboni	Co-CEO of the Company, CEO Harel Insurance, Chairman of several of the Group's financial institutions	100%	-	4,186	(*)	308				**2,214				6,708

(*) The amounts do not include the performance-linked bonus payable for 2013 as it is impossible to estimate whether Mr. Siboni will be entitled to this bonus and what the scope of the bonus will be. It should be noted that even at the publication date of the financial statements for 2013, the Company will not have this information, consequently the figures published will not include data for the annual performance-linked bonus. It should be noted that the annual normative bonus is 10 times the current monthly salary and the maximum annual bonus is 12 times the current monthly salary. For information about the compensation which would have been paid had the bonus plan for 2011 and 2012 results been applied, see below.

(**) This amount includes non-recurring provisions arising mostly from an increase of severance pay to 150% for the period up to 2009.

Details of the expected compensation for 2014:

Compensation recipient				Compensation for services							Other compensation			Total
Name	Position	Scope of position	Percentage holding of company equity	Wage	Bonus	Share-based payment	Management fee	Consulting fee	Commission	Other	Interest	Rental	Other	Total
Michel Siboni	Co-CEO of the Company, CEO Harel Insurance, Chairman of several of the Group's financial institutions	100%	-	4,186	(*)					239				4,424

(*) The amounts do not include the performance-linked bonus payable for 2013 as it is impossible to estimate whether Mr. Siboni will be entitled to this bonus and what the scope of the bonus will be. It should be noted that the annual normative bonus is 10 times the current monthly salary and the maximum annual bonus is 12 times the current monthly salary. For information about the compensation which would have been paid had the bonus plan for 2011 and 2012 results been applied, see below.

2.15.9. Information about the bonus that would have been paid according to performance-linked bonus plan for Michel Siboni had it been applicable in 2011 and 2012

2011:

According to the quantitative parameters mentioned above, had they been applied to 2011, Michel Siboni would not have been eligible for any annual performance-linked bonus for 2011. Nevertheless, the Compensation Committee and Board of Directors would have been able to approve a discretionary bonus of twice his current monthly salary. According to Mr. Siboni's salary at the end of 2011, the total annual performance-linked bonus would have amounted to NIS 348,048.

2012:

The total performance-linked bonus that would have been paid according to the above-mentioned quantitative parameters amounts to 8.61 times the current monthly salary. According to the revised monthly salary, the bonus would have amounted to NIS 1,628,082. In addition to this bonus, the Board of Directors may approve a discretionary bonus of up to twice the current monthly salary, so that the maximum bonus could have amounted to NIS 2,006,266.

2.15.10. Summary of the reasons given by the Compensation Committee and Board of Directors for approving the revised employment conditions of Mr. Michel Siboni:

As Co-CEO of the Company, CEO of Harel Insurance, which is the Group's key company, and chairman of the boards of directors of the Group's financial institutions, Michel Siboni is involved in and directs most of the Group's significant business decisions, formulation of its strategy, its business development, embarking on new areas of activity, its business relations with customers and agents, and, together with the Group's senior officers, he is involved in and directs most of its business activity. It is largely thanks to his many of years of experience that the Group's achievements in recent years have been so impressive, whether in relation to profit, growth rates or the increase in the EV of Harel Insurance, including when compared with the performance of the other large insurance and finance groups.

Mr. Siboni's long-standing and unique experience in the insurance and long-term savings sector and his familiarity with the Company, its range of activities, its business and its customers, are extremely valuable to the Company and its business success.

During the course of discussions on this subject, based on the desire to compensate Mr. Siboni and provide him with an incentive to continue the pursuit of his successful activity for many more years for the development and dominance of the Group, to improve the Group's profits and achieve the ambitious targets set by the Board of Directors every year, in this period of challenges and important changes in the insurance and finance markets, the following information and parameters were taken into account: (a) a comparison of the proposed compensation with Mr. Siboni's present terms of employment; (b) comparison data regarding the salary, terms of office and employment of CEOs in the benchmark group, which is the large insurance and finance groups and the five largest banks; and (c) information about the scope of the proposed compensation for the CEO and the financial ramifications, including provisions in respect of the compensation. As part of these comparative data, the grant components and other salary components were taken into account.

During the course of these discussions, the fact that the proposed employment conditions do not include an equity component, as was accepted practice in the past, was taken into account, together with the fact that special bonuses as given in the past will no longer be given as they were previously.

Likewise, the approval took into account the fact that the parameters for payment of the bonus are based on comparative parameters for the largest insurance and finance groups, where the discretionary component is not significant.

Data comparing Michel Siboni's on-going salary and total cost of his employment conditions with the current median and average salary and the median and average cost of employment of all the Group's employees were presented to the Compensation Committee and the Board of Directors. The Compensation Committee and Board of Directors concluded, taking note of Mr. Siboni's considerable contribution to the Group's achievements and performance, taking note of the extensive responsibility imposed on Mr. Siboni in his different positions within the Group, and taking note of the excellent work relationships in the Group, that the present ratio is reasonable.

Regarding the current salary, including the fixed compensation which does include entitlement to social benefits, the Compensation Committee and Board of Directors received comparative data for the on-going salary and total cost of employment in the benchmark groups, and concluded that taking note of the size of the Company, its business success, on-going salary and as a result the overall cost of employment do not deviate from the accepted norm. The considerations taken into account concerning the on-going compensation included the fact that Mr. Siboni previously received various bonuses on a regular basis, which will not be paid in the future and are no longer part of the compensation policy. Likewise, when addressing this subject, the Compensation Committee and Board of Directors considered the importance of encouraging Mr. Siboni to remain in his position as Company CEO for many years, and the Compensation Committee and Board of Directors therefore believe that Mr. Siboni's salary should be guaranteed and that the overall cost of his employment conditions should be in the upper range of the accepted employment conditions for CEOs of companies in the benchmark group.

The Compensation Committee and Board of Directors reached the conclusion that the economic and related benefits which are part of Mr. Siboni's terms of employment do not deviate from those accepted by the Group or from the accepted norms in the markets in which the Group operates. The Compensation Committee and Board of Directors are therefore of the opinion that the related conditions are reasonable and fair and that the granting of such benefits serves the Company's best interests.

Regarding the annual performance-linked bonus, the Compensation Committee and Board of Directors are of the opinion that such a bonus serves as an incentive of the first order for the CEO to lead the Group to success, both in absolute terms and when compared with the other insurance and finance groups. Accordingly, objective quantitative indices were defined, most of which are comparable to the results of the other insurance and finance groups. These quantitative parameters which were defined for the purpose of computing the annual performance-linked bonus are significant to the success of the Company and will be used by the Board of Directors to direct and outline the Company's operating policy, in accordance with the strategy determined by the Board of Directors. The Compensation Committee and Board of Directors are of the opinion that these parameters, almost all of which are the key parameters for the compensation plan that the Group's financial institutions have applied since 2010, will continue to serve as the main form of incentive for the CEO and maintain the ability to direct the CEO's activity, focusing it on matters which are material to the Company's success.

To ensure that performance-linked bonuses will only be paid in years in which the Company achieves satisfactory results, at the very least, minimum criteria were established for the payment of performance-linked bonuses.

Likewise, to prevent the taking of short-term risks, the volume of the performance-linked bonuses is limited, according to a multiple of the monthly salaries, where the maximum amount is for 12 salaries. The Compensation Committee and Board of Directors believe that this limitation is essential in a financial institution, and that the limitation prevents the taking of short-term risks or risks which do not correspond with the Company's risk appetite, as defined from time to time in the Board of Directors' policy.

The Compensation Committee and Board of Directors believe that the granting of letters of indemnity is accepted practice among public companies in general and among companies in the insurance and financial services industry in particular. The granting of letters of indemnity is for the benefit of the Company, as it provides the CEO with the ability to carry out his duties properly and for the Company's benefit, taking into account the judicial risks entailed in performing his duties and the considerable responsibility imposed on him by law.

The Compensation Committee and Board of Directors are of the opinion that the conditions prescribed in connection with the termination of employer-employee relations are reasonable and fair and that they serve the Company's best interests. The defined period of three months advance notice is reasonable, taking into account that the maximum period of advance notice defined in the compensation policy is six months. Mr. Siboni's adjustment bonus, which has been part of his employment agreement for several years, is reasonable taking into account his contribution to the Group over many years and the desire of the Compensation Committee and Board of Directors to encourage him to continue to lead the Group in achieving its ambitious goals for many years to come. The non-competition agreement with Mr. Siboni is for a relatively long period, and this in view of his unique characteristics. Mr. Siboni has held key positions in the Company for some two decades and senior management positions in the insurance industry for almost three decades. Mr. Siboni has been a key partner in most of the Group's strategic moves during his term of office and as CEO of the Company he now leads implementation of the Group's strategy. Against this backdrop, and if we compare the overall compensation for non-competition which is for a particularly long period, with the total annual cost of the Mr. Siboni's employment conditions, the Compensation Committee and Board of Directors reached the conclusion that the non-competition agreement is reasonable and serves the Company's best interests.

The Compensation Committee and Board of Directors believe that approval of 150% severance pay for Mr. Siboni for the period of his employment in the Group, until his appointment as CEO of Harel Insurance (from the time of his appointment as CEO of Harel Insurance in 2009, and based on the Group's accepted practice, Mr. Siboni is entitled to 200% severance pay) is fair and reasonable. The granting of such severance pay corresponds with the Company's compensation policy and with the Group's accepted practice for many years with respect to senior officers who have been employed by the Group in senior positions. Notwithstanding the foregoing, the Compensation Committee and Board of Directors set the rate of severance pay for this period at 150% and not 200%, as defined in the compensation policy. The Compensation Committee and Board of Directors reached the conclusion that the granting of increased severance pay, which is an accepted compensation component in the terms of employment of CEOs and senior officers in the markets in which the Company operates, is for the benefit of the Company, where the failure to offer such compensation will result in inferior terms of employment for the CEO relative to the relevant alternatives. The granting of increased severance pay is therefore a significant component in the Company's ability to retain the CEO so that he can continue his work for the Company in the long term.

Based on all the foregoing, and in view of Mr. Siboni's importance to and central role in the Company, the Compensation Committee and the Board of Directors determined that the overall compensation is reasonable and fair, taking note of his position in the Company and that it is consistent with market conditions when compared with the relevant benchmark group. Similarly, it was determined that except for two subjects which in the view of the Compensation Committee and the Board of Directors do not constitute a significant deviation, the compensation is consistent with the compensation plan, it is for the Company's benefit and advances the Company's goals, achieves an appropriate balance between the bonus and fixed salary components, thus avoiding a conflict with the Company's best interests. The compensation is therefore reasonable, adequate and consistent with Michel Siboni's contribution to the Company's performance, both in the short and longer term, and it offers Mr. Siboni the appropriate incentive to continue to realize the ambitious goals set by the Company in its work plan as well as in years to come.

2.16. Revised terms of employment of Mr. Shimon Elkabetz

Concurrent with the approval of the compensation policy, and based on the provisions prescribed in the compensation policy, on July 15, 2013 and July 17, 2013, the Compensation Committee and Board of Directors, respectively, approved revised employment conditions for Mr. Shimon Elkabetz, Co-CEO of the Company, Chairman of the Board of Directors of Harel Finance and Chairman of the Board of Directors of Harel-Pia. In addition to these positions, Mr. Elkabetz also holds other senior positions in the Group: Chairman of the Board of Directors of EMI, director in Harel Financing and member of the nostro investment committee of the Group's financial institutions. The revised employment conditions were approved by the general meeting on August 22, 2013. The revised employment conditions are consistent with the Company's compensation policy, while maintaining previous employment conditions.

2.16.1. Period of employment

The provisions of the new employment agreement apply from October 1, 2013, for an unlimited period. Notwithstanding the foregoing, Mr. Elkabetz may terminate the agreement at any time, by giving 90 days advance notice. The Company may terminate the agreement at any time, by giving 6 months advance notice (no change from the present employment agreement).

2.16.2. Current salary

Based on Shimon Elkabetz' present employment conditions, he is entitled to monthly management fees of NIS 306,000 plus VAT, and this amount is linked to the CPI every month. The amount of the on-going management fees will remain unchanged, and will be linked to the CPI every month.

2.16.3. Annual performance-linked bonus

According to the Company's compensation policy, Mr. Elkabetz will be entitled to an annual performance-linked bonus, as follows:

Threshold condition:

The annual bonus takes into account the Company's financial position. Accordingly, payment of the annual bonus is conditional on meeting the following conditions:

The Company must achieve a comprehensive income yield of 7% ("threshold yield") or higher in the year of the bonus. If the yield is less than 4% ("the Minimum Yield"), the quantitative annual bonus will not be paid, at yield rates of 4%-7%, a proportion of the annual bonus will be paid, calculated as specified below, on a linear basis (if the yield is 4%, 4/7 of the quantitative bonus will be paid, calculated as detailed below; if the yield is 5%, 5/7 of the quantitative bonus will be paid, as detailed below, and so on). Nevertheless, the foregoing is not intended to derogate from the possibility that the discretionary component will be paid in full, subject to the approval of the Compensation Committee and the Board of Directors.

After all the annual bonuses have been paid to the officers and other senior Company employees, Harel Insurance must be in compliance with the regulatory capital, in accordance with the provisions of the Commissioner of the Capital Market, Insurance and Savings, plus NIS 150 million.

The sum total of the performance-linked annual bonuses paid to all the Company's senior officers must not exceed 5.5% of comprehensive income before tax.

Maximum annual performance-linked bonus:

Given that Mr. Elkabetz receives compensation in the form of a management fee which is paid against an invoice, regarding payment of the annual bonus, the "current salary" or "wage" will be computed as 62% of the current monthly management fee. This rate reflects a "normalization" of the payment of management fees paid as compensation just as a salary would be paid in the context of an employment relationship.

The annual bonus paid to Mr. Elkabetz will be limited to 12 times the current monthly salary (the normative amount of the annual bonus is equal to 10 times the current monthly salary).

Minimum bonus:

Mr. Elkabetz announced that he waives the guaranteed (minimum) bonus which was defined in his present employment agreement.

Composition of the annual bonus:

The annual performance-linked bonus payable to Mr. Elkabetz, will include the following components:

Measurable component - an amount derived from multiplying Mr. Elkabetz' multi-year personal score by 80% of his normative bonus.

Discretionary component - a supplement of up to 20% of the officer's normative annual bonus, or a reduction of up to 50% of that amount, as recommended by the Chairman of the Board, and approved by the Compensation Committee and Board of Directors;

Method of calculating the measurable component (80% of the normative bonus):

The amount of the bonus in respect of the measurable component will be determined by multiplying the score to be calculated according to the following parameters, by 80% of the "normative bonus" (i.e. 8 monthly salaries). For example, if the score calculated for the measurable component is 100%, then a bonus of 8 times the current salary will be paid for this component; if the score is 80%, then a bonus of 6.4 times the current salary will be paid for the measurable component; if the score calculated is 125%, the maximum bonus will be paid for the measurable component, namely 10 monthly salaries.

Parameters for determining the personal score for the measurable component for Mr. Elkabetz:

The score will be determined according to the Company's performance over the last three years, with the current year weighted as 50%, the previous year will weighted as 30% and the year preceding that 20%.

Components of the compensation:

Return on equity - comprehensive income (RoE-CI) (30% weighting):

The highest yield in the benchmark group, based on the financial statements, (including Harel Investments) will receive a maximum score of 125%, and the lowest yield will receive a minimum score of (-25%). The score will be determined according to the return on equity - comprehensive income of the Company on a linear basis, based on the two extreme points, as mentioned.

Notwithstanding the foregoing:

- At a rate of RoE-CI of 17% or higher, a maximum score of 125% will be given.
- At a rate of RoE-CI of 13%, a score of 90% will be given;

- At a rate of RoE-CI of between 13% and 17%, a score will be given on a linear basis based on the two extreme points as described above, but in any event the score will be at least 90%.
- At a rate of RoE-CI of 5% or lower, a score of (-25%) will be given;

  The aggregate market segment in the mutual funds and index-linked certificates sector (15% weighting):

The score will be determined according to the growth (decrease) in the aggregate market segment of the mutual funds and index-linked certificates, which is not the result of mergers and acquisitions. A 0.25% supplement (0.25 percentage points) to the market segment will provide a score of 100% and a further supplement of 0.2% or more will provide a maximum score of 125%. Conversely, a decline of 1% or more in the market segment will lead to a minimum score of (-25%), as follows:

Market		Score
0.45%	=<	125%
0.25%		100%
0.00%		75%
-0.75%		0%
-1.00%	=>	-25%

A result between two adjacent values in the table will provide a score on a linear basis according to those values (from the top and the bottom).

EBITDA rate (15%):

Meeting the EBITDA target rate - the EBITDA rate is the ratio between EBITDA and revenues, as they are defined, as follows:

- "EBITDA" - profit from ordinary activity (before tax) according to the financial statements of Harel Finance for the year of the bonus, after adjustment for depreciation, amortization, financing income and expenses, and provision for impairment of value;
- Revenues - income according to the financial statements of Harel Finance for the year of the bonus, after adjustment for financing income.

The EBITDA target rate is as follows: 2013-18%; 2014-19%; 2015-20%.

The EBITDA target rate was set by the Board of Directors as part of the compensation plan and it will apply for three years or until a new compensation policy is approved, whichever is earlier.

The score will be obtained according to the actual difference between the EBITDA rate and the target, based on the following table:

% difference		Score
15%	<=	125%
5%		110%
2%		100%
-2%		100%
-5%		85%
-10%		50%
-20%	=>	-25%

EBITDA of Harel Finance (15% weighting):

The following EBITDA target rates for Harel Finance must be met: 2013 - NIS 44 million; 2014 - NIS 50 million; 2015 - NIS 55 million.

The score will be obtained according to the rate of difference from the target, based on the following table:

% difference		Score
15%	<=	125%
5%		110%
2%		100%
-2%		100%
-5%		85%
-10%		50%
-20%	=>	-25%

Quantitative score for the investment division of Harel Insurance (25% weighting):

A quantitative score which is derived mainly from criteria used to determine the investment division's quantitative score and comprises three indices:

A score for relative measurement of the yields in the different areas of activity (14% weighting) - relative measurement of the division's performance in the different sectors (pension, insurance, provident, and education funds), by comparing the yields of the leading funds in each sector with the average weighted yield of the principal competitors in that sector. The measurement is for performance in the current year.

A score for relative measurement of the investment risk (6% weighting) - the proposed risk index is a sum of all the negative monthly yields during the measured period. This method examines the monthly yields of the investments, and summarizes only the negative yields, which reflect a risk that has materialized. Insofar as this amount is high compared with that of the competing funds, it is evidence of a relatively high risk. Here too, the measurement will include the activity sectors, as noted above, for the current year.

Performance which is measured using the first two criteria includes measurement of the investment yields and of the impairment rates in the different areas of activity, compared with the results of the largest competitors in each area. Details of the competitors in the different areas:

Profit-sharing policies	**Pension funds**	**Provident funds**	**Education funds**
Harel	Harel-Gilad Pension	Harel Otzma Taoz General	Harel Education
Migdal	Mivtachim	Psagot Gadish General	Migdal Kahal Education – general track
Clal Insurance	Makefet	Clal Tamar General	Psagot Kinneret General
The Phoenix	Atidit	Dash Benefits	Dash Education
Menorah-Mivtachim	The Phoenix	Excellence Gemel	Clal Education General
		Yahavit	Altshuler Shaham Education – general track
		Yelin Lapidot Gemel General	Yelin Lapidot Education – general track
		Altshuler Shaham Gemel General	Excellence Education
			Analyst Education General
			Halman Aldubi Yahavit Education

The score will be given according to the position of the fund/portfolio with respect to the yield compared with the competitors (on a scale from highest to lowest), as follows:

Position	Insurance & pension	Provident & education
1	125%	125%
2	100%	110%
3	60%	80%
4	20%	30%
5	-25%	0%
6 and lower		-25%

Regarding the risk, the score will be determined similarly after a ranking of the competitors according to the monthly reductions in absolute values, from lowest to highest.

Nostro portfolio yield (5% weighting) - the insurance company's annual nostro portfolio yield compared with the yield for the four other largest insurance companies, as follows: the highest yield in the benchmark group (including Harel Investments) will receive a maximum score of 125%, and the lowest yield will receive a minimum score of (-25%). The score will be determined according to the yield in the Company's nostro portfolio on a linear basis, based on the two extreme points, as mentioned.

		Weight in determining Unit score	
Measured sector	Type of measurement	Yield in last year	Risk – percentage decline in last year
Profit-sharing policies	Comparison with	3.5%	1.5%
Large provident funds	largest	3.5%	1.5%
Large pension funds	competitors	3.5%	1.5%
Large education funds	in sector	3.5%	1.5%
Nostro portfolio		5.0%	
		19.0%	6.0%

Should one of the companies listed above cease to operate in its present format, it will not be taken into account in calculation of the parameters and adjustment will be made, as long as there are at least two benchmark companies.

Method of determining the discretionary component (20% of the normative bonus):

The discretionary component will be influenced, in part, by the extent to which the Company's goals, as set by the Board of directors, are met: risk management, compliance with laws, compliance with regulatory provisions and Company procedures, relying, inter alia, on internal audit reports and control studies which will form part of the considerations in supplementing or reducing the bonus.

Insofar as it is positive, the discretionary component may be paid in full even if the above-mentioned threshold conditions are not met.

The discretionary component will be determined by the Compensation Committee and approved by the Board of Directors, after receiving a recommendation from the Chairman of the Board.

If annual bonuses are paid to Mr. Elkabetz on the basis of data that are subsequently found to be erroneous due to an error by the Company which is a significant error (irrespective of whether the error is a material error in the financial statements or is a material error in calculations prepared for determining the annual bonus), the CEO will return the surplus bonus amounts, and if the bonus was underpaid, the Company will make up the shortfall within one year of the date of the Company's notification of such, linked to the CPI. After informing the CEO 15 days in advance, the Company may offset the surplus bonus amounts or part thereof from bonuses owed to the CEO for the subsequent years.

If Mr. Elkabetz' employment is terminated during the course of the calendar year, the annual bonus will be calculated pro rata to the period during which he worked for the Company in that year.

The results of the calculation of the annual bonus must be approved by the Company's Compensation Committee each year, after the date of approval of the financial statements for the year ended, and no later than the end of June.

2.16.4. Related conditions

Mr. Shimon Elkabetz will be entitled to a refund of reasonable expenses incurred while fulfilling his duties, including costs of a telephone / mobile phone, membership fees of professional organizations, subscription to newspapers and professional literature, professional liability insurance, periodic surveys, health insurance policy / group dental insurance for Harel Group employees, group risk policy for senior Harel Group executives, group work disability policy for Harel Group employees, participation in study days and incentive trips for agents (with spouse), wellbeing activities according to general practice in the Harel Group (e.g. pre-festival gifts, vacation, meals, team-building activities, etc.), purchase of Harel Group insurance products under conditions given to the Group's employees, purchase of Harel Finance financial products under conditions given to Group employees. Mr. Elkabetz will not be entitled to a refund of expenses for a car or to social benefits.

Mr. Elkabetz will be entitled to 25 days paid vacation a year. Unutilized vacation days, including in respect of the period of Mr. Elkabetz' employment from the commencement of his employment for the Company, will be accumulated and may be redeemed when his employment terminates (no change from the present employment agreement), but in any event no more than 40 days may be accumulated.

Mr. Elkabetz will be entitled to 30 days paid sick leave a year, and he may accumulate these days up to a total of 180 days, although he will not be entitled to redeem them when his employment for the Company terminates (no change from the present employment agreement).

Mr. Elkabetz will be given a letter of indemnity, as part of the Company's resolutions as approved by the general meeting in July 2006 and by a general meeting in March 2012.

2.16.5. Termination of employment

Mr. Elkabetz will be entitled to a salary for a 6 month adjustment period (in the present agreement, he is entitled to a salary for a 3-month adjustment period), which corresponds with the permitted period in the Company's compensation policy.

Mr. Elkabetz will be entitled to 50% severance pay (over and above the lawful entitlement at a rate of 100% which is paid as part of the on-going management fees in the amount specified above) for the period commencing from the date on which he commenced his term of office for the Company and up to the date on which he terminates his employment for the Company. According to the Company's present compensation policy for senior officers, employees with considerable seniority are entitled to 200% severance pay. Payment of increased severance pay is accepted practice for senior officers of companies comparable in size to the Company and by companies in the benchmark group, and in light of the desire to remunerate the CEO and encourage him to continue working for the development and progress of the Company, Harel Insurance and its subsidiaries, in achieving profits for the Group and attaining its goals.

Based on the Company's compensation policy, Mr. Elkabetz and his family members will be entitled to continue to be included in the group insurance policies of Harel employees, in return for payment of the premiums, even after his employment terminates, according to the amounts which were accepted for all Group employees.

2.16.6. Ratio of the terms of service and employment of Shimon Elkabetz to those of all the Company's employees

Data comparing Shimon Elkabetz' on-going salary and total cost of his employment conditions with the current median and average salary and the median and average

cost of employment of all the Group's employees were presented to the Compensation Committee and the Board of Directors.

Following are data regarding these ratios:

The ratio between Mr. Elkabetz' current salary (excluding provision for social benefits) and the current average wage in the Group is 18.1.

The ratio between Mr. Elkabetz' current salary and the median wage (excluding provision for social benefits) in the Group is 24.5.

The ratio between the total cost of Mr. Elkabetz' employment conditions (excluding non-recurring influences) and the average wage in the Group: 31.4

The ratio between the total cost of Mr. Elkabetz' employment conditions (excluding non-recurring influences) and the median wage in the Group: 48.9

The ratio between the total cost of Mr. Elkabetz' employment conditions (excluding non-recurring influences) and the overall average cost of employment of the Group's employees: 22.9.

The ratio between the total cost of Mr. Elkabetz' employment conditions (excluding non-recurring influences) and the overall median cost of employment of the Group's employees: 34.1.

After reviewing these ratios, in light of Mr. Elkabetz' key position and significant contribution to the Group's performance, in light of the broad responsibility which are part of his duties, as well as the excellent work relationships prevailing in the Group, the Compensation Committee and Board of Directors are of the opinion that the ratio is fair and reasonable.

2.16.7. The following details the total cost to the Company of the employment conditions of Shimon Elkabetz:

Details of the expected compensation for 2013 (based on the revised compensation plan and taking into account that it will become applicable, subject to approval, only from October 1, 2013, and will include non-recurring provisions):

Compensation recipient				Compensation for services							Other compensation			Total
Name	Position	Scope of position	Percentage holding of company equity	Wage	Bonus	Share-based payment	Management fee	Consulting fee	Commission	Other	Interest	Rental	Other	Total
Shimon Elkabetz	Co-CEO of the Company, Chairman - Harel Finance, Chairman - Harel-Pia, Chairman of the Board EMI.	100%	-		**1,386	811	3,678			***1,537				*7,412

(*) The amounts do not include the performance-linked bonus payable for 2013 as it is impossible to estimate whether Mr. Elkabetz will be entitled to this bonus and what the scope of the bonus will be. It should be noted that even at the publication date of the financial statements for 2013, the Company will not have this information, consequently the figures published will not include data for the annual performance-linked bonus for 2013. It should be noted that the annual normative bonus is 10 times the current monthly salary (according to 62% of the on-going management fee) and the maximum annual bonus is 12 times the current monthly salary. For information about the compensation which would have been paid had the bonus plan for 2011 and 2012 results been applied, see below.

(**) The bonus is for 2012, based on the information in Section 5 of the agenda for the general meeting. Given that on the publication date of the 2012 financial statements the bonus could not be paid, due to the fact that the compensation plan for Mr. Elkabetz had not been defined, and the subject is only now being submitted for approval, the 2012 bonus was not included in the 2012 financial statements, and it will be included in the 2013 report.

(***) This amount includes non-recurring provision for an increase in the rate of severance pay and an increase in the retirement bonus.

Details of the expected compensation for 2014:

Compensation recipient				Compensation for services							Other compensation			Total
Name	Position	Scope of position	Percentage holding of company equity	Wage	Bonus	Share-based payment	Management fee	Consulting fee	Commission	Other	Interest	Rental	Other	Total
Shimon Elkabetz	Co-CEO of the Company, Chairman - Harel Finance, Chairman - Harel-Pia, Chairman of the Board EMI.	100%	-		(*)	491	3,678			100				*4,269

(*) The amounts do not include the performance-linked bonus payable for 2013 as it is impossible to estimate whether Mr. Elkabetz will be entitled to this bonus and what the scope of the bonus will be. It should be noted that the annual normative bonus is 10 times the current monthly salary (according to 62% of the on-going management fee) and the maximum annual bonus is 12 times the current monthly salary. For information about the compensation which would have been paid had the bonus plan for 2011 and 2012 results been applied, see below.

2.16.8. Information about the bonus which would have been paid according to performance-linked bonus plan for Mr. Elkabetz had it been applicable in 2011 and 2012

Year 2011:

According to the quantitative parameters mentioned above, had they been applied to 2011, Shimon Elkabetz would not have been eligible for any annual performance-linked bonus for 2011. Nevertheless, the Compensation Committee and Board of Directors would have been able to approve a discretionary bonus of twice his current monthly salary. According to Mr. Elkabetz' salary at the end of 2011 (62% of the monthly management fee), the total annual performance-linked bonus would have amounted to a maximum of NIS 372,000.

Year 2012:

The total performance-linked bonus which would have been paid according to the above-mentioned quantitative parameters according to the information for 2012 amounts to 8.68 times the current monthly salary. Based on Mr. Elkabetz' monthly salary at the end of 2012 (62% of the monthly management fee), the bonus would have amounted to NIS 1,636,932. In addition to this bonus, the Board of Directors could have approved a discretionary bonus of up to twice the current monthly salary. The maximum bonus which Mr. Elkabetz could have received for 2012 would therefore have amounted to NIS 2,014,105.

2.16.9. Summary of the reasons given by the Compensation Committee and Board of Directors for approving the revised employment conditions of Mr. Shimon Elkabetz:

As Co-CEO of the Company, Chairman of Harel Finance, Chairman of Harel-Pia, Chairman of EMI, member of the nostro investment committees of the Harel Group's financial institutions and the person responsible for the investment division of Harel Insurance, Shimon Elkabetz is involved in most of the Group's significant business decisions, formulation of its strategy, development of its business in the areas of finance and investments, embarking on new areas of investment activity, and he is involved in and directs, together with the Group's senior officers, most of its business activity. Mr. Elkabetz is a key partner in the achievements that the Group has made in recent years.

Mr. Elkabetz' long-standing experience in the investment and capital markets sector is extremely valuable to the Company and its business success.

During the course of discussions on this subject, based on the desire to compensate Mr. Elkabetz and provide him with an incentive to continue the pursuit of his successful activity for many more years for the development and dominance of the Group, to improve the Group's profits and achieve the ambitious targets set by the Board of Directors every year, in this period of challenges and important changes in the insurance, capital market and finance markets, the following information and parameters were taken into account: (a) comparison of the proposed compensation with Mr. Elkabetz' present terms of employment; (b) comparison data regarding the salary, terms of office and employment of CEOs in the benchmark group, which is the large insurance and finance groups and the five largest banks; and (c) information about the scope of the proposed compensation for the CEO and the financial ramifications, including provisions in respect of the compensation. As part of these comparative data, the bonus components and other salary components were taken into account;

In the context of these discussions, the fact that the proposed employment conditions do not include an equity component, as was accepted practice in the past, was taken into account, together with the fact that the special bonuses paid in the past will no longer be given as they were previously.

Likewise, the approval took into account the fact that the parameters for payment of the bonus are based mainly on comparative parameters for the largest insurance and finance groups, where the discretionary component is not significant.

Data comparing Shimon Elkabetz' on-going salary and total cost of his employment conditions with the current median and average salary and the median and average cost of employment of all the Group's employees were presented to the Compensation Committee and the Board of Directors. The Compensation Committee and Board of Directors concluded, taking note of Mr. Elkabetz' considerable contribution to the Group's achievements and performance, taking note of the extensive responsibility imposed on Mr. Elkabetz in his different positions within the Group, and taking note of the excellent work relationships in the Group, that the present ratio is reasonable.

Regarding the current salary, including the fixed compensation which does not include entitlement to social benefits, the Compensation Committee and Board of Directors received comparative data for the current salary and total cost of employment in companies in the benchmark group, and concluded that taking note of the size of the Company and its business success, the current salary and resulting overall cost of employment, do not deviate from the accepted norm. When addressing this subject, the Compensation Committee and Board of Directors considered the importance of keeping Mr. Elkabetz in his position as Company CEO for many years, and the Compensation Committee and Board of Directors therefore believe that his salary should be guaranteed and that the overall cost of his employment conditions should be in the upper range of the employment conditions which are the accepted norm for CEOs of companies in the benchmark group.

The Compensation Committee and Board of Directors reached the conclusion that the general and related benefits which are part of Mr. Elkabetz' terms of employment do not deviate from those accepted by the Group or from the accepted norms in the markets in which the Group operates. The Compensation Committee and Board of Directors are therefore of the opinion that the related conditions are reasonable and fair and that the granting of such benefits serves the Company's best interests.

Regarding the annual performance-linked bonus, the Compensation Committee and Board of Directors are of the opinion that such a bonus serves as a key incentive for the CEO to lead the Group to success, both in absolute terms and when compared with the other insurance and finance groups. Accordingly, objective quantitative indices were defined, most of which can be compared with the results of the other insurance and finance groups. These quantitative parameters which were defined for the purpose of computing the annual performance-linked bonus are significant to the success of the Company and will be used by the Board of Directors to direct and outline the Company's operating policy, in accordance with the strategy determined by the Board of Directors. The Compensation Committee and Board of Directors are of the opinion that these parameters, will serve as the main form of incentive for the CEO and maintain the ability to direct the CEO's activity, focusing it on matters which are material to the Company's success.

To ensure that performance-linked bonuses will only be paid in years in which the Company achieves satisfactory results, at the very least, minimum criteria were established for the payment of performance-linked bonuses.

Likewise, to prevent the taking of short-term risks, the scope of the performance-linked bonuses was limited, according to a multiple of the monthly salaries, where the maximum amount is for 12 salaries. The Compensation Committee and Board of Directors believe that this limitation is essential in a financial institution, and that the limitation prevents the taking of short-term risks or risks which do not correspond with the Company's risk appetite, as defined from time to time in the Board of Directors' policy.

The Compensation Committee and Board of Directors believe that the granting of letters of indemnity is accepted practice among public companies in general and among companies in the insurance and financial services industry in particular. The granting of letters of indemnity is for the benefit of the Company, as it provides the CEO with the ability to carry out his duties properly and for the Company's benefit, taking into account the judicial risks entailed in performing his duties and the considerable responsibility imposed on him by law.

The Compensation Committee and Board of Directors are of the opinion that the conditions prescribed with respect to the termination of a term of office in the Company are reasonable and fair and that they serve the Company's best interests. The defined six-month advance notice period is reasonable and accepted for CEOs and is consistent with the period defined in the compensation policy.

Mr. Elkabetz' adjustment bonus, which has been part of his employment agreement for several years, is reasonable taking into account his contribution to the Group and the desire of the Compensation Committee and Board of Directors to encourage Mr. Elkabetz to continue to lead the Group in achieving its ambitious goals for many more years. The scope of the adjustment bonus is within the range defined in the compensation policy.

The non-competition agreement with Mr. Elkabetz is for a relatively long period, in view of his important position within the Group. Mr. Elkabetz is a key partner in most of the Group's strategic moves. Against this backdrop, and if we compare the overall compensation for non-competition which is for a particularly long period, with the total annual cost of the Mr. Elkabetz' employment conditions, the Compensation Committee and Board of Directors concluded that the non-competition agreement is reasonable and serves the Company's best interests.

The Compensation Committee and Board of Directors believe that approval of 50% additional severance pay for Mr. Elkabetz, over and above the severance pay which is paid as part of his on-going management fee, is fair and reasonable. The granting of such severance pay corresponds with the Company's compensation policy and has been accepted practice by the Group for many years with respect to senior officers who have been employed by the Group in senior positions. Notwithstanding the foregoing, the Compensation Committee and Board of Directors set the rate of severance pay for this period at 150% and not 200%, in line with the maximum rate defined in the compensation policy. The Compensation Committee and Board of Directors reached the conclusion that the granting of increased severance pay, which is an accepted compensation component in the terms of employment of CEOs and senior officers in the markets in which the Company operates, is for the benefit of the Company, where the failure to offer such compensation will result in inferior terms of employment for the CEO relative to the relevant alternatives. The granting of increased severance pay is therefore a significant element in the Company's ability to retain the CEO so that he can continue his work for the Company in the long term.

Based on all the foregoing, and in view of Mr. Elkabetz' importance to and central role in the Company, the Compensation Committee and the Board of Directors determined that the overall compensation is reasonable and fair, taking note of his position in the Company and that it meets market conditions when compared with the relevant benchmark group. Similarly, it was determined that, with the exception of two subjects which in the view of the Compensation Committee and the Board of Directors do not constitute a significant deviation, the compensation is consistent with the compensation plan, it is for the Company's benefit and advances the Company's goals, achieves an appropriate balance between the bonus and fixed salary components, thus avoiding a conflict with the Company's best interests. The compensation is therefore reasonable, adequate and consistent with Shimon Elkabetz' contribution to the Company's performance, both in the short and longer term, and it offers Mr. Elkabetz the appropriate incentive to continue to realize the ambitious goals set by the Company in its work plan as well as in years to come.

2.17. Approval of the bonus payable to Shimon Elkabetz for 2012

2.17.1. Details of the bonus

Mr. Shimon Elkabetz was not subject to the compensation plan defined for the Group's financial institutions, given that he does not serve as CEO of the financial institutions controlled by the Group, and that the bonus paid to him for previous years was discretionary on the part of the Board of Directors, except for a guaranteed bonus of NIS 500,000 which is defined in his present employment conditions.

When the bonuses for 2012 for the Company's senior officers were approved, the Compensation Committee and Board of Directors resolved that the bonus for Mr. Elkabetz for 2012 would be discussed and approved as part of the discussions on the compensation plan, based on Amendment no. 20 to the Companies Law, and that the bonus for 2012 would be defined on the basis of the parameters laid out in the compensation plan.

The compensation plan for Mr. Elkabetz, as detailed in Section 2.16, includes quantitative parameters for the purpose of defining the annual performance-linked bonus. Two of these parameters (EBITDA rate and compliance with the EBITDA rate) are not computed in comparison to other companies, but are computed based on the targets set by the Compensation Committee and Board of Directors for the first time in the compensation plan. Given that these targets did not exist in 2012, the Compensation Committee and Board of Directors resolved that the calculation of the bonus for Mr. Elkabetz for 2012 would not take these components into account. Likewise, given that prior to the approval of the compensation policy, the compensation plan did not apply to Mr. Elkabetz, based on the provisions of the plan, the parameters computed for 2012 are all the parameters for calculating the annual bonus (100% weighting for 2012).

The following details the results of the quantitative parameters defined for Mr. Elkabetz in the compensation plan, as applicable to the Company's performance in 2012.

The total performance-linked bonus to which Mr. Elkabetz is entitled, according to the quantitative parameters detailed in Section 2.17 above, based on the data for 2012, after adjustment for the EBITDA rate parameter and for the parameter of compliance with the EBITDA target of Harel Finance, (as noted above, given that these parameters were defined for the first time in the compensation plan, it was decided not to apply them retrospectively and as specified in the compensation policy, and as 2012 was the first year in which the plan was applied to Mr. Elkabetz, results for the two years preceding 2012 were not taken into account in calculating the weighting of the quantitative parameters) amounts to 8.7 times the current monthly salary. Accordingly, based on Mr. Elkabetz' monthly salary in March 2013 (62% of the monthly management fee), the bonus would have amounted to NIS 1,636,932.

Additionally, according to the decision of the Compensation Committee and Board of Directors, and in view of the results for 2012, and the projects led by Mr. Elkabetz in 2012, the Compensation Committee and Board of Directors resolved that Mr. Elkabetz is entitled to a discretionary bonus of 1.3 times the current monthly salary (out of twice the current salary).

Consequently, the total bonus to which Mr. Elkabetz is entitled for 2012 amounts to NIS 1,885,866.

Given that Mr. Elkabetz has already received the guaranteed component of the bonus in the amount of NIS 500,000, he is entitled to the outstanding amount of the annual bonus of NIS 1,385,866.

2.17.2. Compliance of the bonus for 2012 with the conditions of the compensation plan

Mr. Elkabetz did not receive a bonus for 2012, a year in which the Company posted excellent results, due to the fact that in the past the compensation plan applicable to him did not include quantitative parameters for the payment of annual bonuses (excluding the guaranteed bonus of NIS 500,000).

The bonus for which we now seek approval was calculated based on the conditions of the compensation policy outlined above, and on the employment conditions of Mr. Shimon Elkabetz. In making the calculation, two parameters which cannot be compared with the results of other companies were discounted, but were defined as part of the compensation plan as a target for coming years, and for which the Board of Directors had not set a defined target in 2012. Consequently, the deviation in the compensation policy is designed to guarantee the objectivity of the parameters used to calculate the bonus for 2012.

2.17.3. Summary of the reasons given by the Compensation Committee and Board of Directors concerning the granting of a bonus for 2012:

The purpose of the annual performance-linked bonus is to serve as an incentive for the CEO to lead the Group to success, both in absolute terms and when compared with the other insurance and finance groups. According to the previous employment conditions of Mr. Elkabetz, the annual bonus paid to him was set by the Board of Directors at the Board's discretion, based on the Company's performance and on a review conducted by the Board of Directors regarding the scope of the entitlement to a bonus, taking into account the meeting of various targets.

In view of the entering into force of Amendment no. 20, a bonus could not be paid to Mr. Elkabetz for 2012, even though this was a particularly successful year for the Company, and it was therefore decided that the bonus will be paid after the compensation policy is approved, and based on the quantitative parameters defined in the compensation policy.

Payment of the bonus for 2012 according to the defined quantitative parameters, which are mostly parameters that compare the Company's performance with that of other companies in its operating sectors, ensures that the bonus will be paid based on objective criteria which reflect the Company's strong performance in 2012.

As Co-CEO of the Company and the person who holds a variety of positions in the Group, Shimon Elkabetz was a key partner in the Group's success in 2012 and to important moves taken during the year in a variety of areas of activity.

The Compensation Committee and Board of Directors received comparative figures regarding the total cost of Mr. Elkabetz' employment, including the amount of the proposed bonus for 2012, as well as comparative figures regarding the overall cost of employment of the CEOs of the benchmark companies, and they concluded that the bonus is fair and reasonable, and that payment of the bonus serves the Company's interest in that it demonstrates the Company's appreciation of Mr. Elkabetz' contribution to performance in 2012.

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".

The Committee consists of the following members:

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 June 30, 2013, the Committee convened on August 18, 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 August 18, 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, 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.

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.

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 August 18, 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 August 27, 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 **Chairman of the Board of Directors**	**Michel Siboni** **Company's joint CEO**	**Shimon Alkabetz** **Company's joint CEO**

August 27, 2013

For your peace of mind | HAREL Insurance & Finance

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 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 June 30, 2013 and the condensed interim consolidated statements of income, comprehensive income, changes in capital and cash flows for the six and three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods 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 these interim periods 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 periods of consolidated companies whose assets included in the consolidation comprise 14.07% of all the consolidated assets as at June 30, 2013 and whose revenues included in the consolidation comprise 2.06% and 2.57 of all the consolidated revenues for the period of six and three months then ended, respectivly. 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 121,933 thousand as at June 30, 2013, and the Group's shares of their profit aggregated NIS 4,815 thousand and NIS 1,487 thousand for the periods of six and three months then ended, respectively. 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)

August 27, 2013

Condensed interim consolidated statements of financial position at

	June 30		December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**1,622,501**	1,445,141	1,431,360
Deferred tax assets	**9,060**	17,092	8,063
Deferred acquisition costs	**1,504,603**	1,350,308	1,399,999
Fixed assets	**663,775**	642,580	650,992
Investments in investees treated using the balance sheet value method	**719,713**	620,320*	554,373*
Real estate investments - yield dependent contracts	**840,778**	729,919*	814,307*
Other real estate investments	**1,264,738**	1,040,061*	1,223,546*
Reinsurance assets	**5,350,744**	5,157,645**	4,974,741
Current tax assets	**69,116**	150,153**	122,182
Other receivables	**462,971**	345,191*	417,638*
Outstanding premiums	**1,126,971**	1,167,769	1,104,386
Financial assets – yield dependent contracts	**26,073,259**	20,212,255*	23,052,239*
Financial assets for index-linked certificates and deposit certificates	**6,742,110**	3,921,127	5,355,405
Other financial investments			
Marketable debt assets	**8,265,374**	7,187,516	7,900,976
Non-marketable debt assets	**9,537,102**	9,153,347	9,093,023
Shares	**528,274**	479,384	517,528
Other investments	**1,627,590**	1,480,704	1,655,958
Total other financial investments	**19,958,340**	18,300,951	19,167,485
Cash and cash equivalents pledged for ETFs holders	**2,284,651**	301,173	818,523
Cash and cash equivalents - yield dependent contracts	**1,222,368**	1,093,434	740,754
Other cash and cash equivalents	**1,508,665**	1,441,190	1,526,490
Total assets	**71,424,363**	57,936,309	63,362,483
Total assets - yield dependent contracts	**28,573,840**	22,411,795*	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

	June 30		December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Equity and liabilities			
Equity			
Share capital and share premium	**315,103**	308,273	308,446
Treasury stock	**(153,271)**	(139,378)	(142,300)
Capital reserves	**268,870**	129,618	328,173
Retained earnings	**3,945,810**	3,439,389*,**	3,652,909*
Total equity attributed to company shareholders	**4,376,512**	3,737,902	4,147,228
Minority rights	**5,220**	4,219	4,990
Total equity	**4,381,732**	3,742,121	4,152,218
Liabilities			
Liabilities in respect of non-yield dependent insurance and investment contracts	**23,703,586**	22,141,728**	22,604,869
Liabilities in respect of yield dependent insurance and investment contracts	**28,011,158**	22,034,989**	24,498,167
Deferred tax liabilities	**483,287**	318,659*	482,273*
Net liabilities for employee benefits	**243,064**	244,673*	247,739*
Current tax liabilities	**32,069**	12,145*	21,245*
Creditors and credit balances	**2,447,923**	2,338,397*	2,508,501*
ETF's liabilities	**8,879,814**	4,112,703	6,039,066
Financial liabilities	**3,241,730**	2,990,894	2,808,405
Total liabilities	**67,042,631**	54,194,188	59,210,265
Total equity and liabilities	**71,424,363**	57,936,309	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: August 27, 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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Premiums earned, gross	**5,063,604**	4,459,921	**2,563,355**	2,246,025	9,225,619
Premiums earned by reinsurers	**848,157**	760,071	**439,710**	390,754	1,587,875
Premiums earned in retention	**4,215,447**	3,699,850	**2,123,645**	1,855,271	7,637,744
Net profit (loss) from investments and financial income	**1,739,008**	1,273,427*	**710,209**	(34,223)*	3,745,835*
Income from management fees	**474,307**	356,590	**228,617**	179,331	792,632
Income from commissions	**207,899**	197,996	**107,032**	103,750	419,347
Other income	**-**	2,887	**-**	386	3,698
Total income	**6,636,661**	5,530,750	**3,169,503**	2,104,515	12,599,256
Payments and changes in liabilities for insurance and investment contracts, gross	**5,605,865**	4,429,046	**2,853,215**	1,690,205	10,192,138
Reinsurers' share in payments and changes for insurance contracts liabilities	**948,602**	470,774	**626,339**	226,217	1,005,298
Payments and changes in liabilities for insurance and investment contracts, in retention	**4,657,263**	3,958,272	**2,226,876**	1,463,988	9,186,840
Commission, marketing and other acquisition expenses	**870,810**	800,579	**453,795**	412,334	1,661,492
General and administrative expenses	**496,863**	424,192*	**256,571**	210,843*	867,095*
Other expenses	**33,479**	31,243	**18,838**	15,512	68,009
Financing expenses	**76,087**	97,086	**50,641**	70,911	154,732
Total expenses	**6,134,502**	5,311,372	**3,006,721**	2,173,588	11,938,168
Company share of profit of investee companies recorded by the equity method	**14,860**	41,615*	**4,448**	26,949*	37,130*
Profit (loss) before income taxes	**517,019**	260,993	**167,230**	(42,124)	698,218
Income taxes	**180,645**	87,806*	**53,242**	(22,670)*	247,508*
Net profit (loss) for the year	**336,374**	173,187	**113,988**	(19,454)	450,710
Attributed to:					
Company shareholders	**336,111**	173,113	**113,872**	(19,268)	450,233
Non-controlling rights in consolidated companies	**263**	74	**116**	(186)	477
Net profit (loss) for the year	**336,374**	173,187	**113,988**	(19,454)	450,710
Basic profit (loss) per share (shekel)	**15.86**	8.20*	**5.37**	(0.91)*	21.32*
Diluted profit (loss) per share (shekel)	**15.32**	8.20*	**5.16**	(0.91)*	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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Profit (loss) for the year	**336,374**	173,187*	**113,988**	(19,454)*	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	**18,311**	32,451	**17,527**	(89,204)	432,214
Net changes in fair value of financial assets available for sale transferred to statement of income	**(93,108)**	(46,794)	**(66,138)**	(16,511)	(168,746)
Loss from impairment in value of financial assets available for sale transferred to statement of income	**5,235**	57,881	**1,016**	44,069	87,907
Foreign currency transaction's difference in respect of overseas operations	**(13,601)**	3,436	**262**	5,284	(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	**26,367**	(14,414)	**13,780**	20,228	(125,697)
Total other comprehensive income (loss) for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	**(56,796)**	32,560	**(33,553)**	(36,134)	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	**15,343**	-	**13,610**	-	-
Taxes on income (loss) for other items of comprehensive income which will not be transferred to profit or loss	**(5,553)**	(14,528)	**(4,936)**	-	(10,513)
Other comprehensive income for the period which will not be transferred to profit or loss, net of tax	**9,790**	26,910	**8,674**	-	31,539
Comprehensive income (loss) for the year	**(47,006)**	59,470	**(24,879)**	(36,134)	254,216
Total comprehensive income (loss) for the year	**289,368**	232,657	**89,109**	(55,588)	704,926
Attributed to:					
Company shareholders	**289,138**	232,471	**89,040**	(55,388)	704,329
Non-controlling rights in consolidated companies	**230**	186	**69**	(200)	597
Total comprehensive income (loss) for the year	**289,368**	232,657	**89,109**	(55,588)	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 six months ended June 30, 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 (loss) for year											
Profit for year	-	-	-	-	-	-	-	336,111	336,111	263	336,374
Total other comprehensive income (loss)	-	(46,271)	(10,492)	-	-	-	-	9,790	(46,973)	(33)	(47,006)
Total comprehensive income (loss) for year	-	(46,271)	(10,492)	-	-	-	-	345,901	289,138	230	289,368
Transactions with owners credited directly to equity											
Dividends paid	-	-	-	-	-	-	-	(53,000)	(53,000)	-	(53,000)
Exercising of stock options	6,041	-	-	(6,041)	-	-	-	-	-	-	-
Share based payment	-	-	-	3,501	-	-	-	-	3,501	-	3,501
Purchase of treasury stock	-	-	-	-	(13,406)	-	-	-	(13,406)	-	(13,406)
Reissuing of treasury stock	616	-	-	-	2,435	-	-	-	3,051	-	3,051
Balance as at June 30, 2013	315,103	257,420	(17,373)	37,787	(153,271)	(48,908)	39,944	3,945,810	4,376,512	5,220	4,381,732

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 June 30, 2013 (Unaudited)											
Balance as at April 1, 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
Comprehensive income for year											
Profit for year	-	-	-	-	-	-	-	113,872	113,872	116	113,988
Total other comprehensive income (loss)	-	(33,662)	156	-	-	-	-	8,674	(24,832)	(47)	(24,879)
Total comprehensive income (loss) for year	-	(33,662)	156	-	-	-	-	122,546	89,040	69	89,109
Transactions with owners credited directly to equity											
Exercising of stock options	6,041	-	-	(6,041)	-	-	-	-	-	-	-
Share based payment	-	-	-	1,563	-	-	-	-	1,563	-	1,563
Purchase of treasury stock	-	-	-	-	(9,071)	-	-	-	(9,071)	-	(9,071)
Reissuing of treasury stock	507	-	-	-	1,432	-	-	-	1,939	-	1,939
Balance as at June 30, 2013	315,103	257,420	(17,373)	37,787	(153,271)	(48,908)	39,944	3,945,810	4,376,512	5,220	4,381,732

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 six months ended June 30, 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 for year											
Profit for year	-	-	-	-	-	-	-	173,113*	173,113	74	173,187
Total other comprehensive income	-	29,779	2,669	-	-	-	26,910	-	59,358	112	59,470
Total comprehensive income for year	-	29,779	2,669	-	-	-	26,910	173,113	232,471	186	232,657
Transactions with owners credited directly to equity											
Share based payment	-	-	-	6,335	-	-	-	-	6,335	-	6,335
Purchase of treasury stock	-	-	-	-	(8,001)	-	-	-	(8,001)	-	(8,001)
Reissuing of treasury stock	1,378	-	-	-	7,206	-	-	-	8,584	-	8,584
Balance as at June 30, 2012	308,273	108,866	(2,165)	36,510	(139,378)	(48,908)	35,315	3,439,389	3,737,902	4,219	3,742,122

* 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 June 30, 2012 (Unaudited)											
Balance as at April 1, 2012	306,295	148,654	(5,833)	33,188	(137,285)	(48,908)	35,315	3,458,657*	3,790,084	4,419	3,794,504
Comprehensive income (loss) for year											
Loss for year	-	-	-	-	-	-	-	(19,268)*	(19,268)	(186)	(19,454)
Total other comprehensive income (loss)	-	(39,788)	3,668	-	-	-	-	-	(36,120)	(14)	(36,134)
Total comprehensive income (loss) for year	-	(39,788)	3,668	-	-	-	-	(19,268)	(55,388)	(200)	(55,588)
Transactions with owners credited directly to equity											
Share based payment	-	-	-	3,322	-	-	-	-	3,322	-	3,322
Purchase of treasury stock	-	-	-	-	(6,796)	-	-	-	(6,796)	-	(6,796)
Reissuing of treasury stock	1,978	-	-	-	4,703	-	-	-	6,681	-	6,681
Balance as at June 30, 2012	308,273	108,866	(2,165)	36,510	(139,378)	(48,908)	35,315	3,439,389	3,737,902	4,219	3,742,122

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
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 (loss) 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 six months ended June 30		For the three months ended June 30		For the year ended December 31
		2013	2012	2013	2012	2012
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities						
Before taxes on income	A	**(2,208,170)**	(791,973)*	**(861,742)**	(509,820)*	(2,331,546)*
Income tax refund (paid)		**(99,294)**	(130,516)	**(99,344)**	(50,717)	(193,570)
Net cash provided by operating activities		**(2,307,464)**	(922,489)	**(961,086)**	(560,537)	(2,525,116)
Cash flows from investing activities						
Investment in investee companies		**(203,228)**	(3,324)*	**(203,228)**	(3,684)*	53,961*
Investment of fixed assets		**(24,066)**	(22,473)	**(10,876)**	(12,694)	(59,250)
Investment in intangible assets		**(39,678)**	(32,248)	**(22,267)**	(17,482)	(82,548)
Dividends from investee company		**42,364**	7,084*	**39,838**	4,064*	7,836*
Proceeds from sale of fixed assets		**398**	549	**386**	221	3,624
Net cash used for investing activities		**(224,210)**	(50,412)	**(192,819)**	(29,575)	(76,377)
Cash flows for financing activities						
Proceeds from issue of liability notes		**163,168**	247,294	**163,168**	247,294	247,279
Acquisition of Treasury stock		**(10,355)**	583	**(7,131)**	(115)	(2,166)
Proceeds from issue of ETF's		**2,736,890**	576,047	**984,515**	374,694	2,142,526
Short-term Loans from banks		**7,646**	(14,326)	**7,007**	(21,897)	(57,928)
Loans from banks and others		**200,000**	-	**100,000**	-	-
Repayments of loans from banks and others		**(80,353)**	(123,110)	**(52,670)**	(29,845)	(203,251)
Dividends paid		**(53,000)**	-	**(53,000)**	-	(63,600)
Net cash provided by financing activities		**2,963,996**	686,488	**1,141,889**	570,131	2,062,860
Effect of fluctuations in currency exchange rate on balances of cash and cash equivalents		**31,467**	23,109	**3,120**	11,855	7,949
Increase (decrease) in cash and cash equivalents		**463,789**	(263,304)	**(8,896)**	(8,126)	(530,684)
Cash and cash equivalents, beginning of the year	B	**2,267,244**	2,797,928	**2,739,929**	2,809,356	2,797,928
Cash and cash equivalents, end of the year	C	**2,731,033**	2,534,624	**2,731,033**	2,534,624	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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
(Appendix A - Cash flows from operating activities before taxes on income (1), (2), (3					
Profit for period	336,374	173,187*	113,988	(19,454)*	450,710*
Items not involving cash flows					
Company's share of loss of investee companies recorded on the equity basis	(14,860)	(41,615)*	(4,448)	(26,949)*	(37,130)*
Losses (profit) - financial investments - yield dependent insurance policies and investment contracts, net	(613,206)	(194,410)*	(79,873)	571,569*	(1,547,781)*
Net losses (profits) from other financial investments					
Marketable debt assets	(103,193)	(99,371)	(103,532)	(67,093)	(276,447)
Non-marketable debt assets	(50,367)	(112,631)	(59,837)	(115,044)	(82,815)
Shares	(18,248)	11,765	(4,004)	14,583	2,613
Other investments	(159,820)	56,937	(22,433)	182,539	(98,185)
Financing expenses for financial liabilities	151,152	10,374	(142,813)	(51,635)	594,847
Net losses (profits) from realizations					
Fixed assets	-	145	-	-	-
Changes in fair value of real estate for investment - for yield dependent contracts	1,155	4,452*	618	3,413*	3,855*
Changes in fair value of other real estate investment	(8,807)	(6,810)*	(16,496)	(10,488)*	(27,360)*
Depreciation and amortization					
Fixed assets	21,119	20,184	9,750	7,081	45,445
Intangible assets	(151,481)	54,825	(182,088)	27,111	118,896
Change in liabilities for non yield dependent insurance and investment contracts	1,111,334	577,075	494,914	299,742	1,042,259
Change in liabilities for yield dependent insurance and investment contracts	3,622,991	1,351,419	865,726	87,010	3,814,597
Change in reinsurance assets	(379,989)	(38,489)	(281,455)	(19,997)	143,704
Change in deferred acquisition costs	(105,740)	(61,561)	(26,000)	(10,244)	(111,461)
Share based payment	3,501	6,335	1,563	3,322	10,152
Income (expenses) taxes	180,645	87,806*	53,242	(22,670)*	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	(27,626)	(10,694)*	(7,364)	(6,738)*	(94,486)*
Proceeds from the sale of real estate for investment	-	-*	-	-*	-*
Acquisitions net, of financial investments	(2,407,154)	(1,231,993)*	(802,979)	(738,774)*	(2,753,625)*
Other financial investments and real estate for investment					
Acquisition of real estate for investment	(47,780)	(30,881)*	(13,718)	(27,020)*	(193,160)*
Proceeds from the sale of real estate for investment	5,035	-*	-	-*	-*
Acquisitions net, of financial investments	(593,916)	(779,055)	195,224	(612,348)	(1,084,587)
Outstanding premiums	(26,583)	(83,315)	139,604	(17,474)	(20,934)
Other receivables	(10,410)	(30,582)*	(27,438)	31,295*	(42,298)*
Investment for ETFs holders	(1,386,705)	(506,135)	(839,817)	(39,926)	(1,940,413)
Cash and cash equivalents pledged for ETFs holders	(1,466,128)	(35,662)	(105,547)	91,840	(553,012)
Other payables	(74,801)	113,519*	(18,395)	(44,886)*	51,246*
Liabilities for employee benefits, net	5,338	3,208*	2,174	1,415*	6,316*
Total adjustments required to present cash flows from operating activities	(2,544,544)	(965,160)	(975,422)	(490,366)	(2,782,256)
Total cash flows from operating activities, before taxes on income	(2,208,170)	(791,973)	(861,434)	(509,820)	(2,331,546)

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

Condensed interim consolidated statements of cash flows

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 766 million (for the six and three months ended June 30, 2012 an amount of NIS 792 million and for 2012 an amount of NIS 1,427 million) and the interest paid of NIS 8 million (for the six and three months ended June 30, 2013 and amount of NIS 79 million and for 2012 an amount of NIS 137 million).

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	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	**1,103,263**	1,243,173	1,247,598
Other cash and cash equivalents	**1,526,490**	1,550,330	**1,636,666**	1,566,183	1,550,330
Cash and cash equivalents, beginning of period	**2,267,244**	2,797,928	**2,739,929**	2,809,356	2,797,928
Appendix C - Cash and cash equivalents, end of period					
Cash and cash equivalents for yield dependent contracts	**1,222,368**	1,093,434	**1,222,368**	1,093,434	740,754
Other cash and cash equivalents	**1,508,665**	1,441,190	**1,508,665**	1,441,190	1,526,490
Cash and cash equivalents, end of year	**2,731,033**	2,534,624	**2,731,033**	2,534,624	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 June 30, 2013, include those of the Company and 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 August 27, 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 Ministry of Finance publication dated June 24, 2013 stipulated that the transition date for revaluation, based on quotes from Shaarey Ribit will not be before October 2013. The precise date will be published, at the latest, 30 days before the transition date.

   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 since the beginning of 2013, 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 June 30, 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 six and three month periods ended June 30, 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.

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.

Note 3 - Significant accounting principles (contd.)

a. First implementation of new standards (contd.)

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.

At the end of 2011, the salary conditions of the controlling shareholders were approved. At the month of March the general meeting of the company approved the mentioned conditions. 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.

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

	June 30, 2013				
	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	336,900		283,420		620,320
Real estate investments - yield dependent contracts	884,734		(154,815)		729,919
Other real estate investments	1,334,932		(294,871)		1,040,061
Reinsurance assets	5,154,145	3,500			5,157,645
Current tax assets	140,790	9,363			150,153
Other receivables	351,975		(6,784)		345,191
Financial assets – yield dependent contracts	20,056,505		155,750		20,212,255
Total assets - yield dependent contracts	22,412,889		(1,094)		22,411,795
Liabilities in respect of non-yield dependent insurance and investment contracts	22,129,428	12,300			22,141,728
Liabilities in respect of yield dependent insurance and investment contracts	22,016,689	18,300			22,034,989
Deferred tax liabilities	327,627		(6,718)	(2,250)	318,659
Net liabilities for employee benefits	235,673			9,000	244,673
Current tax liabilities	16,855		(4,710)		12,145
Creditors and credit balances	2,344,269		(5,872)		2,338,397
Retained earnings	3,463,876	(17,737)		(6,750)	3,439,389

	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 six months ended June 30 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	1,298,691	(25,264)		1,273,427
General and administrative expenses	427,192		(3,000)	424,192
Company share of profit of investee companies recorded by the equity method	20,650	20,965		41,615
Income taxes	91,355	(4,299)	750	87,806
Profit for the year	170,937		2,250	173,187
Diluted loss per share (shekel)	8.09		0.11	8.20
Basic loss per share (shekel)	8.08		0.12	8.20

	For the three months ended June 30 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	(18,694)	(15,529)		(34,223)
General and administrative expenses	213,093		(2,250)	210,843
Company share of profit of investee companies recorded by the equity method	13,618	13,331		26,949
Income taxes	(21,034)	(2,198)	562	(22,670)
Profit for the year	(21,142)		1,688	(19,454)
Diluted loss per share (shekel)	(0.99)		0.08	(0.91)
Basic loss per share (shekel)	(1.01)		0.10	(0.91)

	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
Basic and diluted profit per share (shekel)	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 six months ended June 30 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	(920,784)	(1,705)	(922,489)
Net cash used for investing activities	(52,117)	1,705	(50,412)

	For the three months ended June 30 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	(561,588)	1,051	(560,537)
Net cash used for investing activities	(28,524)	(1,051)	(29,575)

	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 commencing the beginning of 2013. 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 commencing the beginning of 2013. 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 six months ended June 30, 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	1,909,174	1,528,142	1,543,507	87,150	-	-	(4,369)	5,063,604
Premiums earned by reinsurers	68,328	101,764	650,077	32,357	-	-	(4,369)	848,157
Premiums earned in retention	1,840,846	1,426,378	893,430	54,793	-	-	-	4,215,447
Net profit (loss) from investments and financial income	1,283,054	142,556	145,557	1,304	12,545	156,723	(2,731)	1,739,008
Income from management fees	368,970	5,469	-	-	96,132	4,033	(297)	474,307
Income from commissions	16,402	39,930	121,749	9,377	2,036	41,566	(23,161)	207,899
Total income	3,509,272	1,614,333	1,160,736	65,474	110,713	202,322	(26,189)	6,636,661
Payments and changes in liabilities for insurance and investment contracts, gross	2,765,014	1,226,336	1,576,485	40,557	-	-	(2,527)	5,605,865
Reinsurers' share in payments and changes for insurance contracts liabilities	52,515	64,095	826,254	8,265	-	-	(2,527)	948,602
Payments and changes in liabilities for insurance and investment contracts, in retention	2,712,499	1,162,241	750,231	32,292	-	-	-	4,657,263
Commission, marketing and other acquisition expenses	314,740	250,376	293,828	32,633	-	2,394	(23,161)	870,810
Management and general expenses	213,210	107,930	16,068	7,733	95,792	56,427	(297)	496,863
Other expenses	24,414	-	479	166	5,977	2,443	-	33,479
Financing expenses (income)	4,204	4,861	(4,604)	-	1,931	70,764	(1,069)	76,087
Total expenses	3,269,067	1,525,408	1,056,002	72,824	103,700	132,028	(24,527)	6,134,502
Company share of profit (loss) of investee companies recorded by the equity method	(3,684)	1,459	9,488	-	75	7,522	-	14,860
Profit (loss) before income taxes	236,521	90,384	114,222	(7,350)	7,088	77,816	(1,662)	517,019
Other comprehensive losses, before income tax	(23,130)	(5,225)	(19,891)	(3,420)	(143)	(16,011)	-	(67,820)
Total comprehensive income (loss) before income tax	213,391	85,159	94,331	(10,770)	6,945	61,805	(1,662)	449,199
Liabilities in respect of non-yield dependent insurance and investment contracts	10,557,978	2,767,585	10,167,463	218,298	-	-	(7,738)	23,703,586
Liabilities in respect of yield dependent insurance and investment contracts	25,368,579	2,642,579	-	-	-	-	-	28,011,158

Note 4 - Operating segments (Cont'd)

A. Information regarding segment reporting (Cont'd)

	For the three months ended June 30, 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	975,004	769,311	776,700	44,291	-	-	(1,951)	2,563,355
Premiums earned by reinsurers	34,038	53,510	337,714	16,399	-	-	(1,951)	439,710
Premiums earned in retention	940,966	715,801	438,986	27,892	-	-	-	2,123,645
Net profit from investments and financial income	481,262	66,406	78,066	644	6,052	77,712	67	710,209
Income from management fees	161,471	3,123	-	-	61,727	2,511	(215)	228,617
Income from commissions	6,615	21,609	64,393	4,624	759	19,282	(10,250)	107,032
Total income	1,590,314	806,939	581,445	33,160	68,538	99,505	(10,398)	3,169,503
Payments and changes in liabilities for insurance and investment contracts, gross	1,275,414	635,664	922,087	21,134	-	-	(1,084)	2,853,215
Reinsurers' share in payments and changes for insurance contracts liabilities	32,385	37,444	552,705	4,889	-	-	(1,084)	626,339
Payments and changes in liabilities for insurance and investment contracts, in retention	1,243,029	598,220	369,382	16,245	-	-	-	2,226,876
Commission, marketing and other acquisition expenses	156,318	124,351	165,672	16,526	-	1,177	(10,249)	453,795
Management and general expenses	110,292	54,860	8,319	3,367	54,417	25,530	(214)	256,571
Other expenses	12,167	-	241	88	5,199	1,143	-	18,838
Financing expenses (income)	3,184	3,118	158	-	971	43,786	(576)	50,641
Total expenses	1,524,990	780,549	543,772	36,226	60,587	71,636	(11,039)	3,006,721
Company share of profit (loss) of investee companies recorded by the equity method	1,972	769	3,355	-	75	(1,723)	-	4,448
Profit (loss) before income taxes	67,296	27,159	41,028	(3,066)	8,026	26,146	641	167,230
Other comprehensive losses, before income tax	(6,001)	(729)	(7,706)	(889)	(237)	(18,161)	-	(33,723)
Total comprehensive income (loss) before income tax	61,295	26,430	33,322	(3,955)	7,789	7,985	641	133,507
Liabilities in respect of non-yield dependent insurance and investment contracts	10,557,978	2,767,585	10,167,463	218,298	-	-	(7,738)	23,703,586
Liabilities in respect of yield dependent insurance and investment contracts	25,368,579	2,642,579	-	-	-	-	-	28,011,158

Condensed interim consolidated statements of cash flows

Note 4 - Operating segments (Cont'd)

A. Information regarding segment reporting (Cont'd)

	For the six months ended June 30, 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	1,596,050	1,362,026	1,419,396	87,854	-	-	(5,405)	4,459,921
Premiums earned by reinsurers	56,794	89,036	588,407	31,239	-	-	(5,405)	760,071
Premiums earned in retention	1,539,256	1,272,990	830,989	56,615	-	-	-	3,699,850
Net profit (loss) from investments and financial income	932,931*	108,360*	136,287*	(818)	12,621	83,479*	567	1,273,427
Income from management fees	277,622	5,158	-	-	71,273	2,537	-	356,590
Income from commissions	8,048	38,873	111,738	9,772	15,716	30,600	(16,751)	197,996
Other income	-	-	-	-	-	4,415	(1,528)	2,887
Total income	2,757,857	1,425,381	1,079,014	65,569	99,610	121,031	(17,712)	5,530,750
Payments and changes in liabilities for insurance and investment contracts, gross	2,269,310	1,060,707	1,035,613	67,196	-	-	(3,780)	4,429,046
Reinsurers' share in payments and changes for insurance contracts liabilities	48,051	41,882	351,325	33,296	-	-	(3,780)	470,774
Payments and changes in liabilities for insurance and investment contracts, in retention	2,221,259	1,018,825	684,288	33,900	-	-	-	3,958,272
Commission, marketing and other acquisition expenses	294,987	220,821	265,669	33,283	-	2,570	(16,751)	800,579
Management and general expenses	173,979	92,534	15,582	4,854	87,144	51,627*	(1,528)	424,192
Other expenses	27,955	-	482	267	559	1,980	-	31,243
Financing (income) expenses	5,805	5,037	12,652	-	2,435	72,474	(1,317)	97,086
Total expenses	2,723,985	1,337,217	978,673	72,304	90,138	128,651	(19,596)	5,311,372
Company share of profit of investee companies recorded by the equity method	3,730*	2,274*	11,942*	-	-	23,669*	-	41,615
Profit (loss) before income taxes	37,602	90,438	112,283	(6,735)	9,472	16,049	1,884	260,993
Other comprehensive incomes, before income tax	35,529	5,286	4,823	2,945	-	39,828	-	88,412
Total comprehensive profit (loss) before income tax	73,131	95,724	117,106	(3,790)	9,472	55,877	1,884	349,405
Liabilities in respect of non-yield dependent insurance and investment contracts	9,813,377**	2,366,415	9,754,235	216,737	-	-	(9,036)	22,141,728
Liabilities in respect of yield dependent insurance and investment contracts	20,162,178**	1,872,811	-	-	-	-	-	22,034,989

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

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

Condensed interim consolidated statements of cash flows

Note 4 - Operating segments (Cont'd)

A. Information regarding segment reporting (Cont'd)

	For the three months ended June 30, 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	793,285	705,591	706,647	43,222	-	-	(2,720)	2,246,025
Premiums earned by reinsurers	28,443	45,527	303,049	16,455	-	-	(2,720)	390,754
Premiums earned in retention	764,842	660,064	403,598	26,767	-	-	-	1,855,271
Net profit (loss) from investments and financial income	(136,866)*	26,244*	69,813*	105	7,101	(239)*	(381)	(34,223)
Income from management fees	140,193	2,349	-	-	35,519	1,270	-	179,331
Income from commissions	5,900	20,531	58,233	4,929	7,304	15,325	(8,472)	103,750
Other income	-	-	-	-	-	1,071	(685)	386
Total income	774,069	709,188	531,644	31,801	49,924	17,427	(9,538)	2,104,515
Payments and changes in liabilities for insurance and investment contracts, gross	638,251	518,677	513,454	22,254	-	-	(2,431)	1,690,205
Reinsurers' share in payments and changes for insurance contracts liabilities	21,929	23,884	175,386	7,449	-	-	(2,431)	226,217
Payments and changes in liabilities for insurance and investment contracts, in retention	616,322	494,793	338,068	14,805	-	-	-	1,463,988
Commission, marketing and other acquisition expenses	152,607	106,526	143,201	17,049	-	1,423	(8,472)	412,334
Management and general expenses	85,231	49,382	8,473	1,848	44,505	22,089*	(685)	210,843
Other expenses	13,957	-	241	130	266	918	-	15,512
Financing expenses (income)	4,044	3,530	17,371	-	1,173	46,104	(1,311)	70,911
Total expenses	872,161	654,231	507,354	33,832	45,944	70,534	(10,468)	2,173,588
Company share of profit of investee companies recorded by the equity method	926*	1,479*	8,423*	-	-	16,121*	-	26,949
Profit (loss) before income taxes	(97,166)	56,436	32,713	(2,031)	3,980	(36,986)	930	(42,124)
Other comprehensive incomes (loss), before income tax	(13,400)	(5,355)	(23,002)	(235)	9	(14,379)	-	(56,362)
Total comprehensive profit (loss) before income tax	(110,566)	51,081	9,711	(2,266)	3,989	(51,365)	930	(98,486)
Liabilities in respect of non-yield dependent insurance and investment contracts	9,813,377**	2,366,415	9,754,235	216,737	-	-	(9,036)	22,141,728
Liabilities in respect of yield dependent insurance and investment contracts	20,162,178**	1,872,811	-	-	-	-	-	22,034,989

Note 4 - Operating segments (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, 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 six months ended June 30, 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	304,121	581,513	448,697	402,679	(6,436)	1,730,574
Premiums earned by reinsurers	62,103	122,204	332,205	214,464	-	730,976
Premiums in retention	242,018	459,309	116,492	188,215	(6,436)	999,598
Changes in premium balances that have not yet been earned, retention	36,816	88,578	13,509	(1,232)	(31,503)	106,168
Premiums earned in retention	205,202	370,731	102,983	189,447	25,067	893,430
Profits from investments, net, and financing income	69,479	13,878	3,485	47,863	10,852	145,557
Commission income	10,050	24,768	59,634	27,297	-	121,749
Total income	284,731	409,377	166,102	264,607	35,919	1,160,736
Payments and changes in liabilities for insurance contracts, gross	230,784	374,744	427,201	531,472	12,284	1,576,485
Reinsurer's share of payments and changes in liabilities for insurance contracts	47,347	72,148	373,685	333,074	-	826,254
Payments and changes in liabilities for insurance contracts, retention	183,437	302,596	53,516	198,398	12,284	750,231
Commission, marketing expenses and other acquisition costs	36,332	92,706	98,820	65,505	465	293,828
Management and general expenses	3,129	4,293	1,973	2,147	4,526	16,068
Other expenses	-	-	-	-	479	479
Financing expenses (income), Net	(2,499)	(499)	(125)	(1,721)	240	(4,604)
Total expenses	220,399	399,096	154,184	264,329	17,994	1,056,002
Company share of profit of investee companies recorded by the equity method	4,429	885	222	3,051	901	9,488
Profit before income taxes	68,761	11,166	12,140	3,329	18,826	114,222
Other comprehensive losses, before income tax	(9,186)	(1,835)	(461)	(6,328)	(2,081)	(19,891)
Total comprehensive income (loss) before income tax	59,575	9,331	11,679	(2,999)	16,745	94,331
Liabilities for insurance policies, gross, as at June 30, 2013	2,747,488	729,320	871,100	5,175,459	644,096	10,167,463

* Property braches and others include mainly results from property loss insurance and comprehensive apartments insurance, whose activities comprise 74% 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 June 30 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	97,377	174,973	225,798	153,908	(4,643)	647,413
Premiums earned by reinsurers	20,114	38,203	172,332	106,631	-	337,280
Premiums in retention	77,263	136,770	53,466	47,277	(4,643)	310,133
Changes in premium balances that have not yet been earned, retention	(23,717)	(46,202)	1,312	(44,937)	(15,309)	(128,853)
Premiums earned in retention	100,980	182,972	52,154	92,214	10,666	438,986
Profits from investments, net, and financing income	37,430	7,198	1,935	25,971	5,532	78,066
Commission income	6,095	13,808	29,843	14,647	-	64,393
Total income	144,505	203,978	83,932	132,832	16,198	581,445
Payments and changes in liabilities for insurance contracts, gross	112,094	178,652	258,968	366,184	6,189	922,087
Reinsurer's share of payments and changes in liabilities for insurance contracts	24,542	34,821	231,008	262,334	-	552,705
Payments and changes in liabilities for insurance contracts, retention	87,552	143,831	27,960	103,850	6,189	369,382
Commission, marketing expenses and other acquisition costs	23,107	54,287	50,987	37,291	-	165,672
Management and general expenses	1,804	2,527	1,294	1,337	1,357	8,319
Other expenses	-	-	-	-	241	241
Financing expenses (income), Net	(33)	15	(6)	(36)	218	158
Total expenses	112,430	200,660	80,235	142,442	8,005	543,772
Company share of profit of investee companies recorded by the equity method	1,719	320	91	1,200	25	3,355
Profit (loss) before income taxes	33,794	3,638	3,788	(8,410)	8,218	41,028
Other comprehensive incomes (loss), before income tax	(3,117)	(570)	(167)	(2,182)	(1,670)	(7,706)
Total comprehensive profit (loss) before income tax	30,677	3,068	3,621	(10,592)	6,548	33,322
Liabilities for insurance policies, gross, as at June 30, 2013	2,747,488	729,320	871,100	5,175,459	644,096	10,167,463

* Property braches and others include mainly results from property loss insurance and comprehensive apartments insurance, whose activities comprise 72% 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.

Condensed interim consolidated statements of cash flows

Note 4 - Operating segments (Cont'd)

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

	For the six months ended June 30, 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	310,662	513,931	446,290	323,580	19,682	1,614,145
Premiums earned by reinsurers	63,160	106,386	347,933	179,720	-	697,199
Premiums in retention	247,502	407,545	98,357	143,860	19,682	916,946
Changes in premium balances that have not yet been earned, retention	33,609	74,960	13,674	(27,648)	(8,638)	85,957
Premiums earned in retention	213,893	332,585	84,683	171,508	28,320	830,989
Profits from investments, net, and financing income	71,652*	13,099*	3,057*	37,334*	11,145*	136,287
Commission income	10,194	23,230	51,995	26,319	-	111,738
Total income	295,739	368,914	139,735	235,161	39,465	1,079,014
Payments and changes in liabilities for insurance contracts, gross	230,649	348,221	149,070	290,629	17,044	1,035,613
Reinsurer's share of payments and changes in liabilities for insurance contracts	44,775	69,160	111,961	125,429	-	351,325
Payments and changes in liabilities for insurance contracts, retention	185,874	279,061	37,109	165,200	17,044	684,288
Commission, marketing expenses and other acquisition costs	34,839	82,926	80,385	64,766	2,753	265,669
Management and general expenses	2,289	2,880	1,822	1,308	7,283	15,582
Other expenses	-	-	-	-	482	482
Financing income, Net	7,245	1,327	305	3,775	-	12,652
Total expenses	230,247	366,194	119,621	235,049	27,562	978,673
Company share of profit of investee companies recorded by the equity method	6,395*	1,191*	256*	3,292*	808*	11,942
Profit before income taxes	71,887	3,911	20,370	3,404	12,711	112,283
Other comprehensive incomes (losses), before income tax	2,844	520	127	1,475	(143)	4,823
Total comprehensive income before income tax	74,731	4,431	20,497	4,879	12,568	117,106
Liabilities for insurance policies, gross, as at June 30, 2012	2,798,019	690,153	641,299	4,972,758	652,006	9,754,235

* 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 83% of total premiums in these branches.

*** Other liabilities branches include mainly results from third-party insurance and professional liability whose activities comprise 78% 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 June 30 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	118,846	200,632	236,501	140,172	11,557	707,708
Premiums earned by reinsurers	24,229	42,171	196,389	91,246	-	354,035
Premiums in retention	94,617	158,461	40,112	48,926	11,557	353,673
Changes in premium balances that have not yet been earned, retention	(8,653)	(8,629)	1,255	(33,246)	(652)	(49,925)
Premiums earned in retention	103,270	167,090	38,857	82,172	12,209	403,598
Profits from investments, net, and financing income	37,804*	6,841*	1,663*	19,777*	3,728*	69,813
Commission income	5,855	12,605	25,449	14,324	-	58,233
Total income	146,929	186,536	65,969	116,273	15,937	531,644
Payments and changes in liabilities for insurance contracts, gross	107,536	166,029	80,509	148,195	11,185	513,454
Reinsurer's share of payments and changes in liabilities for insurance contracts	19,340	32,678	63,443	59,925	-	175,386
Payments and changes in liabilities for insurance contracts, retention	88,196	133,351	17,066	88,270	11,185	338,068
Commission, marketing expenses and other acquisition costs	21,460	47,447	39,693	33,165	1,436	143,201
Management and general expenses	1,421	1,790	1,155	677	3,430	8,473
Other expenses	-	-	-	-	241	241
Financing expenses, Net	9,948	1,827	416	5,177	3	17,371
Total expenses	121,025	184,415	58,330	127,289	16,295	507,354
Company share of profit of investee companies recorded by the equity method	4,383*	819*	173*	2,248*	800*	8,423
Profit before income taxes	30,287	2,940	7,812	(8,768)	442	32,713
Other comprehensive losses, before income tax	(9,986)	(1,852)	(402)	(5,179)	(5,583)	(23,002)
Total comprehensive profit (loss) before income tax	20,301	1,088	7,410	(13,947)	(5,141)	9,711
Liabilities for insurance policies, gross, as at June 30, 2012	2,798,019	690,153	641,299	4,972,758	652,006	9,754,235

* 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 85% 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 information regarding life assurance and long-term savings segment (Cont'd)

	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
Premiums in retention	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)
Premiums earned in retention	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 June 30 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)

	For the six months ended June 30 2013 (Unaudited)				For the six months ended June 30 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	-	-	1,909,174	1,909,174	-	-	1,596,050	1,596,050
Premiums earned by reinsures	-	-	68,328	68,328	-	-	56,794	56,794
Retention premiums earned	-	-	1,840,846	1,840,846	-	-	1,539,256	1,539,256
Profits from investments, net, and financing income	917	1,515	1,280,622	1,283,054	839	2,980	929,112*	932,931
Management fee income	99,382	105,585	164,003	368,970	110,158	92,291	75,173	277,622
Commission income	-	-	16,402	16,402	-	-	8,048	8,048
Total income	100,299	107,100	3,301,873	3,509,272	110,997	95,271	2,551,589	2,757,857
Payments and changes in liabilities for insurance contracts and investment contracts, gross	963	4,437	2,759,614	2,765,014	875	3,749	2,264,686	2,269,310
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	52,515	52,515	-	-	48,051	48,051
Payments and changes in liabilities for insurance contracts and investment contracts, retention	963	4,437	2,707,099	2,712,499	875	3,749	2,216,635	2,221,259
Commission, marketing expenses and other acquisition costs	33,053	45,686	236,001	314,740	30,932	42,402	221,653	294,987
Management and general expenses	39,491	27,770	145,949	213,210	36,213	24,456	113,310	173,979
Other expenses	11,966	1,820	10,628	24,414	15,134	2,194	10,627	27,955
Financing expenses (income), net	28	(54)	4,230	4,204	38	360	5,407	5,805
Total expenses	85,501	79,659	3,103,907	3,269,067	83,192	73,161	2,567,632	2,723,985
Company share of profit (loss) of investee companies recorded by the equity method	-	-	(3,684)	(3,684)	-	-	3,730*	3,730
Profit before income (loss) taxes	14,798	27,441	194,282	236,521	27,805	22,110	(12,313)	37,602
Other comprehensive incomes (losses), before income tax	(270)	(879)	(21,981)	(23,130)	154	(901)	36,276	35,529
Total comprehensive income before income tax	14,528	26,562	172,301	213,391	27,959	21,209	23,963	73,131

* 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)

	For the three months ended June 30 2013 (Unaudited)				For the three months ended June 30 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	-	-	975,004	975,004	-	-	793,285	793,285
Premiums earned by reinsures	-	-	34,038	34,038	-	-	28,443	28,443
Retention premiums earned	-	-	940,966	940,966	-	-	764,842	764,842
Profits from investments, net, and financing income	635	1,131	479,496	481,262	594	1,505	(138,965)*	(136,866)
Management fee income	49,879	56,702	54,890	161,471	54,379	47,462	38,352	140,193
Commission income	-	-	6,615	6,615	-	-	5,900	5,900
Total income	50,514	57,833	1,481,967	1,590,314	54,973	48,967	670,129	774,069
Payments and changes in liabilities for insurance contracts and investment contracts, gross	489	2,194	1,272,731	1,275,414	430	1,982	635,839	638,251
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	32,385	32,385	-	-	21,929	21,929
Payments and changes in liabilities for insurance contracts and investment contracts, retention	489	2,194	1,240,346	1,243,029	430	1,982	613,910	616,322
Commission, marketing expenses and other acquisition costs	16,906	23,623	115,789	156,318	15,475	21,845	115,287	152,607
Management and general expenses	20,016	14,248	76,028	110,292	17,846	11,902	55,483	85,231
Other expenses	5,986	867	5,314	12,167	7,568	1,076	5,313	13,957
Financing expenses (income), net	-	(18)	3,202	3,184	1	185	3,858	4,044
Total expenses	43,397	40,914	1,440,679	1,524,990	41,320	36,990	793,851	872,161
Company share of profit of investee companies recorded by the equity method	-	-	1,972	1,972	-	-	926*	926
Profit before income (loss) taxes	7,117	16,919	43,260	67,296	13,653	11,977	(122,796)	(97,166)
Other comprehensive incomes (losses), before income tax	(137)	(549)	(5,315)	(6,001)	6	(632)	(12,774)	(13,400)
Total comprehensive income before income (loss) tax	6,980	16,370	37,945	61,295	13,659	11,345	(135,570)	(110,566)

* 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
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 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.

Note 5 - Business combinations (Cont'd)

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

On April 4, 2013, the transaction was completed in which, 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"). 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 four years.

Clal Funds is a mutual fund management company under the Joint Investments in Trust Law, 1994 ("the Funds Law"). Clal Funds manages about 87 mutual funds in the completion date and held assets under management of about NIS 9.8 billion it the mutual funds it manages. That day, the merger of Clal Funds into Harel-Pia was completed, and Clal Funds ceased to exist

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, except for the management of investments in financial savings policies, which is carried out for Clal Insurance. 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.

The total consideration paid on the completion date was NIS 207.5 million, according to the following allocation: NIS 183.1 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.

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. This profit is attributed principally to rights in future management fees which will be amortized according to the period of economic benefit and to goodwill.

The Group bore the costs attributed to the acquisition in the amount of NIS 1.2 million. These costs were included in the income statement under general and administrative expenses. The fair value of the identified assets and liabilities of Clal Mutual Funds Management Ltd. and the portfolio management activity, and the amounts retained in the financial statements at the acquisition date are as follows:

	Fair Value	Value in the acquiree's books before the acquisition
	NIS thousands	NIS thousands
Cash and cash equivalents	11,006	11,006
Other receivables	2,966	2,966
Current tax assets	3,748	3,748
Liability due to termination of employer-employee relations, net	673	673
Intangible assets	56,111	-
	74,504	18,393
Creditors and credit balances	5,620	5,620
Loans from affiliates	8,701	8,701
Reserve for tax	15,368	240
	29,689	3,832
Assets, net	44,815	14,561
The acquired part	100%	100%
Goodwill created on the acquisition	162,687	
Total cost of the acquisition	207,502	

Cash used for the acquisition

Cash and cash equivalents in the acquired company on the acquisition date	11,006
Cash which was paid	207,502
Cash and cash equivalents, net	196,496

Note 5 - Business combinations (Cont'd)

3. ICIC

On June 30, 2013, a transaction was completed in which the Company and Euler Hermes acquired all the holdings of Bituach Haklai in ICIC (immediately prior to the acquisition, each of these companies held 33.3% of ICIC). Upon completion of the transaction, the Company and Euler Hermes each hold 50% of the issued share capital of ICIC. The consideration which the Company paid for acquiring half of the shares of Bituach Haklai in ICIC (16.7%) amounts to NIS 61.6 million. The Company financed the aforementioned acquisition from its own sources. The surplus cost of the acquisition over the equity value amounted to NIS 22 million. Based on an 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 customer portfolio, and it will be amortized according to the period of economic benefit. The investment is presented in the financial statements based on by the equity method.
On June 3, 2013, the Board of Directors of ICIC resolved to distribute a cash dividend in the amount of NIS 75 million, on the "green track" (distribution which does not require prior approval from the Commissioner, in accordance with the Commissioner's instructions concerning the distribution of dividends by an insurer). Based on the percentage if its holding, the Company received half of the dividend. The dividend was paid on June 19, 2013.

Note 6 - Taxes on income

Tax rates which applies to incomes of companies in the Group

1. On June 2, 2013,the Value Added Tax Order (Tax rates for Non-profit Organizations and Financial Institutions) (Amendment) 5773-2013, was published in the Official Gazette, which increased the tax rate for wages and profit tax by 1% so that it will be 18% from June 2, 2013. As a result of this change, the statutory tax rate which applies to financial institutions increased on June 2, 2013 from 35.9% to 36.2%.

   Following are the statutory tax rates applicable to financial institutions, including the Company's subsidiaries which are financial institutions:

Year	Companies tax rate	Profit tax rate	Tax rate in financial institution
2013	25%	17.58%	36.22%
2014 and on	25%	18%	36.44%

   The change in profit tax rate, as mentioned above, does not have a significant affect over the comprehensive income and/or the capital of the Company.

2. On July 30, 2013, the Knesset passed the Law for the Change of National Priorities (Legislative Amendments to Achieve Budget Targets in 2013 and 2014), 5773-2013. As part of the legislation, on January 1, 2014, corporate tax will be increased to 26.5%. Consequently, and based on the VAT Order from June 3, 2013 which revised the rate of profit tax and wage tax on financial institutions, the statutory tax on financial institutions will increase in 2014 and thereafter to 37.71%. Had the legislation been completed before June 30, 2013, the effect on the financial statements at June 30, 2013 would have been expressed as an increase in the deferred tax balances in the amount of NIS 14.2 million.
   The revised deferred tax balances were recognized against tax expenses in the amount of NIS 11.1 million, against other comprehensive income in the amount of NIS 3.1 million.

Note 6 - Taxes on income (Cont'd)

Tax Assessments

1. **Final tax assessments**

a. 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.

b. 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.

c. 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.

2. **Tax assessments in dispute**

1. 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.

2. On October 31, 2012, Harel-Pia received an Income Tax Order under Section 152(B) of the Income Tax Ordinance, with respect to the 2007-2009 tax years ("the Order"). In the Order, the Assessment Officer argued that Harel Pia must make a different allocation of the cost of the intangible assets it acquired as part of the acquisition of the mutual funds from Leumi Pia Mutual Fund Management Company Ltd. Furthermore, the Assessment Officer argued that the acquisition cost attributed to the brand component cannot be amortized for tax purposes. The Company attributed NIS 6 million to the cost of the brand, which it deducted for tax purposes. If the position of Income Tax is accepted in full, the cost attributed to the brand will be NIS 98 million, and accordingly Harel Pia will be unable to recognize this amount for tax purposes.

Note 6 - Taxes on income (Cont'd)

Tax Assessments (Cont'd)

2. Tax assessments in dispute (Cont'd)

2. (cont'd)
Likewise, amounts of NIS 10,529,000, NIS 12,345,000, and NIS 9,617,000 will be added to the taxable income of Harel-Pia for the years 2007, 2008 and 2009 respectively. A review conducted by the Company shows that even if the Income Tax position is accepted in full, it will have no significant effect on the Company's equity, on its performance and on its cash flow.

3. On November 19, 2012, Harel-Pia, filed an appeal to the Tel-Aviv District Court, through its legal advisors, contesting the Order as not reflecting the nature of the transaction and the economic value of the acquisition. On June 2, 2013, the Assessment Officer submitted the reasons given by the Assessment Office to the Tel Aviv District Court. Harel-Pia intends to submit the reasons for its appeal on September 30, 2013. Furthermore, according to its legal advisors, there is a strong chance that the Company's arguments will be accepted and the Company therefore made no additional provision in its books.

Note 7 - Contingent Liabilities and Commitments

A. Contingent Liabilities

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.

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

A. Contingent Liabilities (Cont'd)

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. On July 1, 2013 another draft of the decision was distributed to the financial institutes. At this time, it is not possible to evaluate what will be the final ruling and what is the potential exposure to such complaints to the institutional bodies in the Group.

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 section 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.

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

A. Contingent Liabilities (cont'd)

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.
   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.

   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.

3. 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.

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

A. Contingent Liabilities (cont'd)

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. On June 30, 2013, the parties filed an application to approve a settlement of the class action. On July 15, 2013, a hearing on the application to approve the compromise took place in which context the court gave its comments on the compromise settlement and instructed the parties to file an amended compromise settlement in accordance with its comments within 30 days.

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.

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

A. Contingent Liabilities (cont'd)

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.

   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 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. Pursuant to the procedure defined in the Class Actions Law, 5766-2066 the court appointed an inspector for the settlement and the review is currently underway.
12. 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)

13. 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.
14. 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.
15. 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. A negotiation for a settlement is conducted with the plaintiff.
16. 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.
17. 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)

18. 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.

19. 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. On June 11, 2013, the subsidiary Harel Insurance filed an announcement and application for the issue of a judgment, stating that the application deals with a few individual policyholders (only six) whose claim was dismissed due to the fact that they did not earn a wage immediately prior to the insured event, and consequently it is willing to pay those policyholders the insurance benefits according to the Sport Law, ex gratia, taking note of the fact that the amounts are negligible.
20. 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)

21. 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.

22. 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.

23. 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.

24. 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.

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 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 (cont'd)

A. Contingent liabilities (contd.)

Actions which were filed after the Reporting Period

In August 2013, a claim was filed in the Lod 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 allegedly refrains from publishing full information on its website in connection with the sums insured payable as compensation to policyholders when the surgery is paid for by another entity who is not the insured, and this ostensibly in contravention of the provisions of a circular issued by the Commissioner of Insurance - "Details of Insurance Benefits in Healthcare Insurance Plans", and with the purpose, ostensibly, of reducing the amounts of compensation paid to policyholders according to the policies. The group which the plaintiff wishes to represent is all persons insured by Harel Insurance in group policies and other policies issued by Harel which contain a provision whereby if surgery is performed at a private hospital and paid for by the health fund or the Supplementary Health Services, the insured is entitled to compensation equal to 50% of the amount which Harel Insurance saves for that surgery. The overall loss claimed for all members of the group amounts to NIS 35 million.

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	3,588,350
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	1	18,782

The total provision amount of claims filed against the Company and / or consolidated companies, as described above amounts to about to NIS 25 million (at December 31,2012 an amount of NIS 17.8 million)

Note 7 - Contingent liabilities and commitments (contd.)

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.

2. In July 2013, an insurance claim in the amount of NIS 150 million was filed with Harel Insurance as part of a product liability policy. Harel has reinsurance for most of the amount of the insurance risk in connection with this policy. The Company has made reasonable provision in its books in respect of the claim.

   Additionally, a line of credit was approved to be utilized by the end of 2013, in the further amount of NIS 40 million. At June 30, 2013, Harel Pension had utilized NIS 25 million of this line of credit.

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 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 proceeding the date on which a declaration of low income was filed under Regulation 34 (B) of the 1964 Income Tax Regulations ("the Regulations").

Note 7 - Contingent liabilities and commitments (contd.)

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.

3. 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. In November 2012, Dikla filed a motion to dismiss the claim in limine due to prescription of the cause. In January 2013, Dikla filed an application asking that a ruling must first be given on the motion to dismiss the claim in limine due to prescription, and only then, if necessary, will the motion to turn the claim into a class action be heard. On May 21, 2013, the Ashdod Magistrate's Court accepted Dikla's motion to dismiss the claim in limine on grounds of prescription. The court determined that the claim had passed its time limitation and accepted Dikla's argument that it had informed the policyholders both by direct mail and through an announcement in the press concerning the upgrading of the policy conditions. The court therefore ordered the plaintiff to pay Dikla legal expenses.

4. In June 2011, a claim was filed in 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 and 360 million. On March 20, 2012, notice was submitted to the court concerning an appeal being filed by one of the plaintiffs in the case in the High Court of Justice against the Superintendent of the Capital Market. 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 in 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.
   On June 25, 2013, the court approved the plaintiffs' application to abandon the action and reject their personal claim, in view of the dismissal of the petition in HCJ and due to the fact that there was no longer any reason to conduct the action and application for certification. The case was therefore concluded.

Note 7 - Contingent liabilities and commitments (contd.)

D. Commitments

1. Maalot Rating

On June 11, 2013, Maalot S&P announced affirmation of the 'ilAA' rating of non-marketable bonds of Harel Insurance and the Series 1 promissory notes of Harel Share Issues. Likewise, an 'ilAA-' rating was affirmed for tier-2 and tier-3 capital issued by Harel Share Issues as part of the Series 2-7 bonds , and an 'ilAA-' rating was affirmed for additional tier-3 capital in the amount of NIS 200 million which was raised (on this, see Note 9 below). The rating outlook remained stable.

On July 15, 2013, in view of S&P's revised methodology for rating insurance companies, Maalot S&P announced affirmation of the FSR (Financial Strength Rating) of 'ilAA+' for the subsidiary, Harel Insurance Company Ltd. This announcement also included affirmation of the 'ilAA' rating for promissory notes issued by Harel Insurance and for the Series 1 promissory notes of Harel Insurance Finance and Issues (Harel Share Issues), a wholly owned subsidiary of Harel Insurance. Likewise, an 'ilAA-' rating was affirmed for tier-2 and tier-3 capital issued by Harel Share Issues as part of the Series 2-8 bonds. In addition, a rating of 'ilAA' was affirmed for EMI - Ezer Mortgage Insurance Company Ltd. The rating outlook remained stable.

2. 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.

3. 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.

On June 28, 2013, based on the results for 2012 and the conditions of the guarantee, Harel Insurance was required to increase the guarantee by an amount of GBP 1.1 million. The total guarantee at June 30, 2013 amounted to GBP 9.3 million. During the Reporting Period, the premium of Harel Insurance amounted to NIS 48 million.

Note 7 - Contingent liabilities and commitments (contd.)

D. Commitments

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

   On June 26, 2013, Harel Insurance entered into an agreement to make a joint acquisition ("the Investment") of two real-estate assets which are used as office and residential 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 acquired Property consists of two adjacent buildings, comprising 35,000 sq.m., of which 30,000 sq.m. is office space for rent, and 2,500 sq.m. is 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 was 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.

5. 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

6. Reduction of the distribution fees collected from fund managers and subsequent reduction of the management fees collected from unit owners

   On April 5, 2013, Joint Investments in Trust (Distribution Fees) Regulations (Amendment), 5773-2013 were published in the Official Gazette, which entered into force on May 5, 2013. Pursuant to the regulations, the maximum rates of distribution fees which distributors who are not investment marketers (mainly banks) may charge fund managers for distribution of a fund, were reduced in line with the fund's maximum level of exposure to shares. Following the entering into force of the regulations and subsequent to an undertaking by the subsidiary, as part of an outline agreed upon with the Securities Authority ("the Outline"), commencing on May 5, 2013 the rate of the management fees which the subsidiary charges the funds that it manages was reduced, in line with the Outline. The Group believes that the effect of the foregoing on its financial position, the results of its operations and its cash flows is not significant.

7. 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.

Note 7 - Contingent liabilities and commitments (contd.)

D. Commitments (contd.)

7. (contd.)
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.

8. 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.

9. 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.

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 7 - Contingent liabilities and commitments (contd.)

D. Commitments (contd.)

11. Atidit Pension

Pursuant to several corrections which were made in the financial statements of Atidit Pension mainly related to an actuarial deficit in the rights of the fund members in early periods, comparison figures were restatement. 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 function by virtue of the powers conferred upon him in Section 71 of the aforementioned law and review 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.

12. 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.
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.

13. 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, 2014, at which time Clalit has the right to terminate the agreement by giving 60 days' notice.

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) - 2004 (hereinafter: "the Capital Regulations") and the Supervisor's directives:

	June 30 2013			June 30 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)	**4,535,893***	**161,448**	**395,211**	4,257,709*	172,004	356,883
Including:						
Primary capital	**3,531,492**	**493,344**	**423,259**	3,313,713	464,305	369,384
Secondary capital						
Subordinated secondary capital	**590,811**	**-**	**-**	687,846	-	-
Complex secondary capital	**930,854**	**-**	**99,800**	926,002	-	99,790
Complex thirdary capital	**525,843**	**-**	**-**	250,835	-	-
	2,047,508	**-**	**99,800**	1,864,683	-	99,790
Existing amount computed according to capital regulations	**5,579,000**	**493,344**	**523,059**	5,178,396	464,305	469,174
Surplus	**1,043,107**	**331,896**	**127,848**	920,687	292,301	112,291
Post Balance Sheet events						
Broadening of Series F used as 3RD Layer Capital (for details see note 9)	**35,100**	**-**	**-**	-	-	-
Distribution of a dividend (for details see note 13)	**(185,000)**	**-**	**-**	-	-	-
	(149,900)	**-**	**-**	-	-	-
Surplus	**1,893,207**	**331,896**	**127,848**	920,687	292,301	112,291

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

	June 30 2013			June 30 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	**602,353**	**161,448**	**89,213**	587,143	172,004	88,582
Activities in nursing insurance	**75,119**	**-**	**145,191**	68,083	-	130,208
Capital requirements for yield secured programs	**45,646**	**-**	**-**	46,834	-	-
Investment assets and other assets (b)	**990,814**	**-**	**35,109**	963,503	-	31,975
Catastrophe risks in general insurance(c)	**77,270**	**-**	**-**	151,336	-	-
Operating risks	**290,472**	**-**	**44,186**	275,387	-	41,351
Deferred acquisition expenses in life assurance and health insurance and acquisition expenses	**990,603**	**-**	**79,306**	941,614	-	63,945
Investments in consolidated companies and management rights of provident	**1,109,835**	**-**	**-**	916,633	-	-
extraordinary life assurance risks (d)	**297,265**	**-**	**1,641**	260,390	-	771
Assets unrecognized as their definitions in capital regulations (e)	**56,516**	**-**	**565**	46,786	-	52
	4,535,893	**161,448**	**395,211**	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 211 million at June 30, 2013.

b. The capital requirements of assets for a total value of NIS 524 million in Harel Insurance and NIS 19 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 28 million in Harel Insurance and an amount of NIS 1 million in Dikla. Regarding the capital requirements in connections with the internal rating, see Note 7 to the financial statements

c. In June 2013, Harel Insurance acquired additional Excess of Loss reinsurance cover for earthquakes which protects the retention of Harel Insurance, so that for the period June 2013 - December 2014, the self-retention of Harel Insurance will be reduced from NIS 87 million to NIS 15 million. Due to this reduction, the equity that Harel Insurance is required to hold was reduced by NIS 72 million.

d. 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.

e. 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.

f. 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 financial institutions (insurers, management companies of provident funds and pension funds) to complete the capital of the financial institutions, up to the sums detailed below. In respect of Harel Insurance 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 Dikla up to NIS 65 million (linked to the index that was published in June 2006), in respect of EMI up to NIS 45 million (linked to the index that was published in October 2009). 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, together with Euler Hermes, has made a commitment in connection with the topping up of the required shareholders' equity of the affiliated company ICIC. 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.

   To enable the subsidiaries of Harel Insurance that are pension fund management companies to comply with the requirements in the regulations, in June 2013 a loan in the amount of NIS 10 million was provided to Harel Pension.

5. On June 4 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 July 7, 2013, the Commissioner gave permission to Harel Insurance, that within the context of the use of the internal credit rating model which it developed, Harel Insurance may reduce 50% of the equity allocation required for adjusted loans, which were rated according to the internal model. Accordingly, the capital requirement for the loans provided by Harel Insurance and Dikla, which were rated according to an internal rating, was reduced by NIS 29 million at June 30, 2013.

8. 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, as to the acquisition date, for said transaction, sums up to 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.)

9. 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, before its appliance, 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 64 million at June 30, 2013.

    At June 30, 2013, Harel Sal is in compliance with the capital requirements derived from the model.

    During the Reporting Period, Harel Financial Products issued Harel Sal capital notes in the total amount of NIS 25 million to allow Harel Sal to comply with the capital requirements derived from the high increase in the volume of its assets and operations according to the model - "Main points of the Supervisory Model for Index-linked Certificates".

10. 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 June 30, 2013, the subsidiaries are in compliance with these requirements.

11. 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.

Note 8 - Management and capital requirements (contd.)

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.

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.

12. 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.

13. 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.

Note 8 - Management and capital requirements (contd.)

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.

14. 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.

15. 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.

16. On August 27, 2013, the Board of Directors of Harel Insurance resolved to distribute a cash dividend in the amount of NIS 185 million, on the "green track" (distribution which does not require prior approval from the Commissioner, in accordance with the Commissioner's instructions concerning the distribution of dividends by an insurer). The Board of Directors' decision was made after taking into account the financial results of Harel Insurance at June 30, 2013, the distributable surplus of Harel Insurance at that date was presented, and the capital surplus and capital requirements of Harel Insurance were examined, in line with the equity management policy of Harel Insurance.

17. At June 30, 2013, Turk Nippon has a shortfall of regulatory capital of TL 7.9 million (about NIS 14.8 million) (according to the capital requirements which apply to Turk Nippon as an insurer operating in Turkey). On August 27, 2013, the Company's Board of Directors resolved to approve an injection of capital into Turk Nippon in the amount of TL 8 million (NIS 15 million) to enable it to comply with the capital requirements. The date for supplementing the capital required according to the regulatory requirements is in the future and at the very latest at the end of 2013.

18. On August 27, 2013, the Board of Directors of Harel Investments and of Harel Insurance has guidelines for management of the Group's capital and debt. As part of this policy, provisions concerning the following were prescribed: (a) the maximum level of debt for the Group, manner of spread and the use that may be made of the debt, including use as hybrid tier-1 capital for Harel Insurance; (b) the minimum level of liquidity maintained by Harel investments; (c) regarding Harel Insurance, the following key provisions were defined: (i) a minimum capital surplus of NIS 150 million will be maintained, in addition to the capital required according to the Capital Regulations; (ii) the rate of tier-2 and tier-3 capital in relation to tier-1 capital.

Note 8 - Management and capital requirements (contd.)

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

Note 9 - Financial liabilities

A. Details of financial liabilities

	June 30 2013 (Unaudited)	
	Book Value	Fair Value
	NIS Thousands	NIS Thousands
Financial liabilities, at amortized cost		
Loans from banks (1)	409,270	409,270
Loans from non-bank entities (1)	101,439	101,525
Short term credits from banks and others	27,895	27,895
Deferred notes (2)	2,335,333	2,568,293
	2,873,937	3,106,983
Financial liabilities at fair value, through profit and loss		
Loans from banks (3)	52,317	52,317
Derivatives	297,637	297,637
Short sales	17,839	17,839
	367,793	367,793
Total financial liabilities	3,241,730	3,474,776
Deferred notes, which are second tier capital	2,147,308	

(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 June 30, 2013. The average annual linked interest rates used to determine the fair value of non-marketable promissory notes is 2.1%.

(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).

	June 30 2013 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks	-	52,317	52,317
Derivatives	59,869	237,768	297,637
Short sales	17,839	-	17,839
Total financial liabilities stated at fair value through profit or loss	77,707	290,085	367,793

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 77 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 65 million at June 30, 2013; (b) not to pledge assets; (c) not to issue loans to controlling shareholders or any other party, except for subsidiaries. At June 30, 2013, the balance of loans and credit taken by Harel Financial Instruments from the bank in the context of this commitment amounts to NIS 28 million.

3. A loan taken from a bank by Harel-Pia

   On May 9, 2013, Harel-Pia made early repayment of the outstanding loan to the bank in the amount of NIS 31 million. The loan which was repaid is a loan that was provided to Harel-Pia in February 2011, in the amount of NIS 80 million. The loan was repaid from a short-term loan which the Company provided to Harel-Pia. On June 17, 2013 the loan was returned to the Company.

   In June 2013 Harel-Pia took a bank loan in the amount of NIS 100 million. The loan is for a period of seven years and bears variable interest. The loan principal and interest will be repaid in equal, semi-annual installments, commencing in December 2013. The loan was taken to repay capital notes and loans that the Company provided to Harel-Pia. To obtain the credit, Harel-Pia and Harel Finance gave pledges to the bank. Moreover, the loan agreement prescribes financial covenants, which if violated, entitle the bank to demand immediate repayment of the loan. The prescribed financial covenants relate mainly to the volume of revenues from management fees of Harel-Pia and Harel Finance Investment Management, and to the cash flow rate in relation to the debt repayment, and are as follows: (1) an undertaking not to take any additional loans that are not subordinated to the loan; (2) owners loans will not be repaid, except for repayments of up to NIS 100 million by December 31, 2013; (3) Harel-Pia shares that are held by Harel Finance are to be placed under lien; (4) current lien; (5) negative lien on the shares of Harel Finance Holdings which are held by the Company; (6) the ratio between annual EBITDA and current maturity shall not be less than 1.2. At June 30, 2013, this ratio was 2.9; (7) Total annual revenues from the management fees of Harel-Pia and Harel Investment Management shall not be less than NIS 230 million. At June 30, 2013, total revenues in annual terms amount to NIS 276 million. Regarding the covenants in sub-sections (6) and (7), provisions were prescribed which provide Harel-Pia with an option of automatic extensions to correct a breach of these covenants, with certain limitations, by making a deposit to be pledged in favor of the bank. Any division and settlement of the loans and/or the capital notes which exceed the amounts in the conditions listed in sub-section (2) require early repayment of the equivalent amount to the bank, and the ratio of annual EBITDA to current maturity shall not be less than 1.3 after the division/settlement.

Note 9 - Financial liabilities (contd.)

C. Additional Information (contd.)

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.

At June 30, 2013, the outstanding amount of the promissory notes in series 6-7 is NIS 363 million.

5. Issuance of hybrid tier-3 capital (Series 8) through Harel Finance and Issues

On June 24, 2013, Harel Share Issues issued promissory notes in the amount of NIS 165 million, which will serve as hybrid tier-3 capital for Harel Insurance. The issuance was performed by virtue of a shelf prospectus published by Harel Share Issues in February 2012, as amended in June 2013.
The issuance was performed by means of Series 8 - a new series in the amount of NIS 165 million, linked to the CPI and bearing a fixed rate of interest of 2.80%. The effective interest rate, after costs of the issuance, of the Series 8 promissory notes is 2.94%.

The interest for the bonds (Series 8) will be paid every year in two semi-annual installments, on May 31 and November 30 of each calendar year from 2013 to 2024 (until May 2024). The principal will be paid on May 31, 2024, which is the final settlement date for the series.
Given that this is hybrid tier-3 capital, even when delaying circumstances are present, the interest payments will be made as normal up to the original settlement date of the principal. A principal payment that is deferred will be postponed until the delaying circumstances are no longer present, and at most for a period ending three years from the original settlement date of the bond principal.
Additionally, given that according to the provisions of the law regarding the composition of an insurer's equity, two years before the final settlement date of the bonds the recognition of the bonds as hybrid tier-3 capital held by Harel Insurance is amortized at a fixed declining rate (50% each year), the bonds include a condition whereby Harel Share Issues may make early repayment of the bonds or part thereof, and this two years before the original settlement date. The exercising of this right is subject to meeting one of the following conditions: (a) obtaining the Commissioner's approval; or (b) Harel Insurance must have surplus capital so that the recognized capital after the repayment is 120% of the required capital; or (c) concurrent with the early repayment, Harel Share Issues will issue a capital instrument of the same or superior quality.

If Harel Share Issues does not exercise its right to early repayment, additional interest will be paid to the bond holders at a rate of 30% of the original risk margin, as defined in the issuance.

For the purpose of this issuance, on June 9, 2013, Standard & Poor's Maalot ("Maalot") published an AA- rating for the Series 8 bonds.

Note 9 - Financial liabilities (contd.)

C. Additional Information (contd.)

6. In June and July 2012, the subsidiary deposited an aggregate amount of NIS 185 million and NIS 75 million in Mizrahi-Tefahot Bank Ltd. to cover Harel Sal's obligations to owners of the units of ETFs Series 2 on the TA-100 index and Series 7 on the TA-25 index. In June 2013, the first transaction on the principal of NIS 185 million was redeemed. At June 30, 2013, the value of the second transaction, the principal of NIS 75 million was NIS 72 million, which are stated as an asset consisting of the principal of NIS 75 million and a financial obligation of NIS 3 million stemming from the decline in the index during the period. This transaction was redeemed in full in July 2013.

   In April 2013, the subsidiary deposited an aggregate amount of NIS 123 million in Mizrahi-Tefahot Bank Ltd. to cover Harel Sal's obligations to owners of the units of ETFs Series 12 on the shares of Discount Bank and Bank Leumi, which are listed on the Banks Index in the Tel Aviv Stock Exchange. At June 30, 2013, the value of the transaction was NIS 123 million, which are stated as an asset consisting of the principal of NIS 125 million and a financial obligation of NIS 2 million, stemming from the decline in the index during the period.

   In October 2011, the Israel Securities Authority published a draft instruction whereby agreements that are similar to the agreement described above are subject to certain conditions and restrictions, and inter alia new transactions will be limited to 25% of the volume of each series. Existing agreements, which at the effective date (October 31, 2011) did not meet the restriction defined for them (30%), were not required to make adjustments.

   The Company adopted the directives of the Authority (ISA) in February 2012. At June 30, 2013, the subsidiary is in compliance with the provisions of the instruction.

7. Private placement - expansion of Series 7 bonds

   On May 18, 2012, Harel Share Issues entered into agreement for the private placement of Series 7 bonds in the amount of NIS 35 million. The private placement was made by way of an expansion of Series 7 which was first issued according to a shelf offering report dated April 4, 2012, presented according to a shelf prospectus of the Company from February 27, 2012 as amended on July 18, 2013. Accordingly, the private placement was made by way of an expansion of Series 7 bonds in the amount of 32,113,450 par value registered in name, each of NIS 1, at a price of NIS 109.3 for every NIS 100 par value. The proceeds of the placement will serve as hybrid tier-3 capital held by Harel Insurance.

8. 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 June 30, 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 June 30,2013, the Company is in compliance with the aforementioned financial covenant.

Note 9 - Financial liabilities (contd.)

C. Additional Information (contd.)

9. 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 June 30, 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 June 30, 2013 is NIS 444,128 thousand whereas the fair value of these assets at June 30, 2013 is NIS 477,182 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).

	June 30 2013			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets	12,406,392	2,784	-	12,409,176
Non negotiable debt assets	-	4,366,556	118,851	4,485,407
Shares	3,578,001	-	551,119	4,129,120
Other	3,036,522	124,015	1,444,893	4,605,431
Total	19,020,915	4,493,355	2,114,862	25,629,134

Note 10 - investment property for yield-dependent contracts

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*	1,198,765	1,751,015
Total profits (losses) recognized				
In statement of income	(562)	(4,994)	(587)	(6,143)
Interest and dividend receipts	(2,727)	(8,297)	(21,034)	(32,058)
Purchases	32,802	74,387	354,732	461,921
Sales	-	(279)	(86,984)	(87,263)
Redemptions	(6,073)	-	-	(6,073)
Transfers to level 3**	33,463	-	-	33,463
Balance as at June 30, 2013	118,851	551,119	1,444,892	2,114,862
Total profits (losses) for the period included in the statement of income for assets held	(1,661)	(5,006)	19,048	12,381

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

	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 April 1, 2013	90,293	476,493*	1,256,239	1,823,025
Total profits (losses) recognized				
In statement of income	704	7,746	(2,108)	6,342
Interest and dividend receipts	(1,962)	(4,195)	(8,114)	(14,271)
Purchases	30,793	71,354	240,753	342,900
Sales	-	(279)	(41,878)	(42,157)
Redemptions	(6,073)	-	-	(6,073)
Transfers to level 3**	5,096	-	-	5,096
Balance as at June 30, 2013	118,851	551,119	1,444,892	2,114,862
Total profits (losses) for the period included in the statement of income for assets held	(396)	7,734	17,042	24,380

* 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

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

	June 30 2012				
	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)	1,157,224	6,720,274	387,876	-	8,265,374
Non-negotiable debt assets (2)	712	-	-	9,536,390	9,537,102
Shares (3)	14,986	513,288	-	-	528,274
Other (4)	300,815	1,326,775	-	-	1,627,590
Total	1,473,737	8,560,337	387,876	9,536,390	19,958,340

* The assets held for redemption are presented at adjusted cost. The fair value of these assets is NIS 407,614 thousands.

(1) Marketable debt assets

	June 30, 2013 (Unaudited)
	Book Value
	NIS Thousands
Government bonds	
Reported at fair value, through profit and loss, designated upon initial recognition	459,570
Available for sale	2,897,379
Total government bonds	3,356,949
Other debt assets	
Non-convertible	
Reported at fair value, through profit and loss, designated upon initial recognition	685,559
Held to maturity	387,876
Available for sale	3,822,895
Total other debt assets - non convertible	4,896,330
Convertible	
Reported at fair value, through profit and loss, designated upon initial recognition	12,095
Total other debt assets -convertible	12,095
Total marketable debt assets	8,265,374

	June 30, 2013 (Unaudited)
	Book Value
	NIS Thousands
Impairment balances - recognized through profit and loss in respect of available for sale debt instruments	13,438

Note 11 - Other financial investments (contd.)

(2) Non marketable debt assets

	June 30, 2013 (Unaudited)	
	Book Value	Fair Value
	NIS Thousands	NIS Thousands
Government bonds		
Reported as loans and debts:		
Designated bonds	4,372,359	5,192,414
Total government bonds	4,372,359	5,192,414
Non-convertible other debt assets		
Reported as loans and debts, including bank deposits	5,164,031	5,639,898
Total Non-convertible other debt assets	5,164,031	5,639,898
Convertible other debt assets		
Reported at fair value, through profit and loss, designated upon initial recognition	712	712
Total convertible other debt assets	712	712
Total non convertible debt assets	9,537,102	10,833,024
Impairment balances	68,783	

(3) Shares

	June 30, 2013 (Unaudited)
	Book Value
	NIS Thousands
Marketable	
Reported a fair value, through profit and loss, upon initial designation	14,986
Available for sale	414,650
Total marketable shares	429,636
Non marketable shares	
Reported a fair value, through profit and loss, upon initial designation	
Available for sale	98,638
Total non marketable shares	98,638
Total	528,274
Impairment balances, charged to profit and loss	75,552

Note 11 - Other financial investments (contd.)

(4) Other Financial Investments

	June 30, 2013 (Unaudited)
	Book Value
	NIS Thousands
Marketable	
Reported at fair vale through profit and loss designated upon initial recognitions	142,861
Available for sale	693,156
Derivative instruments	2,146
Total marketable financial investments	838,163
Non marketable	
Classified as held for trading	72,474
Available for sale	633,618
Derivative instruments	83,335
Total non marketable financial investments	789,427
Total other financial investments	1,627,590
Impairment balances - other financial investments reported as available for sale	73,198
Derivative instruments, reported as financial liabilities	159,705

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.

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets	7,877,498	-	-	7,877,498
Non-negotiable debt assets	-	-	712	712
Shares	429,636	-	98,638	528,274
Other	838,163	83,335	706,092	1,627,590
Total	9,145,297	83,335	805,442	10,034,074

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	(524)	2,451	10,344	12,271
In comprehensive incom	-	(1,970)	(3,438)	(5,409)
Interest and dividend receipts	-	(2,493)	(6,792)	(9,285)
Purchases	-	243	162,140	162,383
Sales	-	(137)	(41,881)	(42,017)
Transfers to level 3*	1,211	-	-	1,211
Balance as at June 30, 2013	712	98,638	706,094	805,444
Total profits (losses) for the period included in the statement of income for assets held	(524)	2,435	15,309	17,220

	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 April 1, 2013	25	97,859	585,186	683,070
Total profits (losses) recognized				
In statement of income	(524)	1,452	1,649	2,577
In comprehensive incom	-	767	4,462	5,229
Interest and dividend receipts	-	(1,404)	(229)	(1,633)
Purchases	-	100	135,796	135,896
Sales	-	(136)	(20,770)	(20,906)
Transfers to level 3	1,211	-	-	1,211
Balance as at June 30, 2013	712	98,638	706,094	805,444
Total profits (losses) for the period included in the statement of income for assets held	(524)	1,436	6,653	7,565

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. Agreement for professional liability insurance for Hadassah Hospital

   On June 24, 2013, the Company's Audit Committee and Board of Directors approved an agreement for professional (medical) liability insurance for the activity of Hadassah Hospital (on both campuses) and for the private practice of its doctors (mainly within the framework of the Private Medical Services), after the Audit Committee had determined that the agreement is not irregular given that it is part of the normal course of the Company's business and was made at market conditions.

   Ms. Esther Dominissini, who is an external director of the Company, chairs the Board of Directors of Hadassah. The agreement therefore requires the approval of the Audit Committee and Board of Directors pursuant to Section 271 or 272 of the Companies Law.

2. Bonus for 2012

   A general meeting of the Company's shareholders held on March 5, 2012 approved the employment conditions of Mssrs. Yair Hamburger, Gideon Hamburger, and Yoav Manor, who are directors of the Company and are also its controlling shareholders. Accordingly, Mssrs. Yair Hamburger, Gideon Hamburger, and Yoav Manor (together: "the senior officers who are the controlling shareholders") are entitled to an annual bonus which is determined according to a calculation mechanism that does not include room for discretion, but instead is based on three parameters which compare the Group's results with those of the other large insurance groups. On June 9, 2013, the Company's Board of Directors approved (in a resolution in which the senior officers who are the controlling shareholders did not participate) the results of the calculation of the bonus for 2012, which confirms the reasonability of the calculation. According to the calculation, Yair Hamburger received a bonus in the amount of NIS 1,304,000; Gideon Hamburger received a bonus in the amount of NIS 776,000, and Yoav Manor received a bonus in the amount of NIS 776,000.

3. 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.

4. 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.

5. 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.

Note 12 - Subsequent events during the reporting period (contd.)

On January 27, 2013, the Board of Directors of Harel Insurance decided to reduce the spread 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.

6. 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.

7. 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. The general meeting approved all the items on the agenda.

Note 13 - Subsequent events after the reporting period

1. On the raising of a loan in the amount of NIS 100 million from a financial institution, see Note 9.

2. Concerning the Issuance of hybrid tier-3 capital (Series 8)by Harel Finance and Issues and the expansion of bond series 6 and 7, see Note 9.

3. Dividend distribution by Harel Investments

   On August 27, 2013, the Company's Board of Directors resolved to distribute a dividend in the amount of NIS 255 million (NIS 12 per share). The Board of Directors made its decision after taking into account the Company's results at June 30, 2013. The Board of Directors was presented with information on the distributable profits, capital surpluses of the subsidiaries, the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and the solvency test prescribed in Section 203(A) of the Companies Law. Following this review, the Board of Directors confirmed the Company's compliance with the distribution test.

4. Approval of the compensation policy, as per Amendment 20 to the Companies Law.
   On July 15, 2013 and July 17, 2013, the Compensation Committee and Board of Directors, respectively, approved a compensation plan for senior officers of the Company, in line with Amendment no. 20 to the Companies Law. The compensation policy will also serve as a guideline for the Company's subsidiaries, with the relevant changes. On August 22, 2013, the compensation policy was approved by the general meeting of the Company's shareholders.

5. Revised employment conditions for Co-CEOs
   On July 15, 2013, July 17, 2013, and August 22, 2013, the Compensation Committee, Board of Directors, and the general meeting of the Company's shareholders, respectively, approved revised employment conditions for Mr. Michel Siboni, Co-CEO of the Company and Mr. Shimon Elkabetz, Co-CEO of the Company. The principal revisions to the employment conditions are:

   For Mr. Michel Siboni - approval of 150% severance pay (50% more than that required by law) for the period from the commencement of his employment for the Group until July 2009 (according to Michel Siboni's present employment agreement, he is entitled to 200% severance pay for the period from July 2009, when he was appointed CEO of Harel Insurance); the salary component which does not entitle him to provision for pension or social benefits was set at NIS 1 million per year; the parameters which are used to determine the annual performance-linked bonus were revised, in line with the Company's compensation policy.

   For Mr. Shimon Elkabetz - approval of 150% severance pay (50% more than that required by law) for the period from the commencement of his office in the Group, to be calculated in respect of the monthly compensation component corresponding with the on-going salary he would be paid if he was employed as a salaried employee (62% of the monthly management fees); parameters were defined for calculating the entitlement to an annual performance-linked bonus, in accordance with the Company's compensation plan; increase of the adjustment bonus from 3 to 6 months.

Note 13 - Subsequent events after the reporting period (Cont'd)

Additionally, at the aforementioned dates, the Compensation Committee and the Board of Directors approved an annual bonus for Shimon Elkabetz for 2012. Given that on the date of payment of the bonuses for 2012, Mr. Elkabetz was not covered by a compensation plan which includes quantitative parameters for computing the bonus, but the bonus was at the discretion of the Board of Directors, Mr. Elkabetz could only be paid a guaranteed bonus of NIS 500,000. The Board of Directors therefore resolved that the bonus will be paid after the compensation policy is approved and in accordance with the parameters to be defined in the compensation plan. Accordingly, the Compensation Committee and the Board of Directors approved payment of a bonus for 2012, on the basis of some of the parameters which were defined in the compensation plan that could be applied to the results of operations in 2012, in the amount of NIS 1.38 million (not including the amount paid in March 2013 as a guaranteed bonus).

6. Equity split and amendment to Section 10 of the Company's Articles of Association
At a special general meeting of the Company which took place on August 22, 2013, a resolution was passed to split the registered share capital (including the Company's issued and paid-up capital) so that each NIS 1 par value share of the Company was split into 10 ordinary shares of NIS 0.1 par value. Accordingly, the number of shares in the registered share capital of the Company will increase to 500,000,000 ordinary shares each of NIS 0.1 par value without any change in the total registered share capital in shekels.

   Accordingly, an amendment to Section 10 of the Company's Articles of Association was approved which specifies the registered share capital and the par value of each share. Actual splitting of the share capital is subject to the approval of the Stock Exchange which at the date of the report has not yet been received.

7. Purchase of a residential building in Manhattan, New York, USA.
On September 3, 2010, Harel Insurance entered into an agreement to purchase a residential building in Manhattan, in the US city of New York ("the Building"). The building was acquired by Harel Insurance together with a local entity that specializes in investments in residential real-estate in the US ("the local entity"), which is responsible for managing and operating the building through a property management company ("the Property Management Company"), where each party indirectly holds 50% of the rights in the building. The total cost of the transaction was USD 20.5 million, of which the share of Harel Insurance amounted to USD 4 million as equity and USD 12.5 million was a debt against a first lien on the building ("the loans"). On July 27, 2013, the Property Management Company entered into agreement to sell the building for USD 27.15 million, reflecting a 32% increase in the value of the building. The proceeds of the sale will be used to repay the loans to Harel Insurance, and the balance will be divided according to the partnership agreement between the partners.

8. Agreement with an architect
In January 2011, the Company entered into agreement to obtain architectural services from Mr. Miki Kornhauser, who is the brother-in-law of Mr. Yair Hamburger, the controlling shareholder and Chairman of the Board of Directors of the Company. As part of the agreement, Mr. Kornhauser provides on-going architectural services to the Company and its subsidiaries in various projects undertaken by the Company. In consideration of the aforementioned services, the Company pays Mr. Kornhauser fixed monthly consideration of NIS 70,000 plus VAT (against an invoice). The agreement stipulates that it will be extended automatically for an additional year each time, unless either party gives notice that it does not wish to renew the agreement. The agreement also stipulates that it may be terminated by giving 60 days advance notice at any time.

Note 13 - Subsequent events after the reporting period (Cont'd)

On July 14, 2013 and July 17, 2013, the Company's Audit Committee and Board of Directors, respectively, approved an amendment to the agreement whereby the period of the agreement will be until December 31, 2015. It is stipulated that the provision in the agreement allowing either party to terminate it by giving 60 days advance notice, remains in force. For the sake of caution, all the conditions of the agreement were re-approved.

9. Agreement to acquire rights in the Ir Yamim mall
   On July 4, 2013, a transaction was completed in which Harel Insurance and Dikla 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. Consideration for the asset is NIS 390 million CPI-linked.
   The transaction is mainly for yield-dependent policies which are managed by Harel Insurance and Dikla, and the transaction is therefore not expected to affect the financial results of Harel Insurance and Dikla or the Company.

10. Highway 6

    A special-purpose partnership, T.S.I. Roads L.P. ("TSI Roads"), which was established by the Israel Infrastructures Fund ("IIF" - "Infrastructures Fund") and which at the end of 2010 acquired 50% of the shares of Derech Eretz Highways (1997) Ltd. (25.5% full diluted), owner of the concession for Highway 6 ("Derech Eretz"), entered into an amended agreement on December 23, 2012 with Property & Building Ltd. ("P&B") to acquire all the holdings of P&B in Derech Eretz, including the owners loans which P&B provided to Derech Eretz ("the Transaction").

    After meeting the suspensive conditions for completion of the Transaction, including obtaining the State's approval and approval from the entities which finance Derech Eretz, the Transaction was completed on July 4, 2013 and TSI Roads acquired from P&B all its holdings in Derech Eretz (25.5% fully diluted). As part of the Transaction, subsidiaries of the Company that are financial institutions ("the Subsidiaries") made a further investment of NIS 350 million in TSI Roads, in addition to other investments made by other limited partners in TS Roads, each pro rata to its share of TS Roads. Subsequent to completion of the Transaction, the Subsidiaries hold 46%, directly, of the rights in TSI Roads.

11. Reinsurance for the comprehensive pension fund - Harel General Pension

    By virtue of an agreement signed between Harel Insurance and Harel Pension, commencing in July 2013 Harel Insurance provides reinsurance cover, on a proportional basis at a rate of 95%, for the liabilities of the comprehensive pension fund Harel General Pension, in respect of insurance cover for death or disability events which are covered in accordance with the pension fund's articles. This reinsurance is provided with the purpose of obtaining the Commissioner's approval to operate a comprehensive pension plan by Harel General Pension.

12. Concerning the setting of a policy for management of the equity of the Company and Harel Insurance, see Note 8.

13. Concerning an expansion of Series 7, see Note 9.

14. Concerning an increase in corporate tax to 26.5% from January 1, 2014, see Note 6.

HAREL 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:

	June 30		December 31
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Fixed assets	**840,778**	729,919*	814,307*
financial investments			
Marketable debt assets	**12,409,175**	9,361,289	10,769,645
Non marketable debt assets	**4,485,407**	3,959,212	4,315,903
Shares	**4,129,120**	3,342,118*	3,782,881*
Other financial investments	**4,605,429**	3,032,678	3,703,161
Total financial investments	**25,629,131**	19,695,297	22,571,591
Cash and cash equivalents	**1,222,368**	1,093,434	740,754
accounted for as loans and payables including bank deposits			
Non marketable debt assets**	**444,128**	516,958	480,648
Other	**436,435**	376,187*	390,092*
Total financial assets in respect of yield dependent	**28,572,840**	22,411,795	24,997,392
Creditors and credit balances	**5,142**	5,047*	1,748*
Financial liabilities***	**100,330**	131,189	83,489
Financial liabilities in respect of yield dependent	**105,472**	136,236	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 June 30, 2013, is NIS 477,182 thousand (as at June 30, 2012, and as at December 31, 2012, NIS 502,743 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

	June 30 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	**1,155,152**	**6,661,439**	**387,876**	**-**	**8,204,467**
Non marketable debt assets	**712**	**-**	**-**	**9,507,866**	**9,508,578**
Shares	**-**	**513,281**	**-**	**-**	**513,281**
Others	**290,336**	**1,026,230**	**-**	**-**	**1,316,566**
Total	**1,446,200**	**8,200,950**	**387,876**	**9,507,866**	**19,542,892**

	June 30 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	1,052,536	5,546,140	466,861	-	7,065,537
Non marketable debt assets	33	-	-	9,242,008	9,242,041
Shares	-	459,174	-	-	459,174
Others	273,864	821,231	-	-	1,095,095
Total	1,326,433	6,826,545	466,861	9,242,008	17,861,847

	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 407,614 thousands, as at June 30, 2013. (as at June 30, 2012 and as at December 31,2012 NIS 459,693 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 (**)		
	June 30		December 31	June 30		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	**3,325,279**	2,719,106	3,286,139	**3,256,602**	2,696,915	3,160,202
Other debt instruments						
Total other debt instruments, non convertible	**4,867,093**	4,330,259	4,524,374	**4,656,692**	4,389,457	4,308,300
Other debt instruments convertible (*)	**12,095**	16,172	13,769	**14,332**	18,760	16,877
Total marketable debt	**8,204,467**	7,065,537	7,824,282	**7,927,626**	7,105,132	7,485,379
Fixed impairments recognized in aggregate in profit and loss	**13,438**	29,745	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		
	June 30		December 31	June 30		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	**4,372,359**	4,119,502	4,111,966	**5,192,414**	4,793,141	4,983,994
Other bonds	**-**	-	-	**-**	-	-
Total government bonds	**4,372,359**	4,119,502	4,111,966	**5,192,414**	4,793,141	4,983,994
Other debt instruments						
other debt instruments, non convertible	**5,135,507**	5,122,506	4,977,465	**5,611,963**	4,973,866	5,418,106
Reported at fair value, through profit and loss, designated upon initial recognition	**712**	33	25	**712**	33	25
Total non marketable debt	**9,508,578**	9,242,041	9,089,456	**10,805,089**	9,767,040	10,402,125
Fixed impairments recognized in aggregate in profit and loss	**68,783**	53,849	69,852			

3. Shares

	Book Value			Cost		
	June 30		December 31	June 30		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	**414,650**	362,487	400,253	**336,372**	341,583	335,513
Non marketable Shares	**98,631**	96,687	100,536	**82,301**	83,656	82,265
Total Shares	**513,281**	459,174	500,789	**418,673**	425,240	417,778
Impairment balances - other financial investments reported as available for sale	**75,552**	106,951	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		
	June 30		December 31	June 30		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	**544,124**	548,513	575,754	**519,031**	491,409	524,933
Non marketable Financial investments	**772,442**	546,582	672,610	**619,104**	453,738	619,228
Total other Financial investments	**1,316,566**	1,095,095	1,248,364	**1,138,135**	945,146	1,144,161
Fixed impairments recognized in aggregate in profit and loss	**73,198**	87,948	81,319			
Derivative instruments, reported as financial liabilities	**159,693**	176,979	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 June 30, 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 June 30, 2013 and for the six and 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 theses 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 788,799 thousand as at June 30, 2013, and the Company’s profit (loss) from the investee companies is NIS (3,388) thousand and NIS 5,044 thousand to the six and three months periods ended on that date, respectivly. 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

August 27, 2013

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

	June 30		December 31
	2013	2012	2013
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**12**	91	22
Fixed assets	**2,348**	2,850	1,704
Investments in investee companies	**4,354,784**	3,527,365**	3,967,285
Loans to investee companies	**136,400**	181,860	190,709
Real estate for investment	**18,325**	17,766	18,325
Other receivables	**27,676**	35,372	78,534
Other financial investments			
Marketable debt assets	**-**	30,359	-
Non marketable debt assets	**28,524**	3,624	3,567
Others	**207,859**	299,330	265,864
Total financial investments and others	**236,383**	333,313	269,431
Cash and cash equivalents	**72,168**	43,096	47,978
Total assets	**4,848,096**	4,141,713	4,573,988
Capital			
Share capital and premium on shares	**315,103**	308,273	308,446
Treasury stock	**(153,271)**	(139,378)	(142,300)
Capital reserves	**268,870**	129,618	328,173
Retained earnings	**3,945,810**	3,439,389*,**	3,652,909*
Total capital	**4,376,512**	3,737,902	4,147,228
Liabilities			
Liabilities for deferred taxes	**129**	1,664*	1,853*
Liabilities for benefits to employees, Net	**17,759**	20,414*	15,747*
Other payables	**35,154**	24,275	73,765
Liabilities for current taxes	**7,539**	5,013	3,558
Financial liabilities	**411,003**	352,445	331,837
Total liabilities	**471,584**	403,811	426,760
Total liabilities and capital	**4,848,096**	4,141,713	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: August 27, 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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Profits from investments, net, and financing revenues	**11,338**	5,546	**6,513**	3,656	15,084
Revenues from management fees	**42,800**	36,176	**20,515**	17,639	73,499
Total revenues	**54,138**	41,722	**27,028**	21,295	88,583
General and administrative expenses	**16,878**	12,074*	**9,216**	4,112*	26,323*
Other expenses	**-**	145	**-**	-	177
Financing expenses	**8,118**	9,298	**4,676**	4,547	17,570
Total expenses	**24,996**	21,517	**13,892**	8,659	44,070
Company's shares in profits (losses) of investee companies	**310,457**	157,571	**100,699**	(28,872)	414,016
Income (loss) before taxes on income	**339,599**	177,776	**113,835**	(16,236)	458,529
Taxes on income	**3,488**	4,663*	**(37)**	3,032*	8,296*
Income (loss) for period ended 30 June relating to the Company's shareholders	**336,111**	173,113	**113,872**	(19,268)	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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Profit (loss) for the year	**336,111**	173,113*	**113,872**	(19,268)*	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	**2,492**	2,012	**1,997**	2,685	1,314
Net changes in fair value of financial assets available for sale transferred to statement of income	**(7,333)**	(1,451)	**(4,781)**	(1,234)	(6,348)
Loss from impairment in value of financial assets available for sale transferred to statement of income	**-**	318	**-**	318	336
Foreign currency transaction's difference in respect of overseas operations	**(3,221)**	3,436	**156**	5,284	(3,000)
The Group share in the comprehensive income (loss) of investee companies	**(39,821)**	55,263	**(22,567)**	(42,731)	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	**1,210**	(220)	**695**	(443)	1,174
Total other comprehensive income (loss) for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	**(46,673)**	59,358	**(24,500)**	(36,121)	254,096
Other items of comprehensive income (loss) which will not be transferred to profit or loss					
Remeasurement of a defined benefit plan	**(400)**	-	**(442)**	-	-
Taxes on income for other items of comprehensive income which will not be transferred to profit or loss	**100**	-	**110**	-	-
Other comprehensive income (loss) for the period which will not be transferred to profit or loss, net of tax	**(300)**	-	**(332)**	-	-
Other comprehensive income (loss) for the year	**(46,973)**	59,358	**(24,832)**	(36,120)	254,096
Total income for the year Attributed to the company's owners	**289,138**	232,471	**89,040**	(55,387)	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 six months ended June 30, 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 (loss) for year									
Profit for year	-	-	-	-	-	-	-	336,111	336,111
Total other comprehensive income (loss)	-	(46,271)	-	(10,492)	-	-	-	9,790	(46,973)
Total comprehensive income (loss) for year	-	(46,271)	-	(10,492)	-	-	-	345,901	289,138
Transactions with owners credited directly to equity									
Dividends paid	-	-	-	-	-	-	-	(53,000)	(53,000)
Exercising of stock options	6,041	-	-	-	(6,041)	-	-	-	-
Share based payment	-	-	-	-	3,501	-	-	-	3,501
Purchase of treasury stock	-	-	-	-	-	(13,406)	-	-	(13,406)
Reissuing of treasury stock	616	-	-	-	-	2,435	-	-	3,051
Balance as at June 30, 2013	315,103	257,420	(48,908)	(17,373)	37,787	(153,271)	39,944	3,945,810	4,376,512

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 June 30, 2013 (Unaudited)									
Balance as at January 1, 2013	308,555	291,082	(48,908)	(17,529)	42,265	(145,632)	39,944	3,823,264	4,293,041
Comprehensive income for year									
Profit for year	-	-	-	-	-	-	-	113,872	113,872
Total other comprehensive income (loss)	-	(33,662)	-	156	-	-	-	8,674	(24,832)
Total comprehensive income (loss) for year	-	(33,662)	-	156	-	-	-	122,546	89,040
Transactions with owners credited directly to equity									
Exercising of stock options	6,041	-	-	-	(6,041)	-	-	-	-
Share based payment	-	-	-	-	1,563	-	-	-	1,563
Purchase of treasury stock	-	-	-	-	-	(9,071)	-	-	(9,071)
Reissuing of treasury stock	507	-	-	-	-	1,432	-	-	1,939
Balance as at June 30, 2013	315,103	257,420	(48,908)	(17,373)	37,787	(153,271)	39,944	3,945,810	4,376,512

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 six months ended June 30, 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 for year									
Profit for year	-	-	-	-	-	-	-	173,113*	173,113
Total other comprehensive income	-	29,779	-	2,669	-	-	26,910	-	59,358
Total comprehensive income for year	-	29,779	-	2,669	-	-	26,910	173,113	232,471
Transactions with owners credited directly to equity									
Share based payment	-	-	-	-	6,335	-	-	-	6,335
Reissuing of treasury stock	1,378	-	-	-	-	7,206	-	-	8,584
Purchase of treasury stock	-	-	-	-	-	(8,001)	-	-	(8,001)
Balance as at June 30, 2012	308,273	108,866	(48,908)	(2,165)	36,510	(139,378)	35,315	3,439,389	3,737,902

* 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 June 30, 2012 (Unaudited)									
Balance as at April 1, 2012	306,296	148,654	(48,908)	(5,833)	33,188	(137,285)	35,315	3,458,657*	3,790,084
Comprehensive income (loss) for year									
Loss for year	-	-	-	-	-	-	-	(19,268)*	(19,268)
Total other comprehensive income (loss)	-	(39,788)	-	3,668	-	-	-	-	(36,120)
Total comprehensive income (loss) for year	-	(39,788)	-	3,668	-	-	-	(19,268)	(55,388)
Transactions with owners credited directly to equity									
Share based payment	-	-	-	-	3,322	-	-	-	3,322
Reissuing of treasury stock	1,977	-	-	-	-	4,703	-	-	6,680
Purchase of treasury stock	-	-	-	-	-	(6,796)	-	-	(6,796)
Balance as at June 30, 2012	308,273	108,866	(48,908)	(2,165)	36,510	(139,378)	35,315	3,439,389	3,737,902

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 (loss) 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

	Appendix	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
		2013	2012	2013	2012	2012
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities						
Before taxes on income	A	**36,082**	12,540	**16,664**	(17,735)	30,094
Income tax (paid) refund		**(20)**	(2,599)	**(1,912)**	(1,119)	(7,778)
Net cash provided by operating activities		**36,062**	9,941	**14,752**	(18,854)	22,316
Cash flows from investing activities						
Investment in investee companies		**(62,382)**	(22,355)	**(62,382)**	-	(38,211)
investment in fixed assets		**(654)**	(1,454)	**(654)**	-	(650)
Proceeds from realizing fixed assets		**-**	326	**-**	-	630
Investment in intangible assets		**(401)**	(14)	**(401)**	(14)	-
Acquisition of real estate for investment		**-**	-	**-**	-	(559)
Dividends from investee companies		**103,842**	-	**103,842**	-	61,905
Net Financial investments		**37,240**	(75,142)	**99,250**	26,005	(8,591)
Loans to investee companies		**(155,000)**	(38,000)	**(155,000)**	(22,000)	(64,931)
Repayment of loans given to investee companies		**40,008**	125,916	**40,008**	15,161	116,746
Net cash provided by (used for) investing activities		**(37,347)**	(10,723)	**24,663**	19,152	66,339
Cash flows from financing activities						
Dividends paid		**(53,000)**	-	**(53,000)**	-	(63,600)
Loans from banks and others		**100,000**	-	**-**	-	-
Repayment of loans to banks and others		**(21,525)**	(20,045)	**(21,525)**	(20,045)	(41,000)
Net cash provided by (used for) financing activities		**25,475**	(20,045)	**(74,525)**	(20,045)	(104,600)
Increase (decrease) in cash and cash equivalents		**24,190**	(20,827)	**(35,110)**	(19,747)	(15,945)
Cash and cash equivalents at beginning of year		**47,978**	63,923	**107,278**	62,843	63,923
Cash and cash equivalents at end of the period		**72,168**	43,096	**72,168**	43,096	47,978

Financial data from the consolidated statements of cash flows

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Appendix A – Cash flows from operating activities before taxes on income	**336,111**	173,113*	**113,872**	(19,268)*	450,233*
Items which are not connected with cash flows					
Company's shares in revenues of investee companies	**(310,457)**	(157,571)	**(100,699)**	28,872	(414,016)
Net loss (profits) from financing activities	**(9,037)**	(1,590)	**(5,043)**	(253)	(9,832)
Financing expenses (income), net	**1,234**	(2,983)	**(3,699)**	(6,922)	520
Taxes on income (tax benefit)	**3,488**	4,663*	**(37)**	3,032*	8,296*
Depreciation and amortization	**421**	362	**311**	214	626
Gains from realizing fixed assets	**-**	-	**-**	(20)	(171)
Share-based payment	**606**	744	**147**	398	1,487
Changes in other balance sheet items					
Other receivables	**50,858**	(9,227)	**67,962**	(6,813)	(52,389)
Other payables	**(39,154)**	5,494	**(56,392)**	(14,057)	50,473
Liabilities for benefits to employees, net	**2,012**	(466)*	**242**	(2,918)*	(5,133)*
Total adjustments required to present cash flows from operating activities	**(300,029)**	(160,573)	**(97,208)**	1,533	(420,139)
Total cash flows from operating activities, before taxes on income	**36,082**	12,540	**16,664**	(17,735)	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 June 30, 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 June 30, 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. On March 2012, the general meeting of the Company approved the mentioned conditions. 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.

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

Influence on the Financial Report

3. Influence on the financial position

	June 30 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	3,545,102	(17,737)	-	3,527,365
Retained earnings	3,463,876	(17,737)	(6,750)	3,439,389
Liabilities for deferred taxes	3,914	-	(2,250)	1,664
Liabilities for benefits to employees, Net	11,414	-	9,000	20,414

	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

4. Influence on profit and loss

	For the six months ended June 30 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	15,074	(3,000)	12,074
Income taxes	3,913	750	4,663
Profit for the year	170,863	2,250	173,113

	For the three months ended June 30 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	6,362	(2,250)	4,112
Income taxes	2,470	562	3,032
Profit for the year	(20,956)	1,688	(19,268)

	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)

5. 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 3 - Affiliations, agreements, and significant transactions with investees

1. For the purpose of financing the acquisition of the mutual fund management company and portfolio management activity of Clal Finance (for additional information about this transaction see Note 5 to the condensed, consolidated, interim financial statements), the Company provided Harel Finance with 10 capital notes each in the amount of NIS 15.5 million, and NIS 155 million in total. The capital notes are not CPI-linked and are without interest, and they are to be repaid on a date to be determined by the Board of Directors of Harel Finance, but not before April 2018.

2. On July 17, 2013, the Board of Directors approved transfer of the investment and hedge fund management activity from Harel Finance Products to the Company in a total sum of USD 25 million. Harel Finance will provide the Company with control and operating services in connection with these investments, in consideration of management fees and success fees.

3. On July 31, 2013 Harel Finance repaid Harel Investments loans in the amount of NIS 32.3 million for loans given to it in the past.

4. On June 17, 2013 Harel Finance repaid Harel Investments loans in the amount of NIS 45 million for loans given to it in the past.

Note 4 - Subsequent events during the reporting period

1. Assignment of a loan from Harel Finance to Harel Investments

   On November 30, 2012, Harel Finance entered into an agreement with A-Online Capital (A.O.C.) for the sale of all the holdings of Harel Finance in Harel Finance Trade. Part of the consideration to Harel Finance was paid by means of a loan in the amount of NIS 57 million which Harel Finance provided to A-Online on that date (see Note 42 to the 2012 consolidated financial statements).

   On June 30, 2012, Harel Investments entered into agreement with Harel Finance, according to which Harel Finance assigned to Harel Investments all its rights and obligations according to the aforementioned loan agreement, the balance of which on that date was a principal of NIS 25 million.

2. ICIC

   On June 3, 2013, a transaction was completed in which the Company and Euler Hermes acquired all the holdings of Bituach Haklai in ICIC. Upon completion of the transaction, the Company and Euler Hermes each hold 50% of the issued share capital of ICIC. The consideration which the Company paid for acquiring half of the shares of Bituach Haklai in ICIC (16.7%) amounts to NIS 62 million.

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

On June 3, the Board of Directors of ICIC resolved to distribute a cash dividend in the amount of NIS 75 million, on the "green track" (distribution which does not require prior approval from the Commissioner, in accordance with the Commissioner's instructions concerning the distribution of dividends by an insurer). Based on the percentage if its holding, the Company received half of the dividend. The dividend was paid on June 19, 2013.

3. 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.

4. 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 June 30, 2013, this ratio was less than 0.1); (b) ratio between the Company's own financial debt and its equity - 0.3 (at June 30, 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 June 30, 2013, the Company is in compliance with the aforementioned financial covenant.

5. 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 4 - Subsequent events during the reporting period (cont'd)

6. Bonus for 2012

   A general meeting of the Company's shareholders held on March 5, 2012 approved the employment conditions of Mssrs. Yair Hamburger, Gideon Hamburger, and Yoav Manor, who are directors of the Company and are also its controlling shareholders. Accordingly, Mssrs. Yair Hamburger, Gideon Hamburger, and Yoav Manor (together: "the senior officers who are the controlling shareholders") are entitled to an annual bonus which is determined according to a calculation mechanism that does not include room for discretion, but instead is based on three parameters which compare the Group's results with those of the other large insurance groups. On June 9, 2013, the Company's Board of Directors approved (in a resolution in which the senior officers who are the controlling shareholders did not participate) the results of the calculation of the bonus for 2012, which confirms the reasonability of the calculation. According to the calculation, Yair Hamburger received a bonus in the amount of NIS 1,304,000; Gideon Hamburger received a bonus in the amount of NIS 776,000, and Yoav Manor received a bonus in the amount of NIS 776,000.

Note 5 - Subsequent events after the reporting period

1. Dividend distribution by Harel Investments

   On August 27, 2013, the Company's Board of Directors resolved to distribute a cash dividend in the amount of NIS 255 million (NIS 12 per share). The Board of Directors made its decision after taking into account the Company's results at June 30, 2013. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries, the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and the solvency test prescribed in Section 203(A) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test.

2. On July 30, 2013, the Knesset passed the Law for the Change of National Priorities (Legislative Amendments to Achieve Budget Targets in 2013 and 2014), 5773-2013. As part of the legislation, on January 1, 2014, corporate tax will be increased to 26.5%. The aforementioned change in the corporate tax rate is not expected to have any significant effect on the profit and/or comprehensive income and/or equity of the Company.

3. Concerning an agreement with an architect, see Note 13(7) to the consolidated financial statements.

4. Concerning approval of the compensation policy, in accordance with Amendment 20 to the Companies Law, see Note 13(8) to the consolidated financial statements.

5. Concerning an equity split and amendment to Section 10 of the Company's Articles of Association see Note 13(10) to the consolidated financial statements.

6. Concerning revised employment conditions for the Co-CEOs, see Note 13(9) to the consolidated financial statements.

7. Concerning the formulation of an equity management policy by the Company, see Note 8(13) to the consolidated financial statements.

Harel Insurance Investments & Financial Services Ltd.

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

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

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 periodical report on the evaluation of effectiveness, which was attached to the periodical report for the period ended in March 31, 2013 ("last periodical report concerning the effectiveness of internal control over financial reporting and disclosure), the internal control found as 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 periodical report concerning the effectiveness of internal control.

At the date of the report, based on the mentioned in the last periodical 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 second 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.

August 27, 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 second 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.

August 27, 2013

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 second 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.

August 27, 2013

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Ronen Agassi

CFO