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HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Interim Statement
As at March 31, 2014

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

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Board of Directors' Report

Harel Insurance Investments & Financial Services Ltd.

Board of Directors' Report

For the nine months ended March 31, 2014

The Board of Directors' Report for the three months ended March 31, 2014 ("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 2013 which was published on March 30, 2014 ("the Periodic Report").

The Board of Directors' 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. 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:

(a) 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"); ICIC - Israel Credit Insurance Company Ltd. (ICIC) (in which the Company has a 50% stake); E.M.I. - Ezer Mortgage Insurance Company Ltd. (wholly controlled), ("EMI"); Interasco Societe Anonyme General Insurance Company S.A.G.I. (in which the Company owns 95% stake ("Interasco"), which operates in Greece in non-life insurance; and Turk Nippon (in which the Company owns a 100% stake), which operates in Turkey;

(b) 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").

(c) 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 (Former: Prisma 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 over 75 years, and it is Israel's second-largest Insurance Group according to the financial statements for 2013, with a market share of approx. 21%. 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 15.4%. In the provident fund management sector, the Group has a market segment of about 7.8%. In the mutual fund management sector, the Group has a market segment of about 14.3%.

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

At the reporting period, the Hamburger family (Yair Hamburger, Gideon Hamburger and Nurit Manor) holds (mainly through a holding company) 50.41% of the Company's Voting rights and 49.83% of the Company's Issued share capital.

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. Hybrid, tier-1 capital note

Concerning a hybrid, tier-1 capital note that Harel Insurance issued to Harel Investments on March 31, 2014 against NIS 50 million provided by the Company to Harel Insurance, so that this amount can be recognized as hybrid tier-1 capital for Harel Insurance, see Note 7 to the Financial Statements.

2.1.2. Distribution of a dividend

Regarding the resolution to distribute a dividend at the amount of NIS 106 million, which was made in March 30, 2014 and was executed on April 24, 2014, see Note 11 to the financial statements.

2.1.3. Credit transaction to the Azrieli Group

Regarding a transaction of Harel Insurance and relating financial institutions with credit transaction in the amount of NIS 300 million to the Azrieli Group, against lien Ramle Mall - see note 12 financial statements.

2.1.4. Credit transaction to finance the purchase of KaDeWe update

Regarding an update transaction of Harel Insurance and relating financial institutions with credit transaction in the amount of EUR 75 million that was given as a mezzanine lone to the KaDeWe owners - see note 11 to the financial statements.

2.1.5. Control permit at corporate agent

On March 11, 2014, the Commissioner granted the Hamburger family control permit at agency "Advanced Planning Pension Insurance Agency (2013) Ltd." ("Agency") and permitted to issue an agent- corporate license to an agency.

2.1.6. Shelf Prospectus - Harel Issues

Regarding shelf prospectus by Harel Issues on February 11, 2014 - see note 8 to the financial statements.

2.1.7. Harel Share Issues - Private Issue - expansion of Series 6-8

With regard to an expansion of Series 6 - 8 bonds as part of Private Issue of Harel Share Issues at the amount of NIS 100 million, see Note 8 to the Financial Statements.

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

2.2.1. General Meeting

On April 30, 2014, a General Meeting of the Company took place. The following items were on the agenda: (1) Re-appointment of the auditor of the Company; (2) Re-appointment of the following board members who are not external directors to an additional term: Mr. Yair Hamburger (Chairman of the Board), Gideon Hamburger, Yoav Manor, Yosef Ciechanover and Doron Cohen; (3) review of the periodic report for 2013.

The general meeting approved all the items on the agenda.

2.2.2. Turk Nippon

Regarding the acquisition of all holdings on Turk Nippon on April 29, 2014 - see note 12 to the financial statements.

2.2.3. Capital injection

Regarding the approval of the Board of Directors April 27, 2014 in connection with capital injection to Turk Nippon in order to meet capital regulations as an insurer operating in Turkey - see Note 7 to the financial statements.

2.3. Developments in the macroeconomic environment of the Group

The results of the Group’s operations are significantly affected by the yields attained in the capital market and by the economic, political and security situation in Israel and worldwide. The following addresses the key factors in the macro-economic environment that influenced the Group’s activity:

2.3.1. General

The positive momentum of the previous quarter failed to carry through to the first quarter of 2014. Nevertheless, most recent indicators show that the economic recovery of the developed countries continued during the first quarter.

In Israel, recent indicators for Q1 2014 show that the economy continues to post moderate growth with an element of recovery, and Israel’s exports improved against the background of a growing global trade. Concurrently, the employment market continues to improve with lower unemployment and an increase in the work participation rate.

During the quarter, economic indicators in the US were mixed, showing a decline in the growth rate compared with the previous quarter. The Fed continued to taper its bond purchases during the quarter.

In the Eurozone, most economic indicators showed improved growth during the quarter and yields on government bonds continued to drop. The ECB left the interest rate unchanged, despite the continuing decline in inflation. Figures in China indicated relatively weaker growth and increasing uncertainty due to the need for structural reform and developments in the domestic credit market.

2.3.2. Development in Israeli economy

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.

2.3.3. Stock markets

The TA-100 index rose 6.2% in Q1 2014. Average daily turnover of shares and convertible stock was NIS 1.3 billion in Q1 2014, a 4% decline compared with average turnover in Q4 but 10% increase than the average turnover recorded in 2013.

2.3.4. Bonds Market

The general bond index rose by 2.1% in the Q1 2014. During the quarter, the government bond index rose 2% and the corporate bond index rose 2.4%. Daily turnover in bonds was NIS 3.9 billion during Q1 2014, a decline of 2% compared with the average turnover of Q1 and 9% decline compared with the average daily turnover in 2013.

2.3.5. Mutual Funds

Net amounts of NIS 14.5 billion were raised in the mutual funds market during the Q1 2014, 43% increase compare to Q4 but 15% decline compare with the corresponding quarter last year. Most of the amounts can be attributed to the funds specializing in bonds (NIS 14.2 billion) and the money-market funds net of NIS 1.8 billion.

2.3.6. Index products

According to the Association of ETFs, the index-linked certificate market manages assets in the amount of NIS 106.4 billion at the end of the first quarter of 2014, compared with NIS 101.3 billion at the end of 2013, an increase of 5%. During the first quarter of 2014 the ETFs specializing in foreign shares were particularly strong and raised NIS 1.6 billion.

2.3.7. Foreign Currency Market

During the first quarter of 2014, the shekel weakened by 0.5% against the dollar (to NIS 3.487 / 1 USD). The dollar weakened by 0.6% against the euro during the first quarter (to NIS 4.8124 / 1 EUR).

2.3.8. Inflation

According to the last known index during the first quarter of 2014 the inflation amounted during the last 12 months until the index of the month of February to 1.2%, after a decline of 0.7% during the first quarter.

2.3.9. Bank of Israel Interest

During the first quarter of 2014, the Bank of Israel Interest decreased at 0.25 percentage points to 0.75%.

2.4. 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:

2.4.1. General

2.4.1.1. Provisions of Law

2.4.1.1.1. FACTA - Foreign Account Tax Compliance Act

In March 2010, the Foreign Account Tax Compliance Act (FACTA) was enacted in the US, obligating foreign financial institutions to provide information about accounts managed by American customers. The law considerably expands the disclosure and reporting requirements that apply to foreign financial institutions in relation to accounts owned by US citizens. In January 2013, final regulations were published by the US Ministry of Finance and Tax Authority providing operative instructions for implementation of the law. In general, according to the provisions of the law and the regulations, foreign financial institutions must enter into agreement with the IRS, in which context the foreign financial institution will undertake, inter alia, to locate American accounts, to report them to the IRS, and to deduct tax from customers who refuse to provide the relevant information and documents. Foreign financial institutions that fail to enter into such an agreement with the IRS, will themselves be obligated to withhold tax in respect of revenues from American sources and the revenues from the proceeds of the sale of assets which may generate revenues from American sources. The provisions of the law will not apply to obligations which are issued before July 1, 2014.

On April 8, 2014 the Commissioner published a letter to the managers of financial institutions informing them that in view of current efforts underway to hasten the drawing up of an intergovernmental agreement, the financial institutions are requested to prepare for implementation of the provisions of FATCA by July 1, 2014. The Commissioner also instructed that the boards of directors of the financial institutions must discuss these preparations for implementing FATCA and establish a policy and procedures accordingly.

On April 28, 2014 Israel reached a Model1 “agreement in effect” with the US regarding the implementation of FATCA, and it was included in the list of countries that appear on the IRS website (in accordance with an IRS announcement, these countries are to be treated as if they have already signed the agreement). The agreement contains significant relaxations in connection with implementation of the law. On May 4, 2014, the Commissioner published a letter to the managers of financial institutions informing them that the final date for Israeli financial institutions to register on the FATCA portal to obtain a GIIN (Global Intermediary Identification Number), is December 22, 2014 or thereabouts as will be published by the IRS. Likewise, Israel is expected to publish internal legislation in coming months to regulate various issues in connection with implementation of the law in Israel.

During the course of 2013 and the reporting period, the Group’s companies that will be subject to FATCA were mapped, the activities required of each of the companies to comply with the law were mapped, and the operating and automation activities required of the insurance companies for implementation of the provisions of the law were mapped out.

Furthermore, to comply with the requirements of the FATCA regulations, on March 27, 2014, the Board of Directors of Harel Gemel appointed Mr. Tzachi Dovrat as the Responsible Officer for Harel Gemel, and on March 30, 2014, the Board of Directors of Harel Insurance appointed Mr. Itzik Basson as the Responsible Officer for Harel Insurance.

2.4.1.1.2. On March 24, 2014, the Insurance Contracts (Amendment no. 6) Law, 5774-2014 was published in the Official Gazette. The law stipulates that where the cause of a claim is disability sustained by an insured due to illness or accident, the prescription period will be counted from the date on which the insured's right to claim insurance benefits is established, under the conditions of the insurance policy. This provision will apply to the cause of a claim that is disability caused by an illness or accident, which has not been prescribed according to the applicable law on the date of commencement of the law.

In view of the foregoing, on April 8, 2014, the Commissioner revoked the circular dated August 19, 2013, concerning prescription in an insurance contract that includes cover for disability

2.4.1.2. Circulars

2.4.1.2.1. On April 10, 2014, a circular was published concerning the compensation policy of financial institutions (which annuls the present circular on this subject) and prescribes provisions concerning the formulation of a compensation policy for senior officers, key officeholders and other employees in financial institutions. The circular stipulates that the board of directors will discuss and approve the compensation policy after discussing the recommendations of the compensation committee (to be appointed by the directors for this purpose, in accordance with the composition of the committee set forth in the circular). Additionally, once a year, the board of directors will review the compensation policy, and will determine the manner of overseeing its implementation. Compensation policy for a period of more than three years must be approved by the board of directors at least once in three years. The circular also prescribes the following provisions: (a) any agreement between a financial institution and its senior officers on the subject of terms of employment and tenure must be approved by the compensation committee and board of directors, and for a director the agreement must also be approved by the general meeting; (b) provisions concerning the compensation policy, for example: the policy will be determined on a multi-year basis, to whom it will apply, the considerations that form the basis for the policy, informing an employee of the principles of the compensation to the extent that they are relevant to him; (c) provisions concerning the variable component of the compensation conditions: criteria for determining the variable component, the mix of the variable component, limitations with respect to the variable component, reduction or cancellation of the variable component, etc.; (c) provisions concerning compensation for officeholders who are engaged in control, marketing, sales and brokerage; (d) provisions for maintaining control, audit, documentation and publication of the policy.

The provisions of the circular apply to all financial institutions, excluding government insurance companies, and they are applicable from July 1, 2014. Notwithstanding the foregoing, compensation agreements that were approved before December 25, 2013 (the publication date of the draft circular) will be adjusted to the provisions of the circular by December 31, 2016; compensation agreements that were published between publication of the draft circular (December 25, 2013 and publication of the circular (April 10, 2014) will be adjusted to the provisions of the circular by December 31, 2014, and compensation agreements that are approved between the publication of the circular (April 10, 2014) and the commencement date (July 1, 2014), will be adjusted to the provisions of the circular by December 31, 2014. The provisions of the circular do not apply to rights accrued to an employee by a financial institution up to the commencement date. The Company is preparing to implement the circular. The provisions of the circular do not detract from the provisions of the Companies Law, including provisions prescribed concerning compensation policy in Amendment no. 20 to the Companies Law.

2.4.1.2.2. On January 20, 2014, the Commissioner published a circular updating the provisions in the periodic reports of insurance companies, the purpose of which is to revise the format of the report on the company's business and the board of directors report that are included in the periodic reports of insurance companies so that they are more focused, up to date, concise and have a standard format. The circular prescribes instructions relating to the manner of preparing the reports and the principles relating to the format of the reporting of the required information (e.g.: information must be presented clearly and concisely, only current, extremely significant information is to be published, and the repetition of information should be avoided). The provisions of the circular will be applicable on the financial statements for 2013.

2.4.1.2.3. On January 20, 2014, the Commissioner published a circular revising the instructions relating to the format of the required disclosure in the financial statements of the insurance companies based on International Financial Reporting Standards (IFRS). The circular prescribes provisions pertaining to new disclosure requirements, provides updates in preparation for the consolidated circular, pro forma data, transactions with principal shareholders and controlling shareholders, signing of the reports and the application of disclosure requirements in the interim financial statements. The provisions of the circular will become applicable from the annual financial statements for 2014, and it may apply the provisions of the circular from the financial statements for 2013.

2.4.1.2.4. During 2013 and 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 - defines the application and commencement of the provisions of the consolidated circular with respect to the original circulars that were and will be embedded in the various chapters of the consolidated circular and the status of the provisions.

Provisions relating to 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 in the field of activity.

Provisions relating to a pension fund - this chapter contain provisions concerning the obligations of a pension fund management company in the field of activity.

A provision relating to a provident fund which is not an insurance fund or a pension fund - this chapter contains provisions concerning the obligations of a management company in the field of activity.

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 of insurance companies which are not yield dependent, and for management of assets held against the equity of a management company.

Internal control - this chapter contains provisions concerning the appointment, term of office and termination of office of the internal auditor.

Risk management - this chapter contains provisions concerning the appointment, term of office and termination of office of the risk manager.

Auditor - this chapter contains provisions concerning the appointment, term of office and termination of office of the auditor.

Most of the provisions enter into force on April 1, 2014 and others on May 1 2014.

Furthermore, the Commissioner published drafts of various chapters in the consolidated circular, including instructions for products, a chapter on corporate governance and risk management, a chapter on reporting to the Superintendent of the Capital Market, chapter on measurement, chapter on information required on the website of a financial institution, and chapter on instructions for health insurance plans and policies.

2.4.1.3. Draft circulars

2.4.1.3.1. On March 25, 2014, a draft circular was published concerning the renewal of insurance policies, which proposes, inter alia, the following provisions: (a) the policyholder must give his consent for renewal of the policy and the insurance company must document this consent; (b) insurers must send policyholders, 45 days before the end of the policy period, notice of a proposal to renew the policy or notice of non-renewal of the policy, as applicable. If the insurance company does not obtain the policyholder's consent to renew the policy or it sends notice of non-renewal, it must send the policyholder, 14 days before the end of the policy period, notice of the termination date of the policy period, the implications of non-continuity of the insurance and the policyholder's responsibility to ensure that he has insurance cover. Insofar as the provisions of the draft circular are published as a circular, they will apply within three months of their publication with respect to the following lines of insurance activity: life assurance - term assurance only; personal accident insurance; illness and hospitalization insurance; compulsory motor insurance; and comprehensive insurance for homeowners and businesses. The provisions of the draft will not apply to the following insurance plans: group life assurance plan, group work disability insurance, and group health insurance policy. Notwithstanding the foregoing, the provisions of the circular will apply to group personal accident policies in which the policy period is up to one year. Furthermore, the provisions of the draft circular concerning the sending of such notice will not apply to policies where the policy period is not more than three months.

2.4.1.3.2. On January 1, 2014, a draft circular was published concerning the transfer of money to reinsurers outside Israel, which proposes prescribing conditions for the transfer of money to a reinsurer, and those instances where a surety must be received in favor of the insurance company. The provisions suggest limiting those instances where a surety is required and they apply from 2014 and thereafter.

2.4.1.4. Instructions and clarifications

2.4.1.4.1. On April 6, 2014, the Commissioner published a letter concerning a procedure for business continuity and deployment for emergency situations, according to which financial institutions must hold a controlled exercise to test business continuity during a time of outright war, and this further to a drill that was held in October 2013. The main purpose of the exercise is a methodical test of a financial institution's senior management and its readiness for a scenario in which the company's main site suffers severe damage as a result of which it is unable to function. The letter contains detailed instructions for financial institutions as to the manner of conducting the exercise and it also stipulates that the exercise must address all the areas in which the financial institution operates (various categories of insurance, provident and pension funds), and at the very least the following processes in each sector: redemptions, payment of annuities, claims, investment management and customer relations. The exercise will test readiness to work under emergency conditions and the ability to cope with a large number of customer requests while the company's resources are only partially available. As part of the drill, response to events must be tested (such as a suspension of trade on the Stock Exchange, malfunctioning bank systems, etc.), on-going assessments of the situation by the emergency CEO with respect to overall management of the crisis, and critical processes that may be damaged due to the crisis, including testing responses to these situations.

2.4.1.4.2. On February 12, 2014, the Commissioner published a policy for control of a financial institution, which prescribed provisions for control of a financial institution and the submission of an application for a permit to control a financial institution. The provisions of the policy will apply to any entity that applies for a new permit or holds an existing control permit, with the relevant adjustments, whenever there is a change in the permit that it holds, unless, in the Commissioner's opinion, the change is immaterial.

2.4.2. Life insurance and long-term savings

2.4.2.1. Provisions of Law

2.4.2.1.1. On March 24, 2014, the Supervision of Financial Services (Provident Funds) (Withdrawing Money from a Provident Fund) (Accounts with a low accrued balance) (Temporary Provision) Regulations, 5774-2014 were published. The regulations prescribe that a member who has money in one of his accounts in an approved provident fund (provident fund for retirement benefits, provident fund that does not pay an annuity, and personal severance pay provident fund, that are not insurance funds) from the contributions made by the employee or the employer, may withdraw the retirement benefits from his account in the fund as a lump sum, subject to the following conditions: (a) no money was deposited in his account in the approved fund on or after January 1, 2012; (b) money was not transferred from or to the member's account from or to another provident fund, as applicable, on or after January 1, 2013; (c) the member's total accrued balance in all his accounts in the approved provident fund on the day preceding January 1, 2013 is not more than NIS 7,000. Likewise, provisions were prescribed concerning separate notice that an approved provident fund management company must send members on the subject, at the time and using the text instructed by the Commissioner. The Company may include the notice in the reports it is obliged to send to members. The regulations will enter into force within 30 days of their date of publication in the Official Gazette and they will be in force until March 31, 2015.

On March 26, 2014, a circular was published concerning the withdrawal of money from small accounts in provident funds, which states provisions on the following subjects: (a) a management company will send members who are entitled to withdraw money as noted in the regulations, separate notice of their right to withdraw retirement benefits and the significance of leaving the money in the provident fund with respect to the collection of minimum management fees commencing January 1, 2016. The notice will have the format set out in the annex to the circular, and will be sent by April 30, 2014 at the latest; (b) management companies will display a link to a designated webpage on withdrawing such monies, in a prominent place on their home page, which will include an explanation of the option to withdraw such amounts and details of the ways in which they can be withdrawn; (c) provisions concerning quarterly reporting to the Commissioner about small accounts held in financial institutions. The circular apply to provident fund management companies from the date on which the regulations enter into force. The amounts accrued in the accounts to which the provision applies is insignificant in relation to the total assets under management in the Group's management companies. At this stage it is impossible to estimate the number of members who will exercise the entitlement to withdraw money tax free, and it is therefore impossible to estimate the impact on the volume of assets under management held by the Group's management companies.

2.4.2.1.2. On March 24, 2014, Supervision of Financial Services (Provident Funds) (Management Fees) (Amendment) Regulations, 5774-2014, were published. The regulations stipulate that a provident fund that is not an insurance fund will be permitted to collect management fees from a member who has money from the component of the employee's or employer's contributions in one of his accounts, that was deposited for the tax years preceding the 2008 tax year, at a rate which is the higher of: the maximum management fees prescribed in the regulations prior to the amendment or an amount of no more than NIS 6 per month, and this commencing January 1, 2016.

2.4.2.1.3. On January 1, 2014, an amendment was published to the Supervision of Financial Services (Provident Funds) (Direct Expenses on Account of Performing Transactions) Regulations (Amendment), 5774-2013, in which context the definition of an "external management fee" currently in force, as defined in Section 3 of the aforementioned regulations, was extended until March 31, 2014. The regulations become applicable on January 1, 2014.

On April 1, 2014, Supervision of Financial Services (Provident Funds) (Direct Expenses on Account of Performing Transactions) (Amendment no. 2) Regulations, 5774-2014, were published. The regulations limit the rate of expenses that may be collected from savers' assets in addition to management fees, and stipulate that the sum total of the direct expenses listed in the regulations, including "an external management fee" up to December 31, 2017, will not be more than 0.25% of the total assets managed by the financial institution. This limit will not apply to the old pension funds in the arrangement. The regulations become applicable on April 1, 2014. Nevertheless, transition provisions were prescribed in relation to direct expenses originating in transactions that were performed before the commencement date

On April 8, 2014, a draft circular on direct expenses for performing transactions was published. The circular number is 2012-9-4 - Amendment. The Supervision of Financial Services (Provident Funds) (Direct Expenses on Account of Performing Transactions) (Amendment no. 2) Regulations, 5775-2014, permit an expense for the investment of a provident fund in an ETN in Israel, according to those indices instructed by the Commissioner and under the conditions he prescribes, provided that the issuer of the note is not an associate of the provident fund management company. The purpose of the draft circular is to define in which indices and conditions such an expense will be allowed, and, inter alia, that when the conditions prescribed in the regulations are met, financial institutions may collect the management fees billed by the issuer of an ETN that tracks the indices prescribed in the draft circular, at a rate that is not more than 0.1% of the fair value of the ETN. The Commissioner will review the list of indices periodically, in accordance with developments in the capital market and among the financial institutions. Insofar as they are published as a circular, the provisions of the draft circular will apply to all financial institutions, excluding insurers in relation to liabilities that are not yield dependent. The provisions will enter into force on May 1, 2014, although in 2014 financial institutions may collect expenses from provident fund assets or money held against yield-dependent liabilities, as applicable, also on account of investments in ETNs that track indices listed in the draft circular, provided that the ETNs were purchased before April 1, 2014

2.4.2.2. Bills, law memoranda, and draft regulations

2.4.2.2.1. On March 10, 2014, the Supervision of Financial Services (Advice, Marketing and Pension Settlement System) (Amendment no. 6) Bill, 5774-2014, was published in the Official Gazette. The bill proposes prescribing the fallowing instructions: (a) an employer will not be able to make a transaction involving a pension product conditional on being performed by a specific licensee, including a licensee who renders operating services to the employer. In addition, the bill proposes that the employer will not be able to condition the rendering of any other service that he must provide for the employee, including the operating services themselves or any benefit, including a discount on management fees that he obtained for his employees, on performance of the said transaction. (b) Licensees may not condition the purchase of one pension product on the purchase of another, from the licensee or from any other person, unless there is a reasonable business relationship between the requested insurance and upholding of the condition, except if the licensee obtains specific permission from the Superintendent; (c) limitations in connection with data security, that currently apply to information transferred through a pension clearing system, will also be applied to money that is transferred through the clearing system in future and to information about such money.

2.4.2.3. Draft circulars

2.4.2.3.1. On May 7, 2014, a draft circular was published concerning the withdrawal of money from the accounts of deceased members in which there is a small balance. The draft circular proposes provisions concerning payment of money belonging to a deceased member where no inheritance order or probation of a will has been produced, in cases in which the financial institution has received no instruction appointing beneficiaries or where, according to such instructions the beneficiaries are the deceased's partner, parents or children but their name is not specified. The draft circular sets forth the conditions in which management companies will allow the money to be withdrawn without the producing of an inheritance order or probation of a will. The conditions include, inter alia: the balance in the deceased member's account is not more than NIS 5,000 when the application to withdraw the money was submitted; three years have elapsed from the date of the deceased's death; and the applicants sign a letter of indemnity which includes the details listed in the draft circular. The draft circular also proposes provisions concerning notice that a management company must send to a deceased member's address concerning the procedure for withdrawing the money and provisions concerning publication of the said arrangement on the management company's website. Insofar as they are published as a circular, the provisions of the draft circular will apply to all provident fund management companies that are not insurance funds or pension funds, from the publication date of the circular.

2.4.2.3.2. On April 10, 2014 a draft circular was published for agents and advisers concerning the involvement of entities that are not license holders in the marketing and sale of insurance products that are not group insurance. The draft circular proposes provisions to the effect that supervised entities will be able to enter into agreement with external entities (a person or entity that is not licensed) to market or sell personal lines insurance products, that are not group insurance. Insofar as they are published as a circular, the provisions of the draft circular will become applicable on its date of publication. Concerning financial institutions that outsource some of their operations, a circular for financial institutions concerning outsourcing by financial institutions will also apply. Notwithstanding the foregoing, concerning the sale of life assurance and structural insurance that the banks require as part of their surety for mortgages, the provisions of the previous circulars on this subject will apply. The validity of any authorization that does not comply with the provisions of the circular and was given by the Commissioner prior to the onset of the circular will expire within 6 months of the commencement date.

2.4.2.4. Instructions and clarifications

2.4.2.4.1. On April 27, 2014, a draft ruling in principle was published concerning enrolment in group life assurance. The draft ruling addresses the reimbursement of monies in cases where insureds were enrolled in group life assurance without having given their express consent in writing and in advance, despite the fact that they paid all or part of the cost of the insurance. The draft ruling proposes that in those cases where no insured event has occurred, the insurance company must obtain express written consent from insureds with group life assurance to continue to be insured by the company. For those insureds who state that they do not wish to be insured and insureds who fail to inform the company of their decision, despite attempts to make contact with them to obtain their consent, the insurance company will cancel the insurance cover and refund the premium directly to the insured (or the relative part to the employer, if the employer has paid part of the premium), equal to the amount of premium paid from the initial date of enrolment in the insurance, and at most, three years from the date of publication of the draft as binding, and up to the date of cancellation of the insurance cover (plus linkage and interest differences). Insurance companies must submit to the Commissioner an outline for making the refund and clarify the wish of each and every insured to continue the insurance, based on the details in the draft ruling. Additionally, the insurance companies must submit to the Commissioner a list of insureds whose response they were unable to obtain. Furthermore, upon completion of the process, the company's internal auditor must submit a report to the Commissioner which includes details of the reimbursement procedure and additional controls aimed at preventing a recurrence of the breaches in this context.

2.4.3. Life insurance

2.4.3.1. Draft circulars

2.4.3.1.1. On April 10, 2014, a draft circular was published concerning group travel insurance for health fund members and customers of travel agencies. The draft circular sets forward principles whereby the Commissioner will allow health funds or travel agents to own a group overseas travel insurance policy, and it also prescribes provisions for the sale of group travel insurance policies that were drawn up or renewed prior to the commencement of the Supervision of Financial Services (Insurance) (Group Healthcare Insurance) Regulations, 5769-2009. Insofar as they are published as a circular, the draft provisions will apply to group travel insurance policies that are sold from July 1, 2014, including policies that are by virtue of insurance drawn up or renewed before the commencement date of the circular.

2.4.3.2. Instructions and clarifications

2.4.3.2.1. On April 9, 2014, a draft Superintendent's position was published concerning yield-dependent personal lines long-term care insurance. The draft proposes establishing that yield-dependent long-term care insurance plans must comply with the following principles: (a) the plan must include a balancing mechanism whereby the premiums or insurance compensation, as applicable, will be adjusted in the event of a significant deviation from the yield assumptions that were taken into account when the plan was initially priced; (b) assets held against the insurance company's liabilities for insureds in the plan must be managed within the context of Class 20 liabilities (yield-dependent liabilities); (c) the insurance companies must include in the plan a mechanism that allows the insured to transfer all or part of the investment risk to the company, from a particular age. Additionally, from the date of receiving the insurance benefits, the company will bear the investment risk in full; (d) when the application form for the plan is filled out, the insurance companies must give the insureds a disclosure document that lists the principles set forth in the draft. The draft also prescribes provisions concerning information that insurance companies must include in their annual reports to insureds. The Commissioner will not approve any plan that fails to comply with the above-mentioned principles.

2.4.3.2.2. In April 2013, the Minister of Health announced that she was forming an advisory committee to strengthen the public health system. The commission, which is headed by the minister, is discussing the following topics: (a) review of the relationship between the public and private health systems; (b) medical insurance (SHS and commercial insurance policies); (c) medical tourism; (d) the status of the Ministry of Health as a service provider, insurer and regulator. If adopted in binding provisions, the commission's conclusions may affect the nature of activity in the health insurance segment.

2.4.4. General insurance

2.4.4.1. Provisions of Law

2.4.4.1.1. On April 10, 2014, Transport Regulations (Amendment no. 5), 5774-2014, were published in the Official Gazette. The regulations obligate all vehicle insurance assessors or professional managers of test stations to report to the Licensing Authority any vehicle that has sustained safety damage, as defined in the regulations, and accordingly the Licensing Authority will record the damage on the vehicle license. The regulations become applicable on August 1, 2014.

2.4.4.1.2. 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. On January 20, 2014 amended the circular, so that this provision applies to December 31, 2014 (rather than March 31, 2014). The provisions of the circular apply to all the insurance companies from the date of the onset of the regulations. For further details see Note 3 to the Financial Statements.

2.4.4.2. Bills, law memoranda, and draft regulations

2.4.4.2.1. On May 1, 2014, a second draft of the Supervision of Insurance Business (Conditions of a Contract to Insure Homes and their Contents) (Amendment), Regulations, 5774-2014, was published. These draft regulations propose amending the Supervision of Insurance Business (Conditions of a Contract to Insure Homes and their Contents) Regulations, 5746-1986, that prescribe the standard policy for insuring homes and their contents.

2.4.5. The capital market and financial services

2.4.5.1. Provisions of law

2.4.5.1.1. On January 27, 2014, the Law for Easements in the Capital Market and Encouragement of Activity Therein (Amendments to Legislation), 5774-2014, was published in the Official Gazette. The law includes, inter alia, easements in relation to the work of the board of directors and directors’ committees in a large portfolio management company and in a mutual fund management company, easement of the reporting obligations to the ISA and an easement of the requirement to update the customer’s details.

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

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

	For the three months ended March 31		% change	For year ended December 31
	2014	2013		2013
Life assurance and long-term savings segment				
Gross premiums earned	957,356	934,170	2	3,809,905
Income from management fees	248,718	207,499	20	825,563
Profit from life assurance business	60,066	151,023	(60)	333,086
Profit from provident fund management	10,880	7,681	42	29,785
Profit from pension fund management	15,740	10,521	50	57,962
Total profit from life assurance and long-term savings	86,686	169,225	(49)	420,833
Total comprehensive income from life assurance and long-term savings	143,409	152,096	(6)	431,769
Non-life insurance segment				
Gross premiums earned	775,531	766,807	1	3,111,095
Premiums earned on retention	438,111	454,444	(4)	1,775,688
Total profit from non-lie insurance	89,329	73,194	22	212,142
Comprehensive income from non-life insurance	147,108	61,009	141	218,506
Health insurance segment				
Gross premiums earned	844,887	758,831	11	3,192,205
Premiums earned on retention	794,016	710,577	12	2,986,116
Total profit from health insurance	35,108	63,225	(44)	194,930
Comprehensive income from health insurance	58,668	58,729	(0)	201,997
Insurance companies overseas segment				
Gross premiums earned	48,550	42,859	13	176,651
Premiums earned on retention	28,283	26,901	5	112,320
Total profit from insurance companies overseas	886	(4,284)	-	(6,586)
Total comprehensive loss from insurance companies overseas	2,441	(6,815)	-	(12,435)
Capital market and financial services segment				
Revenues from capital market and financial services	69,734	42,175	65	253,680
Total expenses from capital market and financial services	58,905	43,113	37	226,320
Total profit (loss) from capital market and financial services	10,851	(938)	-	27,403
Total comprehensive profit (loss) from capital market and financial services	10,851	(844)	-	26,600
Items not included in operating segments				
Net profit from investments and financing income	54,979	79,011	(30)	315,994
Income from commissions	23,507	22,284	5	96,672
Other income	-	-	-	-
General & administrative expenses not charged to reports for operating segments	34,071	30,897	10	117,293
Financing expenses	12,268	26,978	(55)	152,508
Pre-tax profit	257,973	351,532*	(27)	1,059,400*

	For the three months ended March 31		% change	For year ended December 31
	2014	2013		2013
Net profit for the period	166,320	222,386	(25)	680,791
Other comprehensive profit (loss) for the period	114,868	(22,126)	-	5,653
Total comprehensive profit for the period	281,188	200,260	40	686,444
Net profit for the period attributed to the Company's shareholders	165,963	222,239	(25)	680,332
Net profit attributed to non-controlling interests	357	147	143	459
Return on equity in terms of annual comprehensive income in percent	22%	18%	26.6	16%

* Concerning reclassification of comparative figures, see Note 2c to the financial statements.

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

	For the three months ended March 31		change %	For year ended December 31
	2014	2013		2013
Total balance sheet	82,022	69,003	18.9	78,734
Assets for yield-dependent contracts	33,057	27,529	20.1	31,535
Other financial investments	21,106	20,041	5.3	20,493
Intangible assets	1,606	1,418	13.2	1,618
Reinsurance assets	5,486	5,070	8.2	5,423
Insurance liabilities (insurance reserves and outastanding claims) in life assurance				
For yield-dependent investment contracts and insurance contracts	29,355	24,729	18.7	28,040
For insurance contracts that are not yield dependent	10,963	10,347	6.0	10,910
In non-life insurance	10,397	10,019	3.8	10,115
In health insurance (yield dependent and non-yield dependent)	6,193	5,164	19.9	5,953
(Insurance companies overseas segment (yield dependent and non-yield dependent	235	215	9.5	225
Adjustments and Offsets	(8)	(8)	(8.2)	(8)
Total insurance liabilities	57,136	50,466	13.2	55,235
Equity attributedt to holders of the Company's equity	4,678	4,293	9.0	4,506

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

	For the three months ended March 31		change %	For year ended December 31
	2014	2013		2013
For yield dependent invetsment contracts and insurance contracts	33,057	27,529	20.1	31,535
For members of provident funds and pension funds *	54,920	45,696	20.2	52,567
For mutual fund customers *	34,504	20,993	64.4	32,915
For customers portfolios *	8,621	3,131	175.3	8,526
Index linked certificates (ETFs)	13,173	7,966	65.4	12,054
Total assets under management for the Group's policyholders and members	144,275	105,315	37.0	137,597

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

2.6. Additional figures regarding outcomes of activity

The total amount of the premium earned from insurance business during the Reporting Period amounted to NIS 2.6 billion compared with NIS 2.5 billion during the corresponding period last year, a growth of 5% compared with the corresponding period last year.

The comprehensive profit, which consists of profit after tax for the reporting period plus the net change in a capital fund in respect of available-for-sale financial assets and other changes in shareholders' equity, was NIS 281 million for the Reporting Period, compared with comprehensive profit of NIS 200 million for the corresponding period last year, an increase of 40% compared with the corresponding period last year. The increase is due mainly to the effect of the capital market, where yields were high than those in the corresponding period last year, Due to the scope of variable management fees collected during the reporting period that were high than those in the corresponding period last year and due to the impact of the negative inflation rate of 0.7% relative to a positive inflation rate of 0.02% last year.

Net profit for the reporting period was NIS 166 million, compared with NIS 222 million for the corresponding period last year, a decline of 25% compared with the corresponding period last year.

Pre-tax profit during the Reporting Period amounted to NIS 258 million compared to pre-tax profit of NIS 352 million during the corresponding period last year, a decline of about 27%.

During the Reporting Period profits from net investments and funding income amounted to NIS 1,019 million, compared with profits of NIS 1,029 million 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 12 million compared with NIS 27 million during the corresponding period last year. The decline in funding expenses during the reporting period is due mainly to the impact of the negative inflation rate relative to a positive inflation rate last year.

The Company's equity as of March 31, 2014, relating to the Group shareholders amounts to NIS 4,678 million, compared to equity of NIS 4,506 million as of December 31, 2013. The change in equity stems from: (a) comprehensive profit attributed to the Group shareholders of NIS 281 million; and (b) a dividend declaration in the amount of NIS 106 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, 5774-2012, see Note 7 to the financial statements.

2.7. Life Assurance and Long Term Savings

Comprehensive profit in life insurance and long-term savings during the Reporting Period amounted to NIS 143 million, compared with comprehensive loss of NIS 152 million in the corresponding period last year.

The decline in comprehensive income can be attributed mainly to an increase in the reserves in the amount of NIS 21 million, following a Liability Adequacy Test (LAT) (for additional information, see Note 11 to the Financial Statements). These effects were partially offset by: results of activity in the capital market where yields during the Reporting Period were higher than those of the corresponding quarter last year, the volume of variable management fees collected during the Reporting Period that were higher than those collected during the corresponding period last year; the effect of inflation which was negative during the Reporting Period compared to positive inflation in the corresponding quarter last year. Pre-tax profit in life assurance branch and long term savings during the Reporting Period amounted to NIS 87 million compared to pre-tax profit of NIS 169 million during the corresponding period last year, a decline of about 49%.

Life assurance

2.7.1. Total premiums earned during the Reporting Period amounted to NIS 957 million, compared with NIS 934 million during the corresponding period last year, a 2% increase compared to the corresponding period last year. Premiums earned during the Reporting Period constituted 36% from the total premiums earned in the Group during the Reporting Period.

Comprehensive income in life insurance during the Reporting Period amounted to NIS 115 million, compared with comprehensive income in life insurance of NIS 134 million in the corresponding period last year.

The decline in comprehensive income can be attributed mainly to an increase in the reserves in the amount of NIS 21 million, following a liquidity adequacy test (LAT) (for additional information, see Note 11 to the Financial Statements). These effects were partially offset by: results of activity in the capital market where yields during the Reporting Period were higher than those of the corresponding quarter last year; The Company collected variable management fees of NIS 83 million compared with NIS 63 million in the corresponding period last year; the effect of inflation which was negative during the Reporting Period compared to positive inflation in the corresponding quarter last year.

Pre-tax profit in life assurance during the Reporting Period amounted to NIS 160 million compared with pre-tax prift of NIS 151 million during the corresponding period last year.

Revenues from investments held against insurance obligations in life assurance totaled NIS 856 million for the reporting year, compared with investment revenues of NIS 801 million in the corresponding period last year. Profitability in life assurance is derived principally from investment profits, which affect the income from the management fees of yield dependent liability assets and the financial margin on investing the money from obligations that are not yield dependent. The management fees and financial margin are calculated in real values. During the reporting year, the financial margin achieved was high than the financial margin for the corresponding period last year, due mainly to high yields in the capital market and negative inflation.

During the Reporting Period revenues amounted to NIS 227 million and constituted approximately 2.5% of the average reserve in life assurance, compared to revenues for the amount of approximately NIS 230 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 March 31, 2014, amounted to NIS 40.3 billion.

Yield-dependent policies:

	Policies issued from 1992-2003	
	1-3.2013 (in percent)	1-3.2012 (in percent)
Real yield before payment of management fees	3.48	2.93
Real yield after payment of management fees	2.85	2.38
Nominal yield before payment of management fees	2.77	2.95
Nominal yield after payment of management fees	2.14	2.40

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

	Policies issued from 2004	
	1-3.2014 (in percent)	1-3.2013 (in percent)
Real yield before payment of management fees	3.43	2.89
Real yield after payment of management fees	3.13	2.58
Nominal yield before payment of management fees	2.72	2.91
Nominal yield after payment of management fees	2.43	2.60

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

	1-3.2014	1-3.2013
Profits (losses) after management fee	613	544
Total management fees	139	109

Pension funds

2.7.2. The number of members in the pension funds managed by the Group as of March 31, 2014, is 825,988 members, 434,213 of which are active members, a 0.6% increase in the number of active members compared with December 31, 2013.

The extent of assets managed by pension funds as of March 31, 2014, amounted to NIS 26.9 billion compared with NIS 20.7 billion on March 31, 2013, a 30% increase and compared with the extent of assets of NIS 25.4 billion as of December 31, 2013, an increase of 6%. The increase in comparison to the previous year can be attributed 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 1,087 million, compared with NIS 886 million on the corresponding period last year, a 23% increase.

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 57 million, compared with NIS 49 million in the corresponding period last year, a 17% increase. Expenses in connection with management of pension funds amounted to NIS 42 million, compared with NIS 39 million in the corresponding quarter last year.

Total pre-tax total profit from management of pension funds and operating an old pension fund during the Reporting Period amounted to NIS 17 million, compared with NIS 10 million during the corresponding period last year. Total pre-tax profit from management of pension funds and operating an old pension fund during the Reporting Period amounted to NIS 16 million, compared with NIS 11 million during the corresponding period last year.

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

For the three months ended March 31, 2014

Fund name	Investment yield (in percent)
Harel Gilad Pension	2.37%
Harel - Manof	2.36%

For the three months ended March 31, 2013

Fund name	Investment yield (in percent)
Harel Gilad Pension	2.90%
Harel - Manof	2.97%

Provident funds

2.7.3. As of the Reporting Date the Group manages 10 provident funds (provident funds, education funds, central and personal severance pay funds, a provident fund for sick pay and budgetary pension fund). Some of the provident funds have several investments tracks of which the members can choose. At March 31, 2014, the Group operates 35 tracks in its provident funds.

The volume of assets in the provident funds managed by the Group as of March 31, 2014, amounted to NIS 28 billion compared with NIS 25 billion as of March 31, 2013, and compared with NIS 27.2 billion as of December 31, 2013, a 12% increase in relation to March 31, 2013, and an increase at the rate of 3% compared to 31 December 2013. The increase is due mainly to the yields obtained in the capital market .

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 52.4 million, compared with NIS 49.5 million for the corresponding period last year, a 6% increase that due mainly to the increase in average assets during the reporting period, the impact was partially offset by erosion rate of management fees.

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

Total profit before Tax from management fees which were collected from the provident funds managed by the Group, amounted to NIS 11 million, compared with NIS 8 million in corresponding period last year

Profit before Tax from management fees which were collected from the provident funds managed by the Group, amounted to NIS 11 million, compared with NIS 8 million in corresponding period last year.

The provident funds' net accumulation (excluding profits from investments) during the Reporting Period was negative and amounted to NIS 217 million compared with negative accrual of NIS 160 million for the corresponding quarter last year.

2.8. Health Insurance

Premiums earned in the health insurance sector totaled NIS 845 million for the Reporting Period, compared with NIS 759 million for the corresponding period last year, an 11% increase. Total premiums earned in health insurance during the Reporting Period, accounted for 32% of all premiums earned by the Group.

During the Reporting Period the health insurance sector posted comprehensive profit of NIS 59 million similar to the corresponding period last year. During the Reporting Period the burnout premiums and increase claims in these policies continued. This effect was offset by the effect of capital market in which yields were higher than those achieved in the corresponding quarter last year.

Pre-tax profit in health insurance sector totaled NIS 35 million for the Reporting Period, compared with NIS 63 million in the corresponding period last year, a 44% decline.

Total payments and change in gross liabilities in respect of insurance contracts in the health insurance sector during the Reporting Period amounted to NIS 702 million, compared with NIS 591 million in the corresponding period last year, a 19% increase. Most of the change is due to an increase in claims under group insurance and investment gains reflected as a group long-term care policy in which most of the insurance risk is imposed on the program itself, in the amount of NIS 45.2 million compared with NIS 36.7 million in the corresponding quarter last year.

2.9. Non-life insurance

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

	Gross premiums			
	1-3.2014	1-3.2013	% change	2013
Compulsory motor	204,347	206,744	(1.2)	484,636
Motor property	462,679	406,540	13.8	898,958
Property & other branches	248,347	222,899	11.4	956,121
Other liabilities branches	254,952	248,771	2.5	761,274
Credit & mortgage insurance*	(5,674)	(1,793)	216.5	(17,396)
Total	1,164,651	1,083,161	7.5	3,083,593

*Net of settlements

	Pre-tax profit			
	1-3.2014	1-3.2013	% change	2013
Compulsory motor	61,464	28,898	112.7	111,261
Motor property	16,359	6,263	161.2	24,274
Property & other branches	13,509	8,058	67.6	24,628
Other liabilities branches	29,139	7,593	283.8	4,154
Credit & mortgage insurance	26,637	10,197	161.2	54,189
Total	147,108	61,009	141.1	218,506

Gross premiums during the Reporting Period totaled to approx. NIS 1,165 million, compared with NIS 1,083 million during the corresponding period last year, a 8% 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 below).

Premiums in retention during the Reporting Period totaled to approx. NIS 725 million, compared with NIS 689 million in the corresponding period last year, a 5% increase.

Comprehensive profit in general (non-life) insurance during the Reporting Period, amounted to NIS 147 million, compared with comprehensive loss of NIS 61 million in the corresponding period last year. The increase in the comprehensive profit in the Reporting Period stems mostly from the influence of the capital market in which yields were high than yields in the corresponding period last year and due to negative inflation rate of 0.7% compared to a positive inflation rate of 0.02% in the corresponding period last year.

Pre-tax profit in general (non-life) insurance during the Reporting Period amounted to NIS 89 million compared with NIS 73 million in the corresponding period last year, a 22% increase.

2.9.1. Motor property

In motor-vehicle property insurance gross premiums during the Reporting Period amounted to NIS 463 million, compared with gross premiums of NIS 407 million during the corresponding period last year, an increase in 14%. Increase in premiums stems mostly from a incline in the share held by Harel Insurance of the insurance for state employees' motor vehicles during the Reporting Period against the corresponding period last year.

During the Reporting Period, premiums in retention amounted to NIS 365 million compared with NIS 323 million in the corresponding period last year, an increase in 13%.

Comprehensive income in motor-vehicle property insurance in the Reporting Period amounted to NIS 16 million, compared with comprehensive income of about NIS 6 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 high 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 8 million in the corresponding period last year.

On August 29, 2013, Harel Insurance was informed that it had won the tender for most of the models included in the tender for compulsory motor and motor property insurance of state employees for 2014, estimated at 50,000 vehicles, compared with 40,000 vehicles in 2013. Harel Insurance has insured the vehicles of state employees for more than 35 years **.**

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

2.9.2. Compulsory motor

During the Reporting Period, gross premiums in compulsory motor vehicle insurance sector amounted to NIS 204 million, compared with gross premiums of NIS 207 million during the corresponding period last year.

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

During the Reporting Period, premiums in retention amounted to NIS 163 million compared with NIS 165 million in the corresponding period last year.

Comprehensive income in compulsory motor insurance in the Reporting Period amounted to NIS 61 million compared with NIS 29 million profits in the corresponding period last year. The increase in profit stems from the influence of the capital market in which yields were high than yields in the corresponding period last year and the release of surplus income over expenses for previous underwriting years, by an amount which was high than that released in the corresponding period last year and due to improved underwriting performance during the Reporting Period against the corresponding period last year and due to negative inflation rate of 0.7% compared to a positive inflation rate of 0.02% in the corresponding period last year.

Pre-tax profit for compulsory motor insurance during the reporting period amounted to NIS 38 million, compared with NIS 35 million during the corresponding quarter last year.

Given that car owners must insure their vehicles in accordance with the Motor Vehicle Insurance Ordinance, the owners of vehicles (usually motorbikes) who were rejected by the insurance companies may purchase insurance via the Pool (Israel pool for car insurance). The Pool operates as an insurance company to all intents and purposes. Its tariffs, which are set by the Commissioner, are higher than those of the insurance companies operating in the market, and they constitute the upper limit of insurance company tariffs (with the exception of motorbikes, the maximum compulsory motor tariffs which an insurance company may charge an insured cannot be more than 90% of the Pool's net tariff for that insured). All the insurance companies which operate in the compulsory motor sector are partners in the Pool, and each company bears a pro rata share of the Pool's losses in the compulsory motor insurance market for the previous year.

In view of a change in the Pool’s articles, the proportion of the net premiums for 2014 to which Harel Insurance is entitled, will only be determined at the beginning of 2015, based on its actual share of the premiums for 2014, relative to the market as a whole. A letter from the CEO of the Pool specified 10.9% as the proportion of Harel Insurance in the net premiums for 2014 (as against 10.6% which was the share held by Harel Insurance in 2013)

2.9.3. Liabilities branches and others

During the Reporting Period gross premiums in liabilities insurance and others amounted to NIS 255 million, compared with NIS 249 million during the corresponding period last year.

Premiums in retention in the Reporting Period amounted to NIS 134 million compared with NIS 141 million during the corresponding period last year, a 5% decrease.

Comprehensive profit in liabilities insurance and others in the Reporting Period amounted to NIS 29 million compared with income of about NIS 8 million in the corresponding period last year. The increase in the comprehensive profit stems mostly from the influence of the capital market in which yields were high than yields in the corresponding period last year.

Pre-tax profit in others liabilities insurance in the Reporting Period amounted to NIS 10 million, compared with NIS 12 million during 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 248 million compared with NIS 223 million during the corresponding period last year, a 11% increase.

Premiums in retention during the Reporting Period amounted to NIS 69 million compared with NIS 63 million during the corresponding period last year, a 9% increase.

Comprehensive profit in property and other branches in the Reporting Period amounted to NIS 14 million, compared with NIS 8 million in the corresponding quarter last year.

The increase stems mostly from improvement in the underwriting results.

Pre-tax profit in property insurance and other branches during the Reporting Period amounted to NIS 12 million, compared with NIS 8 million in the corresponding quarter last year.

2.9.5. Credit risks inherent in mortgage assets

Premiums in retention in credit risks inherent in mortgage assets during the Reporting Period amounted to NIS 14 million, similar to 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 27 million compared with NIS 10 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 high than yields in the corresponding period last year.

Pre-tax profit in credit risks inherent in mortgage assets during the Reporting Period amounted to NIS 19 million compared with NIS 11 million in the corresponding period last year.

2.10. Insurance companies overseas

The Company holds the controlling share of Interasco Societe Anonyme General Insurance Company S.A.G.I ("Interasco") (95% stake), an insurance company operating in Greece in the health and non-life insurance sectors, and as of April 29, 2014 wholly owned Turk Nippon which operates in Turkey (prior the Company held 99.98% stake).

During the Reporting Period, the operating segment for insurance companies overseas earned premiums of NIS 49 million, compared with NIS 43 million for the corresponding period last year, an increase of 13%. Total premiums earned by the insurance companies operating overseas segment for the Reporting Period account for 2% of all premiums earned by the Group.

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

During the Reporting Period, the insurance companies abroad posted a pre-tax income of NIS 1 million, compared with a pre-tax loss of NIS 4 million for the corresponding quarter last year.

2.11. Capital market and financial services

During the Reporting Period, revenues in the capital market and financial services sector amounted to NIS 70 million, compared with NIS 42 million for the corresponding period last year, a 65% increase compared with the corresponding period last year. This increase in revenues during the Reporting Period compared with the corresponding period last year can be attributed mainly to the acquisition of the portfolio management activity and activity of the mutual funds of Clal Finance.

The volume of assets under management in the capital market and financial services segment at March 31, 2014, was NIS 56.3 billion, compared with NIS 32.1 billion at March 31, 2013, and compared with NIS 53.5 billion at December 31, 2013.

Most of this increase in the volume of assets under management in this operating segment, relation to data as of December 31, 2013, can be attributed to the growth of assets under management in the mutual funds, as well as due to the Group expanding its ETF and certificates deposit activity.

These amounts include mutual fund assets in the amount of NIS 35 billion at March 31, 2014, compared with NIS 21 billion at March 31, 2013 and NIS 33 million at December 31, 2013, as well as ETF assets, which at March 31, 2014 amounted to NIS 13 billion against to NIS 8 billion at March 31, 2013 and NIS 12 billion at December 31, 2013. The assets under management, excluding the assets of the ETF Company, are not included in the Company's consolidated balance sheets.

During the Reporting Period, the capital market and financial services sector recorded pre-tax profit of NIS 11 million, as against a pre-tax loss of NIS 1 million for the corresponding period last year. The transition from loss to profit can be attributed to the acquisition of the portfolio management activity and activity of the mutual funds of Clal Finance and to further growth of activity in index-linked and deposit certificates.

2.12. Income tax

Income tax during the Reporting Period amounted to an expense of NIS 92 million, compared with expenses for income tax of NIS 129 million during the corresponding period last year.

2.13. Sources of finance and liquidity

2.13.1. Cash flows

During the Reporting Period total net cash flows used for on-going activity amounted to NIS 1,161 million. Net cash flows used for investment activity amounted to NIS 37 million. Net cash flows provided by activity and fluctuations in exchange rate amounted to NIS 902 million. The outcome of the entire activity is showing through the decline in cash flow in the sum of NIS 296 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, during the reporting pried, Harel Insurance firstly raised tier-1 capital, as specified below:

2.13.2.1. Hybrid, tier-1 capital note

Concerning a hybrid, tier-1 capital note that Harel Insurance issued to Harel Investments on March 31, 2014 against NIS 50 million provided by the Company to Harel Insurance, so that this amount can be recognized as hybrid tier-1 capital for Harel Insurance, see Note 7 to the Financial Statements.

2.13.2.2. Shelf prospectus - Harel Share Issues

Concerning the publication of a shelf prospectus by Harel Share Issues February 11, 2014 - see Note 8 to the Financial Statements.

2.13.2.3. Private issue - expansion of series 6-8

Concerning a private issue of promissory notes of Harel Share Issues, Series 6-8, as an expansion of these series in the amount of NIS 100 million par value - see Note 8 to the Financial Statements.

2.13.2.4. Injection of capital

Concerning approval by the Company's Board of Directors on April 27, 2014 to inject capital into Turk Nippon to enable it to comply with the capital requirements as an insurer operating in Turkey - see Note 7 to the Financial Statements.

2.13.2.5. In addition to the mentioned loans, at March 31, 2014, the Company and the other companies in the Group short term loan amounted approximately NIS 33 million.

3. Market Risk Exposure and Management

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

4. Corporate governance

4.1. Senior officers

4.1.1. Termination of the service of a senior officer

4.1.1.1. On April 30, 2014, Ms. Liora Kavoras Hadar terminated her term as director of the company. Mrs. Kavoras Hadar continues to serve as a director of the Group's subsidiaries.

4.1.1.2. On April 27, 2014, Adv. Hanan Friedman, who is currently legal advisor (general counsel) to the Company and other companies in the Group, including Harel Insurance, announced that he would be terminating his service for the Company. The circumstances of this announcement do not require that they be brought to the attention of the public or the Commissioner. Adv. Freedman will step down at the end of the job transfer period with his replacement.

Pursuant to Adv. Hanan Friedman's announcement, on April 27, 2014, the Board of Directors of the Company and of Harel Insurance approved the appointment of Adv. Nataly Mishan-Zakai as legal advisor to the Company and Harel Insurance. Adv. Mishan-Zakai is well known to the management of the Group and its Board of Directors for the legal services she has provided in recent years through her work as a partner in FBC & Co. (Fischer Behar Chen Well Orion & Co.). The appointment will enter into force at the end of the job transfer period and subject to the Commissioner's approval, as required by law.

4.1.1.3. On November 28, 2013, Mr. Oren Ben Horin, who served as the Company's internal auditor, announced that he would be terminating his term of office. The circumstances of this announcement do not include circumstances that must be brought to the attention of the public or the Commissioner. Mr. Ben Horin actually stepped down on February 1, 2014, but he will continue to be available to the Company as necessary until the end of 2014. On February 1, 2014, Ms. Osnat Manor Zisman began to serve as the Company's internal auditor.

4.2. 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:

a) The Committee shall consist of at least 3 members;

b) 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);

c) The Committee's chair shall be an outside director;

d) Only directors shall be members of the Committee;

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

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

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

h) 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.

i) 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 members of the Committee for the review of the financial statements shall be:

David Granot, Chairman (External Director).
Prof. Israel Gilad (External Director).
Doron Cohen.
Esther Dominissini (External Director).

4.2.1. 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.

4.2.2. Regarding details concerning the members of the Committee for the review of the financial statements see Article 26 in chapter 5 – "Additional information" in the Periodic Report.

4.2.3. Procedure for approval of the financial statements:

To approve the financial statements at March 31, 2014, the Committee convened on May 18, 2014.

In addition, the Company's CPA are invited to and attend meeting of the Committee and Board of Directors' meeting that discuss and approve the financial statements, and they present the principal findings, if there are such, that emerged during the course of the audit or the review. The meeting was also attended by the Company's CFO, Ronen Agassi CPA, and legal advisor, Adv. Hanan Fridman. A meeting of the Committee held on May 18, 2014 was attended by the Company's CPA, Deborah Weisel and the internal auditor was also invited to the meeting.

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

At the committee meeting, information relating to the data included in the financial reports was reviewed, including information pertaining to the Company's financial and operating position.

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

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

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

At a meeting of the committee held on May 18, 2014, the committee members held a detailed discussion of the Company's estimates and assessments on which the financial reports were based, addressing the discretion applied by management on various issues. The committee's members were also advised regarding the internal control process, they examined material issues in the financial reports, the completeness and reasonability of the financial reporting, the accounting policy and figures in the financial statements.

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

On a meeting of the Company's Board of Directors held on May 20, 2014, 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.

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**

May 20, 2014

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2014

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

Introduction

We reviewed the attached financial information of Harel Investments in Insurance and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") which include the condensed interim consolidated statement of position as at March 31, 2014 and the condensed interim consolidated statements of income, comprehensive income, changes in capital and cash flows for the three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with international accounting standard IAS 34 "Financial reporting for interim periods", and they are responsible for the preparation for the preparation of financial information for this interim period under Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. To the extent that these regulations apply to insurance companies and subject to the disclosure requirements issued by the Supervisor of Insurance according to the Law for the Supervision of Financial Services (Insurance) - 1981. Our responsibility is to express a conclusion on the financial information for the interim periods, based on our review.

We did not review the condensed financial information for the interim period of consolidated companies whose assets included in the consolidation comprise 17.33% of all the consolidated assets as at March 31, 2014 and whose revenues included in the consolidation comprise 2.32% of all the consolidated revenues for the period of three months then ended. Moreover we did not review the condensed financial information for the interim period of investee companies presented by the equity method in which the investment in them is NIS 131,259 thousand as at March 31, 2014, and the Group's shares of their profit aggregated NIS 3,505 thousand for the periods of three months then ended. The condensed financial information for the interim period of those companies were reviewed by other auditors whose review reports were furnished to us and our conclusions, to the extent that they relate to financial information for those companies, are based on the review reports of the other auditors**.**

Scope of the review

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

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Conclusion

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

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

Without qualifying our above conclusions we direct attention to Note 6A to the interim condensed consolidated financial statements regarding exposure to contingent liabilities.

Somekh Chaikin
Certified Public Accountants (Isr)

May 20, 2014

Condensed interim consolidated statements of financial position at

	March 31		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**1,605,530**	1,418,164	1,618,091
Deferred tax assets	**10,697**	9,130	14,928
Deferred acquisition costs	**1,712,786**	1,478,885	1,600,418
Fixed assets	**685,966**	652,732	682,673
Investments in investees treated using the balance sheet value method	**944,190**	574,369*	906,304*
Real estate investments - yield dependent contracts	**1,144,950**	834,032	1,140,536
Other real estate investments	**1,529,460**	1,244,885	1,511,284
Reinsurance assets	**5,486,158**	5,069,739	5,422,847
Current tax assets	**23,701**	10,783	18,298
Other receivables	**466,240**	415,276	469,058
Outstanding premiums	**1,295,232**	1,268,069	1,215,685
Financial assets – yield dependent contracts	**30,566,752**	25,164,819	28,909,167
Financial assets for index-linked certificates and deposit certificates	**11,083,813**	5,902,293	9,199,547
Other financial investments:			
Marketable debt assets	**8,819,815**	8,342,971	8,356,581
Non-marketable debt assets	**9,672,936**	9,411,445	9,663,973
Shares	**613,616**	499,981	595,327
Other investments	**1,999,329**	1,786,291	1,876,812
Total other financial investments	**21,105,696**	20,040,688	20,492,693
Cash and cash equivalents pledged for ETFs holders	**2,178,474**	2,179,104	3,054,696
Cash and cash equivalents - yield dependent contracts	**844,950**	1,103,263	1,088,024
Other cash and cash equivalents	**1,337,239**	1,636,666	1,389,685
Total assets	**82,021,834**	69,002,897	78,733,934
Total assets - yield dependent contracts	**33,057,366**	27,528,655	31,534,632

* Regarding reclassification of comparative figures, see Note 2c.

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

Condensed interim consolidated statements of financial position at

	March 31		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Equity and liabilities			
Equity			
Share capital and share premium	**317,053**	308,555	316,595
Treasury stock	**(167,618)**	(145,632)	(163,458)
Capital reserves	**432,171**	306,854	316,139
Retained earnings	**4,096,338**	3,823,264	4,037,093
Total equity attributed to company shareholders	**4,677,944**	4,293,041	4,506,369
Non-controlling rights in consolidated companies	**5,863**	5,151	5,403
Total equity	**4,683,807**	4,298,192	4,511,772
Liabilities			
Liabilities in respect of non-yield dependent insurance and investment contracts	**24,682,583**	23,210,261	24,234,519
Liabilities in respect of yield dependent insurance and investment contracts	**32,453,110**	27,255,432	31,000,662
Deferred tax liabilities	**702,307**	493,656*	618,727*
Net liabilities for employee benefits	**273,255**	249,554	269,611
Current tax liabilities	**58,683**	43,981*	60,292*
Creditors and credit balances	**2,828,819**	2,521,088	2,752,092
ETF's liabilities	**13,173,113**	7,965,762	12,054,305
Financial liabilities	**3,166,157**	2,964,971	3,231,954
Total liabilities	**77,338,027**	64,704,705	74,222,162
Total equity and liabilities	**82,021,834**	69,002,897	78,733,934

* Regarding reclassification of comparative figures, see Note 2c.

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

Date of approval of the financial statements: May 20, 2014

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

Condensed interim consolidated statements of income and loss

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Premiums earned, gross	**2,624,477**	2,500,249	10,281,765
Premiums earned by reinsurers	**441,177**	408,447	1,730,867
Premiums earned in retention	**2,183,300**	2,091,802	8,550,898
Net profit from investments and financial income	**1,019,498**	1,028,799	4,472,898
Income from management fees	**312,705**	245,690	1,062,060
Income from commissions	**103,842**	100,867	427,221
Total income	**3,619,345**	3,467,158	14,513,077
Payments and changes in liabilities for insurance and investment contracts, gross	**2,949,193**	2,752,650	12,203,281
Reinsurers' share in payments and changes for insurance contracts liabilities	**303,269**	322,263	1,666,157
Payments and changes in liabilities for insurance and investment contracts, in retention	**2,645,924**	2,430,387	10,537,124
Commission, marketing and other acquisition expenses	**460,213**	417,015	1,776,071
General and administrative expenses	**262,508**	240,292	1,027,408
Other expenses	**14,974**	14,641	72,875
Financing expenses, net	**14,041**	25,446	164,027
Total expenses	**3,397,660**	3,127,781	13,577,505
Company share of profit of investee companies recorded by the equity method	**36,288**	12,155*	123,828*
Profit before income taxes	**257,973**	351,532	1,059,400
Income taxes	**91,653**	129,146*	378,609*
Net profit for the year	**166,320**	222,386	680,791
Attributed to:			
Company shareholders	**165,963**	222,239	680,332
Non-controlling rights in consolidated companies	**357**	147	459
Net profit for the year	**166,320**	222,386	680,791
Basic profit per share (shekel)	**0.80**	1.05	3.23
Diluted profit per share (shekel)	**0.80**	1.03	3.23

* Regarding reclassification of comparative figures, see Note 2c.

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

Condensed interim consolidated statements of income and loss

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profit for the year	**166,320**	222,386	680,791
Other items of comprehensive income which after initial recognition under comprehensive income were or will be transferred to statement of income			
Net changes in fair value of financial assets available for sale	**207,227**	784	166,357
Net changes in fair value of financial assets available for sale transferred to statement of income	**(33,796)**	(26,970)	(150,536)
Loss from impairment in value of financial assets available for sale transferred to statement of income	**3,184**	4,219	13,238
Foreign currency transaction's difference in respect of overseas operations	**5,705**	(13,863)	(18,824)
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	**(67,072)**	12,587	(15,529)
Total other comprehensive income for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	**115,248**	(23,243)	(5,294)
Other items of comprehensive income (loss) which will not be transferred to profit or loss			
Remeasurement of a defined benefit plan	**(480)**	1,733	17,518
Taxes on income for other items of comprehensive income which will not be transferred to profit or loss	**100**	(617)	(6,571)
Other comprehensive income (loss) for the period which will not be transferred to profit or loss, net of tax	**(380)**	1,116	10,947
Comprehensive income (loss) for the year	**114,868**	(22,127)	5,653
Total comprehensive income for the year	**281,188**	200,259	686,444
Attributed to:			
Company shareholders	**280,728**	200,098	686,031
Non-controlling rights in consolidated companies	**460**	161	413
Totalcomprehensive income for the year	**281,188**	200,259	686,444

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

Condensed interim consolidated statements of changes in capital

	Attributed to company shareholders										
	Share capital and premium	Capital reserve for financing assets available for sale	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Transactions with non-controlling interests	fund for revaluation of investment real estate	Retained earnings	Total	Non-controlling rights in consolidated companies	Total equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
For the three months ended March 31, 2013 (Unaudited)											
Balance as at January 1, 2014	316,595	313,637	(22,075)	34,172	(163,458)	(48,908)	39,313	4,037,093	4,506,369	5,403	4,511,772
Comprehensive income for year											
Profit for year	-	-	-	-	-	-	-	165,963	165,963	357	166,320
Total other comprehensive income (loss)	-	111,105	4,040	-	-	-	-	(380)	114,765	103	114,868
Total comprehensive income (loss) for year	-	111,105	4,040	-	-	-	-	165,583	280,728	460	281,188
Transactions with owners credited directly to equity											
Dividends declared	-	-	-	-	-	-	-	(106,338)	(106,338)	-	(106,338)
Share based payment	-	-	-	887	-	-	-	-	887	-	887
Purchase of treasury stock	-	-	-	-	(6,920)	-	-	-	(6,920)	-	(6,920)
Reissuing of treasury stock	458	-	-	-	2,760	-	-	-	3,218	-	3,218
Balance as at march 31, 2014	317,053	424,742	(18,035)	35,059	(167,618)	(48,908)	39,313	4,096,338	4,677,944	5,863	4,683,807

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

Condensed interim consolidated statements of changes in capital

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

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

Condensed interim consolidated statements of changes in capital

	Attributed to company shareholders										
	Share capital and premium	Capital reserve in respect of assets available for sale	Translation of foreign operations fund	Capital reserve in respect of share based payment	Treasury stock	Transactions with non-controlling interests	Capital fund for revaluation of investment real estate	Retained earnings	Total	Non-controlling rights in consolidated companies	Total equity
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Balance as at December 31, 2013 (Audited)											
Balance as at January 1, 2013	308,446	303,691	(6,881)	40,327	(142,300)	(48,908)	39,944	3,652,909	4,147,228	4,990	4,152,218
Comprehensive income for year											
Profit for year	-	-	-	-	-	-	-	680,332	680,332	459	680,791
Total other comprehensive income (loss)	-	9,946	(15,194)	-	-	-	(631)	11,578	5,699	(46)	5,653
Total comprehensive income (loss) for year	-	9,946	(15,194)	-	-	-	(631)	691,910	686,031	413	686,444
Transactions with owners credited directly to equity											
Dividends paid	-	-	-	-	-	-	-	(307,726)	(307,726)	-	(307,726)
Share based payment	-	-	-	5,954	-	-	-	-	5,954	-	5,954
Purchase of treasury stock	-	-	-	-	(34,828)	-	-	-	(34,828)	-	(34,828)
Reissuing of treasury stock	(3,960)	-	-	-	13,670	-	-	-	9,710	-	9,710
Exercising of stock options	12,109	-	-	(12,109)	-	-	-	-	-	-	-
Balance as at December 31, 2013 (Audited)	316,595	313,637	(22,075)	34,172	(163,458)	(48,908)	39,313	4,037,093	4,506,369	5,403	4,511,772

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

Condensed interim consolidated statements of cash flows

	Appendix	For the three months ended March 31 2014 (Unaudited) NIS thousands	For the three months ended March 31 2013 (Unaudited) NIS thousands	For the year ended December 31 2013 (Audited) NIS thousands
Cash flows from operating activities				
Before taxes on income	A	(1,087,424)	(1,346,428)	(4,197,052)
Income tax refund (paid)		**(75,463)**	50	(146,053)
Net cash provided by operating activities		**(1,162,887)**	(1,346,378)	(4,343,105)
Cash flows from investing activities				
Investment in investee companies		**-**	(3,328)	(286,248)
Proceeds of the disposal of an investment in a company accounted for using the equity method		**981**	-	-
Investment of fixed assets		**(15,366)**	(13,190)	(67,749)
Investment in intangible assets		**(23,643)**	(17,411)	(331,809)
Dividends from investee company		**2,761**	2,526	61,081
Proceeds from sale of fixed assets		**-**	12	758
Net cash used for investing activities		**(35,267)**	(31,391)	(623,967)
Cash flows for financing activities				
Proceeds from issue of liability notes		**106,724**	-	198,267
Acquisition of Treasury stock		**(3,702)**	(3,224)	(25,118)
Proceeds from issue of ETF's		**914,815**	1,752,375	5,318,662
Short-term Loans from banks, net		**(88,562)**	639	6,735
Loans from banks and others		**-**	100,000	169,068
Repayments of loans from banks and others		**(28,297)**	(27,683)	(154,136)
Dividends paid		**-**	-	(307,726)
Net cash provided by financing activities		**900,978**	1,822,107	5,205,752
Effect of fluctuations in currency exchange rate on balances of cash and cash equivalents		**1,656**	28,347	(28,215)
Increase (decrease) in cash and cash equivalents		**(295,520)**	472,685	210,465
Cash and cash equivalents, beginning of the year	B	**2,477,709**	2,267,244	2,267,244
Cash and cash equivalents, end of the year	C	**2,182,189**	2,739,929	2,477,709

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

Condensed interim consolidated statements of cash flows

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
(Appendix A - Cash flows from operating activities before taxes on income (1), (2), (3			
Profit for period	**166,320**	222,386	680,791
Items not involving cash flows			
Company's share of loss (profit) of investee companies recorded on the equity basis	**(36,288)**	(12,155)*	(123,828)*
Loss (profit) - financial investments - yield dependent insurance policies and investment contracts, net	**(590,538)**	(533,333)	(2,111,720)
Net loss (profit) from other financial investments			
Marketable debt assets	**(34,777)**	339	(177,035)
Non-marketable debt assets	**46,514**	9,470	(130,770)
Shares	**(21,697)**	(14,244)	(46,864)
Other investments	**27,130**	(137,387)	(253,760)
Financing expenses (income) for financial liabilities	**164,544**	294,273	756,461
Net loss (profit) from realizations			
Changes in fair value of real estate for investment - for yield dependent contracts	**1,662**	537	(13,566)
Changes in fair value of other real estate investment	**(980)**	7,689	(38,447)
Depreciation and amortization			
Fixed assets	**12,098**	11,369	45,403
Intangible assets	**36,223**	30,607	145,039
Change in liabilities for non yield dependent insurance and investment contracts	**446,995**	616,420	1,649,648
Change in liabilities for yield dependent insurance and investment contracts	**1,452,448**	2,757,265	6,502,495
Change in reinsurance assets	**(62,701)**	(98,534)	(450,899)
Change in deferred acquisition costs	**(112,218)**	(79,740)	(202,539)
Share based payment	**887**	1,938	5,954
Income taxes	**91,653**	129,146*	378,609*
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	**(6,076)**	(20,262)	(312,663)
Acquisitions net, of financial investments	**(1,097,036)**	(1,604,175)	(3,769,618)
Other financial investments and real estate for investment			
Acquisition of real estate for investment	**(17,196)**	(34,062)	(265,586)
Proceeds from the sale of real estate for investment	**-**	5,035	5,935
Acquisitions net, of financial investments	**(448,137)**	(789,140)	(676,098)
Outstanding premiums	**(79,044)**	(166,187)	(115,606)
Other receivables	**24,144**	17,028	15,949
Investment for ETFs holders	**(1,884,266)**	(546,888)	(3,844,142)
Cash and cash equivalents pledged for ETFs holders	**876,222**	(1,360,581)	(2,236,173)
Other payables	**(45,080)**	(56,406)	354,811
Liabilities for employee benefits, net	**1,770**	3,164	31,167
Total adjustments required to present cash flows from operating activities	**(1,253,744)**	(1,568,814)	(4,877,843)
Total cash flows from operating activities, before taxes on income	**(1,087,424)**	(1,346,428)	(4,197,052)

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 408 million (for the three months ended March 31, 2013 an amount of NIS 371 million and for 2013 an amount of NIS 1,490 million) and the interest paid of NIS 11 million (for the three months ended March 31, 2013 and amount of NIS 12 million and for 2013 an amount of NIS 107 million).
(3) As part of the ongoing activity, a dividend received from other financial investments was presented in the amount of NIS 43 million (for the three months period ended on March 31, 2013 an amount of NIS 21 million and for 2013 an amount of NIS 158 million)

* Regarding reclassification of comparative figures, see Note 2c.

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Appendix B - Cash and cash equivalents, beginning of the period			
Cash and cash equivalents for yield dependent contracts	**1,088,024**	740,754	740,754
Other cash and cash equivalents	**1,389,685**	1,526,490	1,526,490
Cash and cash equivalents, beginning of period	**2,477,709**	2,267,244	2,267,244
Appendix C - Cash and cash equivalents, end of period			
Cash and cash equivalents for yield dependent contracts	**844,950**	1,103,263	1,088,024
Other cash and cash equivalents	**1,337,239**	1,636,666	1,389,685
Cash and cash equivalents, end of year	**2,182,189**	2,739,929	2,477,709

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

Note 1 - General

The reporting entity

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

The Company is a holding company whose main holdings are in subsidiaries comprising insurance and financial companies. The condensed interim consolidated financial statements, as at March 31, 2014, 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, 2013 (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 March 20, 2014.

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 On April 30, 2014, the Commissioner published an announcement whereby the date of transition to revaluation based on quotes from Shaarey Ribit will not be before July 2014, given that the Group's revaluation model must be tested for compliance with the provisions of the tender.

   A Ministry of Finance publication dated September 17, 2013 stipulated that the transition date for revaluation, based on quotes from Shaarey Ribit will not be before January 2014. 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.

c. Reclassification

During the Reporting Period, the Group reclassified the tax expenses relating to certain subsidiaries from the item - Company's share in earnings of investees accounted for by the equity method, to - Tax Expenses on Income, to more correctly reflect attribution of the tax liability to each legal entity. Consequently, amounts of NIS 2 million and NIS 33 million were reclassified from the Company's share in earnings of investees accounted for by the equity method to Tax Expenses on Income, for the periods ended March 31, 2013 and December 31, 2013, respectively. A corresponding reclassification from investments in investees accounted for using the equity method to the tax items was also reflected in the Statement of Financial Position. The reclassification did not affect the Group's equity and/or profit or loss.

Note 3 - Significant accounting principles

The Group's accounting principles in these condensed interim consolidated financial statements is the policy which is applied in the annual statements.

a. 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.

b. Calculation of Insurance Reserves in Non-Life Insurance

On January, 2013 signed the Supervision of Financial Services (Insurance) (Calculation of Insurance Reserves in Non-Life Insurance) Regulations, 5773 – 2013, ("The new regulations") and circular (Called together: "Amendment") regarding the calculation of insurance reserves in non-life assurance.

The Amendment canceled the Supervision of Insurance Business (Methods of Calculating Allowances for Future Claims in Non-Life Insurance) Regulations, 5745 – 1984), and they will be replaced by the new regulations. The main change that will apply with the entering into force of the amendment is the elimination of the reserve of surplus income over expenses (“the Reserve”), commencing in the financial statements at December 31, 2014. The reserve is currently calculated for a period of three years, in the non-life insurance branches with long-tail claims (mainly compulsory motor and liabilities) and for which an actuarial estimate is calculated.

Additionally, in July 2012, the Commissioner published a draft position paper ("the Commissioner's position") concerning a best practice for actuaries when they calculate insurance reserves for non-life insurance for the purpose of the financial statements so that they properly reflect the insurance liabilities. The Commissioner's position includes, inter alia, the following stipulations:

(a) “A reserve adequate to cover the insurer's obligations" meaning that it is fairly likely - i.e. a probability of at least 75% - that the stipulated insurance undertaking will be adequate to cover the insurer's liabilities.
(b) Insofar as there is a greater degree of certainty that the assumptions and models are appropriate, the actuary must choose the assumptions and models which provide the best estimate of the projected insurance liabilities. A margin for uncertainty must therefore be added separately.
(c) Capitalization rate for the flow of liabilities (products with long-tail liabilities).
(d) Grouping - for the purpose of calculating margins for uncertainty in statistical branches (as defined in the circular), each branch must be addressed separately, but the risks from all the underwriting years (or loss) in the branch may be grouped together. In non-statistical branches, they may all be treated as a single group.
(e) Determining the level of insurance liabilities for policies that were sold during periods close to the balance sheet date and for risks after the balance sheet date.

The Company is reviewing the overall effect of the amendment on the financial statements, together with the Commissioner’s position. At this stage it is impossible to estimate the impact of these changes given that the Commissioner’s position is under discussion and clarification between the insurance companies and the Commissioner.

Note 3 - Significant accounting principles (contd.)

c. Designation of assets included in the investment portfolios of yield-dependent contracts

Until December 31, 2013, the assets held against guaranteed yield liabilities that were issued from 2004 were reclassified to the category Fair value by way of profit or loss. During the Reporting Period, based on a review conducted by the Company, it was decided to include the portfolio's assets as part of the overall asset portfolio held against policies that are not yield dependent. Assets that were classified to the category Fair value by way of profit or loss, will continue to be accounted for in the same manner until their disposal, new assets will become part of the overall Nostro portfolio and will be accounted for as available for sale. The change is not expected to affect the Company's financial results.

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.

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.

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.

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

Note 4 - Operating segments (contd.)

4. Insurance companies overseas operating segment

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

5. Financial services segment

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

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

6. Not allocated to operating segments

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

Note 4 - Operating segments (contd.)

a. **Information regarding segment reporting**

	For the three months ended March 31 2014 (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	957,356	844,887	775,531	48,550	-	-	(1,847)	2,624,477
Premiums earned by reinsurers	34,466	50,871	337,420	20,267	-	-	(1,847)	441,177
Premiums earned in retention	922,890	794,016	438,111	28,283	-	-	-	2,183,300
Net profit (loss) from investments and financial income	856,560	72,792	26,670	960	9,635	54,979	(2,098)	1,019,498
Income from management fees	248,718	2,539	-	-	59,792	1,763	(107)	312,705
Income from commissions	10,577	18,901	59,846	5,318	307	23,507	(14,614)	103,842
Total income	2,038,745	888,248	524,627	34,561	69,734	80,249	(16,819)	3,619,345
Payments and changes in liabilities for insurance and investment contracts, gross	1,681,116	701,978	545,761	21,335	-	-	(997)	2,949,193
Reinsurers' share in payments and changes for insurance contracts liabilities	12,867	51,997	231,503	7,899	-	-	(997)	303,269
Payments and changes in liabilities for insurance and investment contracts, in retention	1,668,249	649,981	314,258	13,436	-	-	-	2,645,924
Commission, marketing and other acquisition expenses	172,452	152,002	132,135	16,914	-	1,324	(14,614)	460,213
Management and general expenses	110,311	53,723	6,933	3,251	54,326	34,071	(107)	262,508
Other expenses	9,852	-	238	74	3,650	1,160	-	14,974
Financing expenses (income), net	(884)	(6)	1,898	-	929	12,268	(164)	14,041
Total expenses	1,959,980	855,700	455,462	33,675	58,905	48,823	(14,885)	3,397,660
Company share of profit of investee companies recorded by the equity method	7,921	2,560	20,164	-	22	5,621	-	36,288
Profit before income taxes	86,686	35,108	89,329	886	10,851	37,047	(1,934)	257,973
Other comprehensive income, before income tax	56,723	23,560	57,779	1,555	-	42,223	-	181,840
Total comprehensive income (loss) before income tax	143,409	58,668	147,108	2,441	10,851	79,270	(1,934)	439,813
Liabilities in respect of non-yield dependent insurance and investment contracts	10,963,331	3,094,722	10,396,690	235,364	-	-	(7,524)	24,682,583
Liabilities in respect of yield dependent insurance and investment contracts	29,354,996	3,098,114	-	-	-	-	-	32,453,110

Note 4 - Operating segments (Contd.)

a. Information regarding segment reporting (Cont'd)

	For the three months ended March 31 2013 (Unaudited)							
	Life Insurance and Long-Term Savings	Health Insurance	General Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	934,170	758,831	766,807	42,859	-	-	(2,418)	2,500,249
Premiums earned by reinsurers	34,290	48,254	312,363	15,958	-	-	(2,418)	408,447
Premiums earned in retention	899,880	710,577	454,444	26,901	-	-	-	2,091,802
Net profit from investments and financial income	801,792	76,150	67,491	660	6,493	79,011	(2,798)	1,028,799
Income from management fees	207,499	2,346	-	-	34,405	1,522	(82)	245,690
Income from commissions	9,787	18,321	57,356	4,753	1,277	22,284	(12,911)	100,867
Other income								-
Total income	1,918,958	807,394	579,291	32,314	42,175	102,817	(15,791)	3,467,158
Payments and changes in liabilities for insurance and investment contracts, gross	1,489,600	590,672	654,398	19,423	-	-	(1,443)	2,752,650
Reinsurers' share in payments and changes for insurance contracts liabilities	20,130	26,651	273,549	3,376	-	-	(1,443)	322,263
Payments and changes in liabilities for insurance and investment contracts, in retention	1,469,470	564,021	380,849	16,047	-	-	-	2,430,387
Commission, marketing and other acquisition expenses	158,422	126,025	128,156	16,107	-	1,217	(12,912)	417,015
Management and general expenses	102,918	53,070	7,749	4,366	41,375	30,897	(83)	240,292
Other expenses	12,247	-	238	78	778	1,300	-	14,641
Financing expenses (income), net	1,020	1,743	(4,762)	-	960	26,978	(493)	25,446
Total expenses	1,744,077	744,859	512,230	36,598	43,113	60,392	(13,488)	3,127,781
Company share of profit (loss) of investee companies recorded by the equity method	(5,656)	690	6,133	-	-	10,988*	-	12,155
Profit (loss) before income taxes	169,225	63,225	73,194	(4,284)	(938)	53,413	(2,303)	351,532
Other comprehensive income (loss), before income tax	(17,129)	(4,496)	(12,185)	(2,531)	94	2,150	-	(34,097)
Total comprehensive income (loss) before income tax	152,096	58,729	61,009	(6,815)	(844)	55,563	(2,303)	317,435
Liabilities in respect of non-yield dependent insurance and investment contracts	10,347,380	2,637,410	10,018,680	214,987	-	-	(8,196)	23,210,261
Liabilities in respect of yield dependent insurance and investment contracts	24,729,324	2,526,108	-	-	-	-	-	27,255,432

* Regarding reclassification of comparative figures, see Note 2c.

Note 4 - Operating segments (Contd.)

a. **Information regarding segment reporting (Cont'd)**

	For the year ended December 31 2013 (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	3,809,905	3,192,205	3,111,095	176,651	-	-	(8,091)	10,281,765
Premiums earned by reinsurers	133,131	206,089	1,335,407	64,331	-	-	(8,091)	1,730,867
Premiums earned in retention	3,676,774	2,986,116	1,775,688	112,320	-	-	-	8,550,898
Net profit (loss) from investments and financial income	3,484,143	357,470	280,632	5,825	34,280	315,994	(5,446)	4,472,898
Income from management fees	825,563	10,717	-	-	216,686	9,600	(506)	1,062,060
Income from commissions	27,310	79,177	259,342	19,370	2,714	96,672	(57,364)	427,221
Other income								-
Total income	8,013,790	3,433,480	2,315,662	137,515	253,680	422,266	(63,316)	14,513,077
Payments and changes in liabilities for insurance and investment contracts, gross	6,595,776	2,657,291	2,877,046	78,612	-	-	(5,444)	12,203,281
Reinsurers' share in payments and changes for insurance contracts liabilities	97,710	169,027	1,389,838	15,026	-	-	(5,444)	1,666,157
Payments and changes in liabilities for insurance and investment contracts, in retention	6,498,066	2,488,264	1,487,208	63,586	-	-	-	10,537,124
Commission, marketing and other acquisition expenses	623,493	521,684	617,277	66,284	-	4,697	(57,364)	1,776,071
Management and general expenses	436,278	223,586	34,205	13,933	204,519	117,293	(2,406)	1,027,408
Other expenses	50,269	-	967	298	16,520	4,821	-	72,875
Financing expenses (income), net	7,938	10,020	(10,599)	-	5,281	152,508	(1,121)	164,027
Total expenses	7,616,044	3,243,554	2,129,058	144,101	226,320	279,319	(60,891)	13,577,505
Company share of profit (loss) of investee companies recorded by the equity method	23,087	5,004	25,538	-	43	72,056*	(1,900)	123,828
Profit (loss) before income taxes	420,833	194,930	212,142	(6,586)	27,403	215,003	(4,325)	1,059,400
Other comprehensive income (loss), before income tax	10,936	7,067	6,364	(5,849)	(803)	10,038	-	27,753
Total comprehensive income (loss) before income tax	431,769	201,997	218,506	(12,435)	26,600	225,041	(4,325)	1,087,153
Liabilities in respect of non-yield dependent insurance and investment contracts	10,910,197	2,992,441	10,114,540	225,160	-	-	(7,819)	24,234,519
Liabilities in respect of yield dependent insurance and investment contracts	28,040,191	2,960,471	-	-	-	-	-	31,000,662

* Regarding reclassification of comparative figures, see Note 2c.

Note 4 - Operating segments (Contd.)

b. Additional data regarding general insurance segment

	For the three months ended March 31 2014 (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	204,347	462,679	248,347	254,952	(5,674)	1,164,651
Premiums earned by reinsurers	41,220	97,781	179,639	121,307	-	439,947
Premiums in retention	163,127	364,898	68,708	133,645	(5,674)	724,704
Changes in premium balances that have not yet been earned, retention	72,911	179,683	17,449	35,883	(19,333)	286,593
Premiums earned in retention	90,216	185,215	51,259	97,762	13,659	438,111
Profits from investments, net, and financing income	10,520	2,312	716	8,454	4,668	26,670
Commission income	4,139	11,335	32,208	12,164	-	59,846
Total income	104,875	198,862	84,183	118,380	18,327	524,627
Payments and changes in liabilities for insurance contracts, gross	77,957	183,532	102,490	183,212	(1,430)	545,761
Reinsurer's share of payments and changes in liabilities for insurance contracts	15,736	34,190	83,275	98,302	-	231,503
Payments and changes in liabilities for insurance contracts, retention	62,221	149,342	19,215	84,910	(1,430)	314,258
Commission, marketing expenses and other acquisition costs	11,855	37,928	52,893	29,459	-	132,135
Management and general expenses	1,690	2,343	773	869	1,258	6,933
Other expenses	-	-	-	-	238	238
Financing expenses (income), net	914	201	62	735	(14)	1,898
Total expenses	76,680	189,814	72,943	115,973	52	455,462
Company share of profit of investee companies recorded by the equity method	9,480	2,083	645	7,619	337	20,164
Profit before income taxes	37,675	11,131	11,885	10,026	18,612	89,329
Other comprehensive loss, before income tax	23,789	5,228	1,624	19,113	8,025	57,779
Total comprehensive income before income tax	61,464	16,359	13,509	29,139	26,637	147,108
Liabilities for insurance policies, gross, as at March 31, 2014	2,702,868	818,024	1,002,431	5,271,763	601,604	10,396,690
Liabilities for insurance policies, In retention as at March 31, 2014	2,292,475	653,439	177,006	1,905,437	601,604	5,629,961

* Property and other branches primarily include results of property loss insurance and comprehensive household insurance, operations of which account for 74% of total premiums earned from 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 (Contd.)

b. Additional data regarding general insurance segment (Contd.)

	For the three months ended March 31 2013 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments**	Other Liability Segments***	insurance Mortgage	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	206,744	406,540	222,899	248,771	(1,793)	1,083,161
Premiums earned by reinsurers	41,989	84,001	159,873	107,833	-	393,696
Premiums in retention	164,755	322,539	63,026	140,938	(1,793)	689,465
Changes in premium balances that have not yet been earned, retention	60,533	134,780	12,197	43,705	(16,194)	235,021
Premiums earned in retention	104,222	187,759	50,829	97,233	14,401	454,444
Profits from investments, net, and financing income	32,049	6,680	1,550	21,892	5,320	67,491
Commission income	3,955	10,960	29,791	12,650	-	57,356
Total income	140,226	205,399	82,170	131,775	19,721	579,291
Payments and changes in liabilities for insurance contracts, gross	118,690	196,092	168,233	165,288	6,095	654,398
Reinsurer's share of payments and changes in liabilities for insurance contracts	22,805	37,327	142,677	70,740	-	273,549
Payments and changes in liabilities for insurance contracts, retention	95,885	158,765	25,556	94,548	6,095	380,849
Commission, marketing expenses and other acquisition costs	13,225	38,419	47,833	28,214	465	128,156
Management and general expenses	1,325	1,766	679	810	3,169	7,749
Other expenses	-	-	-	-	238	238
Financing expenses (income), net	(2,466)	(514)	(119)	(1,685)	22	(4,762)
Total expenses	107,969	198,436	73,949	121,887	9,989	512,230
Company share of profit of investee companies recorded by the equity method	2,710	565	131	1,851	876	6,133
Profit before income taxes	34,967	7,528	8,352	11,739	10,608	73,194
Other comprehensive income, before income tax	(6,069)	(1,265)	(294)	(4,146)	(411)	(12,185)
Total comprehensive income before income tax	28,898	6,263	8,058	7,593	10,197	61,009
Liabilities for insurance policies, gross, as at March 31, 2013	2,799,437	796,829	739,531	5,029,437	653,446	10,018,680
Liabilities for insurance policies, In retention as at March 31, 2013	2,415,050	639,649	134,369	1,708,616	653,446	5,551,130

** Property braches and others include mainly results from property loss insurance and comprehensive apartments insurance, whose activities comprise 76% of total premiums in these branches.
*** Other liabilities branches include mainly results from third-party insurance and professional liability whose activities comprise 80% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

b. Additional data regarding general insurance segment (Contd.)

	For the year ended December 31 2013 (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	484,636	898,958	956,121	761,274	(17,396)	3,083,593
Premiums earned by reinsurers	100,476	188,788	729,249	381,210	-	1,399,723
Premiums in retention	384,160	710,170	226,872	380,064	(17,396)	1,683,870
Changes in premium balances that have not yet been earned, retention	(20,523)	(22,802)	11,340	3,357	(63,190)	(91,818)
Premiums earned in retention	404,683	732,972	215,532	376,707	45,794	1,775,688
Profits from investments, net, and financing income	125,189	22,765	7,011	89,616	36,051	280,632
Commission income	21,796	50,961	127,653	58,932	-	259,342
Total income	551,668	806,698	350,196	525,255	81,845	2,315,662
Payments and changes in liabilities for insurance contracts, gross	457,545	721,898	712,148	963,401	22,054	2,877,046
Reinsurer's share of payments and changes in liabilities for insurance contracts	85,675	140,220	599,039	564,904	-	1,389,838
Payments and changes in liabilities for insurance contracts, retention	371,870	581,678	113,109	398,497	22,054	1,487,208
Commission, marketing expenses and other acquisition costs	81,645	194,613	208,612	131,942	465	617,277
Management and general expenses	6,960	9,782	5,076	5,027	7,360	34,205
Other expenses	-	-	-	-	967	967
Financing expenses (income), net	(5,565)	(1,012)	(409)	(3,983)	370	(10,599)
Total expenses	454,910	785,061	326,388	531,483	31,216	2,129,058
Company share of profit of investee companies recorded by the equity method	12,185	2,216	691	8,723	1,723	25,538
Profit before income taxes	108,943	23,853	24,499	2,495	52,352	212,142
Other comprehensive income, before income tax	2,318	421	129	1,659	1,837	6,364
Total comprehensive income before income tax	111,261	24,274	24,628	4,154	54,189	218,506
Liabilities for insurance policies, gross, as at December 31, 2013	2,681,469	584,017	1,001,408	5,225,856	621,790	10,114,540
Liabilities for insurance policies, In retention, as at December 31, 2013	2,290,598	468,736	159,493	1,838,108	621,790	5,378,725

** Property braches and others include mainly results from property loss insurance and comprehensive apartments insurance, whose activities comprise 78% 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 (Contd.)

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

	March 31 2014 (Unaudited)				March 31 2013 (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	-	-	957,356	957,356	-	-	934,170	934,170
Premiums earned by reinsures	-	-	34,466	34,466	-	-	34,290	34,290
Premiums earned in retention	-	-	922,890	922,890	-	-	899,880	899,880
Profits from investments, net, and financing income	38	471	856,051	856,560	282	384	801,126	801,792
Management fee income	52,356	56,983	139,379	248,718	49,503	48,882	109,114	207,499
Commission income	-	-	10,577	10,577	-	-	9,787	9,787
Total income	52,394	57,454	1,928,897	2,038,745	49,785	49,266	1,819,907	1,918,958
Payments and changes in liabilities for insurance contracts and investment contracts, gross	467	2,550	1,678,099	1,681,116	474	2,243	1,486,883	1,489,600
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	12,867	12,867	-	-	20,130	20,130
Payments and changes in liabilities for insurance contracts and investment contracts, retention	467	2,550	1,665,232	1,668,249	474	2,243	1,466,753	1,469,470
Commission, marketing expenses and other acquisition costs	18,152	23,478	130,822	172,452	16,147	22,063	120,212	158,422
Management and general expenses	18,839	15,179	76,293	110,311	19,475	13,522	69,921	102,918
Other expenses	4,030	508	5,314	9,852	5,981	952	5,314	12,247
Financing expenses (income), net	26	(1)	(909)	(884)	27	(35)	1,028	1,020
Total expenses	41,514	41,714	1,876,752	1,959,980	42,104	38,745	1,663,228	1,744,077
Company share of profit (loss) of investee companies recorded by the equity method	-	-	7,921	7,921	-	-	(5,656)	(5,656)
Profit (loss) before income taxes	10,880	15,740	60,066	86,686	7,681	10,521	151,023	169,225
Other comprehensive income (loss), before income tax	615	1,421	54,687	56,723	(133)	(330)	(16,666)	(17,129)
Total comprehensive income before income tax	11,495	17,161	114,753	143,409	7,548	10,191	134,357	152,096

Note 4 - Operating segments (Contd.)

c. Additional information regarding life assurance and long-term savings segment (Contd.)

	Year ended December 31 2013 (Audited)			
	Provident	Pension	Life-assurance	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Premiums earned, gross	-	-	3,809,905	3,809,905
Premiums earned by reinsures	-	-	133,131	133,131
Premiums earned in retention	-	-	3,676,774	3,676,774
Profits from investments, net, and financing income	2,200	2,825	3,479,118	3,484,143
Management fee income	196,684	218,859	410,020	825,563
Commission income	-	-	27,310	27,310
Total income	198,884	221,684	7,593,222	8,013,790
Payments and changes in liabilities for insurance contracts and investment contracts, gross	1,880	9,097	6,584,799	6,595,776
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	97,710	97,710
Payments and changes in liabilities for insurance contracts and investment contracts, retention	1,880	9,097	6,487,089	6,498,066
Commission, marketing expenses and other acquisition costs	66,739	91,541	465,213	623,493
Management and general expenses	77,129	57,380	301,769	436,278
Other expenses	23,255	5,759	21,255	50,269
Financing expenses (income), net	96	(55)	7,897	7,938
Total expenses	169,099	163,722	7,283,223	7,616,044
Company share of profit of investee companies recorded by the equity method	-	-	23,087	23,087
Profit before income taxes	29,785	57,962	333,086	420,833
Other comprehensive income (loss), before income tax	(573)	(953)	12,462	10,936
Total comprehensive income before income tax	29,212	57,009	345,548	431,769

Note 5 - Taxes on income

Tax rates which applies to income of companies in the Group

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	26.5%	18%	37.71%

A. Special tax arrangements for the insurance sector

Agreement with the tax authorities

On September 12, 2013, a sector-specific agreement was signed between the Israel Insurance Association and the Tax Authority, extending the validity of the previous agreement for 2012. The financial statements for 2013 and 2014 were prepared in accordance with the principles of this agreement.

B. Approved pre-rulings

1. In May 2014, the Tax Authority approved a merger of provident funds owned by Harel Insurance and Harel Gemel. The merger was approved in light of the provisions of Amendment no. 4 to the Supervision of Financial Services (Provident Funds) Law, 5765-2005, and Amendment no. 6 to the Economic Efficiency Law which stipulate that a provident fund management company may no longer manage more than one provident fund in each of the categories listed in the law. The funds were merged to enable the ownership structure of the tracks in the Merging Funds to be preserved, and no tax liability is established as a consequence.
   Pursuant to the approval of the merger, when the merged funds are sold or the management rights in the fund are changed in a manner that changes the management rights in relation to the ownership of tracks owned by Harel Insurance and/or Harel Gemel, a tax event will be incurred.

2. On March 13, 2014, the Tax Authority gave its approval for the merger of Clal Mutual Fund Management Ltd. (“the Transferor”) with and into Harel-Pia Mutual Funds Ltd. (“the Recipient”), for no consideration, thus dissolving the Transferor without liquidation, and in accordance with the provisions of Section 103B of the Income Tax Ordinance. The merger was approved, effective retrospectively from March 31, 2013. As part of the Tax Authority's approval, provisions under Section 103 of the Income Tax Ordinance were prescribed in connection with the manner of performing the merger.

Note 6 - 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 company performed the actions as based on schedule. optimization project is to be completed by June 30, 2016.

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.

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.

Note 6 - Contingent Liabilities and Commitments (Contd.)

A. Contingent Liabilities (contd.)

As part of the audits conducted by the Commissioner, during the report 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 20, 21, 24, 26, 27 and 28 below, it is not possible at this early stage to estimate the chances of the applications to be approved as a class action and therefore no provisions have been included in the financial statements for these claims.

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

Note 6 - Contingent Liabilities and Commitments (Contd.)

A. Contingent Liabilities (contd.)

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.

3. In January 2008 a legal action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance and against four additional insurance companies together with application for its certification as a class action. The subject of the action is a claim that the respondents unlawfully collected a "sub-annual factor fee" (a fee that insurance companies are allowed to collect when the amount of the annual premium is actually paid in installments). The plaintiffs claim damages in the amount of NIS 1,684.54 for each insurance year. The plaintiffs estimate that the total claim for the entire class that they wish to represent against all defendants is about NSI 2.3 billion, of which about NIS 307 million is against Harel Insurance.On February 1, 2010, the court approved a request for a procedural arrangement between the parties, according to which the plaintiff will strike out the claim that Harel Insurance collected a sub-annual factor fee exceeding the rate permitted in policies that were issued before 1992 as well. As instructed by the court, the plaintiff submitted an amended claim and request for its certification as a class action. On December 29, 2013 the Insurance Commissioner filed a position that supports the position of the defendants that there is no reason to charge sub-annual policy factor, on the savings component of life insurance combined savings and other risk policies, including nursing, work disability and accidental disability.

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. The parties filed an amended settlement agreement. On September 1, 2013 the court ordered to publish in the press regarding the compromise settlement submission and the appointment of CPA Daniel Bar-On to supervise the compromise Settlement.

Note 6 - Contingent Liabilities and Commitments (Contd.)

A. Contingent Liabilities (contd.)

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 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.

8. 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.

Note 6 - Contingent Liabilities and Commitments (contd.)

A. Contingent Liabilities (contd.)

9. 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.

10. 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.

11. 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.

12. 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. On December 29, 2013 filed to the Court a request to approve the settlement agreement between the parties.

13. 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. On October 16, 2013 Application submitted to court to approve the compromise settlement. Court instructed the parties to file an amended in the compromise settlement and define the Group. On November 24, 2013 Application submitted to court to approve the compromise settlement.

Note 6 - Contingent Liabilities and Commitments (contd.)

A. Contingent Liabilities (contd.)

14. 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.

15. 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 million.

16. 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 189 million.

17. 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.

Note 6 - Contingent Liabilities and Commitments (contd.)

A. Contingent Liabilities (contd.)

18. 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 807 million. On November 10, 2013, the court approved a procedural arrangement according to which another plaintiff who filed an application for certification of a class action against the subsidiary Harel on a similar matter will become an additional plaintiff to this application for certification and the action filed by the plaintiff will be struck out.

19. In July 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 Health 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.

20. In October 2013, an action was filed in the Lod District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and three other insurance companies ("the Defendants"). The subject of the action is an allegation that where enrolment in the insurance takes place at the beginning of the month in which the insured purchased the policy, the Defendants ostensibly update the premiums for both index linkage and a change of age in life and health insurance policies which have a variable premium, on a date which precedes the date scheduled for updating, and they link the premium to an index preceding the index that should be applied. The group that the plaintiffs wish to represent is anyone who was enrolled by the Defendants or any one of them in an insurance policy in which the premium was updated before the date on which it should have been updated and/or in which a base index was determined which is lower than the index that should have been used (generally, life and health insurance, including work disability, illness, etc.). The overall loss claimed for all members of the group against all the Defendants amounts to NIS 399 million.

21. In October 2013, an action was filed in the Lod District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is an allegation that Harel Insurance ostensibly refrains from paying compensation to insureds who performed surgery that was fully or partially paid for by their healthcare providers, at a rate of half the amount that it saved from the full cost of the surgery, due to the participation of the health funds. The group which the plaintiff wishes to represent is all persons who have Harel Insurance healthcare insurance policies which contain a provision to the effect that if surgery is performed at a private hospital and all or part of the costs of the surgery are paid for by the health fund or the Supplementary Health Services, the insured is entitled to compensation equal to 50% of the amount saved on that surgery; however such insureds underwent surgery in which the health funds (including the Supplementary Health Services) shared the cost, but they did not receive compensation from Harel Insurance for the amount that Harel Insurance allegedly saved in connection with the surgery. The overall loss claimed for all members of the group amounts to NIS 14 million.

Note 6 - Contingent Liabilities and Commitments (contd.)

A. Contingent Liabilities (contd.)

22. In October 2013, an action was filed in the Lod District Court, together with an application for its recognition as a class action, against the subsidiary Harel Insurance and against Maccabi Israel. The subject of the action is an allegation that Harel Insurance does not cover aesthetic disability in its Maccabi group personal accident policy (“the Policy”), contrary to the provisions of the Sports (Insurance) Regulations, 5755-1994. The Group that the plaintiff wishes to represent is any person insured by the policy who sustained aesthetic disability that was not covered by Harel Insurance. The overall loss claimed for all members of the group amounts to NIS 150 million.

23. In March 2014, an action was filed in the Tel Aviv Regional Labor Court together with an application for its recognition as a class action against Harel Pension Fund Management Ltd. (“Harel Pensions”). The subject of the action is the allegation that the articles of the pension fund managed by Harel Pension stipulate that in order to exercise rights to receive a survivors allowance, a common-law-spouse whose partner has died must conduct a legal proceeding to obtain confirmation proving his/her status in such a domestic arrangement, and this ostensibly contrary to public policy and the statutory provisions. The plaintiff has not estimated the amount of the claim for all members of the group it seeks to represent.

<u>Actions which were filed after the Reporting Period</u>

24. In April 2014, a claim was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance. The subject of the action is the allegation that Dikla ostensibly pays insurance benefits to insureds in the group health insurance policy “Mushlam for Pensioners” run for pensioners of Clalit Health Services and their families (“the Policy”) based on the index known at the beginning of the month, and not according to the index known on the date of payment, in contravention of the provisions of the law (“primary cause”), and that Dikla has allegedly increased the premiums for insureds in the policy without any foundation and ostensibly in contravention of the provisions of the Policy and the law (“secondary cause”). The group that the plaintiff wishes to represent is divided into two sub-groups: regarding the primary cause - any person who, during the seven years preceding this claim or after the claim was filed, was entitled to receive from Dikla compensation and/or insurance benefits that were not linked to the CPI on the date of payment; and regarding the secondary cause - any person who paid Dikla premiums in the seven years preceding this claim or after it was filed, and the premiums were increased in the manner described in the claim, or in a similar manner, not in accordance with the policy conditions and notifications of revised premiums. The total loss claimed for all members of the group amounts to NIS 21.5 million (NIS 19 million for the primary cause and NIS 2.5 million for the secondary cause).

25. In April 2014, an action was filed in the Central District Court - Lod, together with an application for its certification as a class action, against the subsidiary Harel Insurance. This action was filed by way of an amended motion to certify as a class action a pending claim that was filed against 4 other insurance companies for the same reasons (“the Defendants”). The subject of the action is the allegation that the compulsory motor insurance that the Defendants issued to the Plaintiffs specifies the commencement of the insurance as the date noted in the insurance certificate with a reservation that the policy will not take effect before the actual date of payment of the certificate. The Plaintiffs argue that where the insured is late in paying the compulsory insurance certificate, after the given date on the certificate, he is not credited for the days from the date on the certificate up to the actual date of payment. The Group that the Plaintiffs wish to represent includes all those insured by the Defendants who purchased compulsory motor insurance on or after January 31, 2006 and paid the amount specified on the certificate after this date as the commencement date of the insurance. The overall loss claimed for all members of the Group that the Plaintiffs wish to represent against Harel Insurance amounts to NIS 8.5 million, and against all the Defendants is NIS 34 million.

Note 6 - Contingent Liabilities and Commitments (contd.)

A. Contingent Liabilities (contd.)

26. In April 2014, 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 Insurance pays the holders of Hiyunit profit-sharing policies for work disability and long-term care insurance ("the Policy") monthly compensation (which consists of monthly compensation and the outstanding bonus), which is ostensibly calculated in contravention of the Policy provisions, and that Harel Insurance, allegedly, does not pay the policyholders the bonus they have accrued up to the date of payment of the first monthly compensation according to the Policy. The Group that the Plaintiff wishes to represent includes all policyholders or those that were insured in a profit-sharing work disability policy which includes a formula for computing the monthly yield rate which is the same as the formula prescribed in the Policy ("the Formula for Computing the Monthly Yield"), and contains certain additional conditions concerning the manner of computing the monthly bonus, who received monthly compensation as part of the Policy, and insureds in profit-sharing work disability which includes the formula for computing the monthly yield, and where Harel Insurance failed to compute the monthly yield on the Policy in accordance with this formula. The total loss claimed for all members of the Group that the Plaintiff wishes to represent amounts to NIS 381 million.

27. In April 2014, 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 and against two other insurance companies. The subject of the action is the allegation that where Harel Insurance sells a service agreement that includes a replacement vehicle together with motor property insurance that includes cover for young drivers, the young drivers are unable to benefit from the service agreement as the service provider does not allow young drivers to drive replacement vehicles. The Plaintiffs argue that the policy does not contain a satisfactory exclusion which disallows young drivers from driving replacement vehicles. According to the Plaintiffs, the Defendants thus mislead their policyholders, acting in contravention of the law with respect to the insurer's obligation to highlight the limitations that apply to the insurance cover. The Group that the Plaintiffs wish to represent includes all those insured with the Defendants who entered into insurance transactions (comprehensive or third-party insurance) that include cover for young drivers and a replacement vehicle and who were not provided with the cover of the replacement vehicle (irrespective of whether or not the cover was exercised), in the 7 years preceding the filing of the action and until a final verdict is given. The Plaintiffs estimate that the total loss claimed for all members of the Group that they wish to represent amounts to NIS 17.3 million against Harel Insurance, and NIS 28.4 million against all the Defendants.

28. In May 2014, an action was filed in the Central District Court - Lod, 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 Insurance pays insurance benefits to policyholders which include coverage for accidental disability, in respect of insured limb disability that is not mentioned explicitly in the policy, according to a calculation mechanism which are in contravention of the law. The Group that the Plaintiffs wish to represent includes all those insured who purchased coverage for accidental disability from the Defendants and Eliahu Insurance Company Ltd. that was purchased by Harel Insurance who received insurance proceeds in the three years preceding the filing of the claim or which receive insurance proceeds until the date of judgment, which calculated not equal the multiplication of partial disability and permanently full insurance amount. The Plaintiffs estimate that the total loss claimed for all members of the Group that they wish to represent amounts to NIS 50 million against Harel Insurance.

Note 6 - Contingent Liabilities and Commitments (contd.)

Table summarizes

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

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		
Claim amount is not specified		
Pending requests for approval of class actions:		
amount pertaining to the Company and/ or subsidiaries	19	2,707,630
Prosecution refers to several companies and was allocated a specific amount of the company and/ or subsidiaries	5	2,787,890
Claim amount is not specified	3	
Other significant claims	1	18,782

The table does not include the claim and request to certify as a derivative claim, as described in Section B(3) below (other contingent liabilities filed after the reporting period), and was not specified in a specific amount of a claim against the Company.

The total provision amount of claims filed against the Company and / or consolidated companies, as described above amounts to about to NIS 30 million (at December 31,2013 an amount of NIS 30 million).

B. Other contingent liabilities

1. In June 2004, a claim was filed with the Tel Aviv District Court and an application to approve it as a derivative claim against the subsidiary Yedidim Holdings Management (1994) Ltd. (hereinafter: "Yedidim"), the former Chairman and CEO of Yedidim, and against an additional subsidiary, Harel Pension Funds Management Services (1987) Ltd., which is the controlling shareholder in Yedidim by the minority shareholders Leatid Pension Fund Management Ltd., a subsidiary of Yedidim (hereinafter: "Leatid") for an amount of NIS 15,605 thousand. The subject of the claim is compensation to Atidit Pension Fund Ltd. (hereinafter: "Atidit"), a pension fund managed by Leatid, for the use of Atidit's various resources, such as: the use of the operating infrastructure and reputation, the use of Adidit property, for taking a continuing pension fund and the loss of profits. 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. Mediation process, which took place after the decision was unsuccessful and the parties are to submit their summations.

   Yedidim's management is of the opinion, based on the opinion of its legal advisors, that the chances of the claim being rejected outright are greater than the chances of the action being accepted. 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.

Note 6 - Contingent Liabilities and Commitments (contd.)

3. In February 2014, a claim was filed in the Tel Aviv District Court (Economic Department) together with an application for its certification as a derivative claim against the Company, against four other insurance companies and against Clalit Health Services ("Clalit"). The application to recognize the claim as a derivative claim is on the grounds that Clalit allegedly refrained from exhausting its statutory right of participation towards the insurance companies in respect of expenses it incurred as part of the supplementary health services plan (SHS) in relation to those instances where, ostensibly, the liabilities of SHS coincide with those in the healthcare insurance policies sold by the insurance companies. The claimants allege that most of the overlap is in respect of performing surgery (choice of surgeon and any related costs) and for medical consultations. It is further alleged that the insurance companies allegedly encourage their policyholders to effect the SHS and refrain from exercising the private insurance policy, by offering monetary compensation in the policy, thus ostensibly enriching the insurance companies unlawfully. The application was filed after Clalit made it clear to the claimants, subsequent to their request, that it refuses to file such an action against the insurance companies after explaining to the claimants that the action is unfounded both with respect to the provisions of the law and from other perspectives, and that as long as the present provisions of law remain unchanged, there is no place for such an action. The claimant estimates the amount of the claim against all the insurance companies being sued at NIS 1,000,000,000.) In March 2014, a claim was filed in the Tel Aviv District Court (Economic Department) together with an application for its certification as a derivative claim against the subsidiary Harel Insurance, against four other insurance companies and against Maccabi Healthcare Services ("Maccabi") on grounds that are the same as those in the aforementioned action filed against Clalit, where the Plaintiff estimates the amount of the claim against all the insurance companies being sued in this claim at NIS 800 million. The hearing on both actions was consolidated.
The management of Harel Insurance believes that at this early stage is it impossible to assess the chances of the application to certify the action as a derivative claim, and therefore no provision was made in the financial statements.

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 2,530,987,200 to NIS 189,824,250. 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 30,000, the remuneration paid to the class action plaintiffs shall be NIS 15,000 and the reimbursement of legal expenses shall be NIS 15,000. The plaintiffs have appealed to the Supreme Court claiming that the amount awarded for legal fees, expenses and remuneration was exorbitant.

2. 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 at 2008 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. On January 1, 2014 the Tel Aviv District Court denied the request for class action. The court ruled that Harel Provident announced the plaintiff about raising management fees as required by law, including regarding the form and content of the message as stated.

Note 6 - Contingent liabilities and commitments (contd.)

C. Claims which have been completed (contd.)

3. 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. On January 19, 2014, the Central Region District Court issued a validation of the compromise settlement as a judgment, terminating the action. Pursuant to the settlement, Harel Insurance undertook to apply a review mechanism to prevent over charge in the future. Harel Insurance will conduct a review of each insured, at the end or close to the end of the policy period, of whether credit fees were collected at a rate above the permitted rate or at the rate specified in the policy, and if any surcharge is found, the amount will be returned to the insured. Regarding policies that were sold in the past, Harel Insurance undertook to give insureds two benefits. One - personal lines policyholders (as defined in the settlement agreement) will receive a 48% discount on the credit charges for motor property insurance and/or homeowners' insurance and/or apartment contents insurance and/or personal accident insurance drawn up with Harel Insurance and for which the policy period begins during the period of the benefit (from Julay 1, 2014 to June 31, 2015). Second - anyone who is included as part of those entitled in other insurance (as defined in the settlement agreement) will receive a 10% discount on the credit charges collected on another insurance policy drawn up with Harel Insurance, where the policy period begins during the aforesaid period of the benefit. Additionally, Harel Insurance will pay the plaintiff and his attorney compensation and lawyers' fees of an insignificant amount.

4. 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. On January 19, 2014, the Tel Aviv District Court certified the plaintiff's application to abandon the action and reject the personal claim. As part of the application for abandonment, Harel undertook to publish a notice in two daily newspapers, enabling those insureds whose claim had been dismissed exclusively on the grounds of an absence of cooperation by the insured, to resubmit their case to Harel.

5. In January 2013, an action was filed in the Central District Court together with an application for its certification as a class action against the subsidiary Harel Insurance and the Israel Pool for Motor Insurance ("the Pool") and against 13 other insurance companies. The subject of the action is the allegation that the compulsory motor insurance that the Pool issued to the Plaintiff specifies the commencement of the insurance as the date noted in the insurance certificate with a reservation that the policy will not take effect before the actual date of payment of the certificate. According to the Plaintiff, when a policyholder pays the full premium listed on the insurance certificate after the specified date has passed, the Pool also collects the premium for the period from the date specified in the certificate and up to the actual date of payment in the bank, but it does not provide insurance cover for this period or refund the relative part that was paid for the period in which there was no insurance cover. On March 25, 2014, the court instructed that the application for certification of the action as a class action against Harel Insurance should be struck out due to the absence of cause for a personal claim by the Plaintiff against Harel Insurance.

Note 7 - Management and capital requirements

1. 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:

	March 31 2014			December 31 2013		
	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)	4,869,607	144,635	447,739	4,772,739	153,657	437,806
Amount required according to capital regulations and the Supervisor's instructions before the new instructions						
Basic primary capital	3,799,654	468,220	522,123	3,616,856	481,625	489,615
Complex primary capital	50,000	-	-	-	-	-
	3,849,654	468,220	522,123	3,616,856	481,625	489,615
Secondary capital						
Subordinated secondary capital	523,246	-	-	597,948	-	-
Complex secondary capital (b)	934,736	-	99,847	938,820	-	99,840
	1,457,982	-	99,847	1,536,768	-	99,840
Complex thirdary capital	668,005	-	-	566,685	-	-
	2,125,987	-	99,847	2,103,453	-	99,840
Existing amount computed according to capital regulations	5,975,641	468,220	621,970	5,720,309	481,625	589,455
Surplus	1,106,034	323,585	174,231	947,570	327,968	151,649
Post Balance Sheet events						
Broadening of Series F,G,H used as 3RD Layer Capital	-	-	-	107,065	-	-
Obsolescence of tier-2 capital	(24,918)	-	-	(71,325)	-	-
Dividends distribution	(200,000)	-	-	(85,000)	(30,000)	-
Total Post Balance Sheet events	(224,918)	-	-	(49,260)	(30,000)	-
Surplus including Post Balance Sheet events	881,116	323,585	174,231	898,310	297,968	151,649

Note 7 - Management and capital requirements (contd.)

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

	March 31 2014			December 31 2013		
	Harel Insurance	EMI	Dikla	Harel Insurance	EMI	Dikla
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Tier-1 capital required for general [non-life] insurance	**625,883**	**144,635**	**89,655**	626,890	150,923	90,273
Long-term care insurance activities	**80,046**	**-**	**169,036**	74,776	-	165,010
Capital requirements for guaranteed-yield policies	**47,278**	**-**	**-**	47,147	-	-
Investment and other assets (c)	**1,090,837**	**-**	**36,512**	1,054,611	-	34,756
Catastrophe risks in non-life insurance (d)	**74,845**	**-**	**-**	77,617	-	-
Operating risks	**307,940**	**-**	**45,950**	301,555	-	45,666
Deferred acquisition costs (DAC) in life assurance and health insurance and acquisition expenses	**1,113,429**	**-**	**100,991**	1,085,066	-	97,267
Investments in consolidated companies and management rights of provident	**1,166,757**	**-**	**-**	1,143,154	-	-
extraordinary life assurance risks (e)	**316,481**	**-**	**3,554**	309,550	-	2,812
Unrecognized assets as defined in the Capital Regulations (f)	**46,111**	**-**	**2,041**	52,373	2,734	2,022
	4,869,607	**144,635**	**447,739**	4,772,739	153,657	437,806
Amount of capital write-down/reduction for the original difference (this write-down is not recognized for the purpose of a dividend distribution) *	**208,699**	**-**	**-**	210,323	-	-

* 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 on September 15, 2013 Harel Insurance received an update to the aforesaid approval, whereby for the purpose of the distribution of dividends, the amount of the reserve for tax accrued by Harel Insurance on account of the acquisition of the provident fund activity. This reduction, which is included in the calculation of the capital required of Harel Insurance, amounted to NIS 138 million at March 31, 2014. 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.

b. On the issuance of bonds, the consideration of which serves as hybrid capital for the Company, see Note 8.

c. The capital requirements of assets for a total value of NIS 884 million in Harel Insurance and NIS 45 million in Dikla, which were rated in an internal rating was determined in accordance with the capital requirement which is consistent with their defined rating level, based on the internal rating plus 50% of the difference between the capital requirement for the aforesaid rating and the capital requirement for unrated assets.
The capital requirements for these assets aggregated a total amount of NIS 51 million in Harel Insurance and an amount of NIS 3 million in Dikla. Regarding the capital requirements in connections with the internal rating, see Note 7 to the financial statements.

d. 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 84 million to NIS 14 million. Due to this reduction, the equity that Harel Insurance is required to hold was reduced by NIS 70 million.

Note 7 - Management and capital requirements (contd.)

e. 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.

f. Including an unrecognized asset of a negligible amount for a passive deviation in the investment regulations.

2. 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.

3. 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.

4. 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.

Note 7 - Management and capital requirements (contd.)

5. 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.

6. 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 53 million at March 31, 2014.

7. On February 13, 2013, the Commissioner's approval was received regarding the equity requirements for Harel Insurance Company Ltd. for the acquisition of the life insurance segment from Eliahu Insurance Company Ltd. (see Note 5 to the financial statements 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 increase in capital requirements in Harel Insurance as of the date of purchase due to the transaction is NIS 260 million. This requirement will decrease in the future, and accordingly reduce the acquisition cost which is amortized In accordance with future profitability inherent in the acquired activity.

8. On November 13, 2011, the ISA published a document "Principles of the model for the supervising index-linked certificates" that examines the supervisory model put forward by the ISA with respect to the method in which index-linked certificate companies manage their risks and the implications of the various risks for the allocation of capital required of the company. According to the document, in addition to the impact of the different risks present in the Company's operations on the allocation of the capital it is required to hold, investment rules 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:

   a. A requirement to allocate equity in proportion to the actual risk level and the volume of the managed asset starting at NIS 30 million.

   b. The market risks will be measured and estimated using the VaR (Value at Risk) model and extreme scenarios.

   In addition to the allocation of the equity, a series of principles were determined with the purpose of encouraging the index-linked certificate managers to apply a conservative investment policy, which will be written into the legislation and directives of the ISA. Among others, these principles include regulation of the investment rules for assets used as coverage for index-linked certificates and standards for reporting to the ISA and the trustee, reinforcing the status of the safe keepers, and specifically reinforcing the status of the trustee, and imposing stronger obligations for approvals of the board of directors and investment committee, similar to the supervisory regime that applies to the 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 75 million at December 31, 2013 and to the sum of NIS 79 million at March 31, 2014.

Note 7 - Management and capital requirements (contd.)

At March 31, 2014, Harel Sal is in compliance with the capital requirements derived from the model.

During the Reporting Period, Harel Sal issued Harel Financial Products capital notes in the total amount of NIS 3 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".

9. Subsidiaries which manage mutual funds and investment portfolios are obligated to hold minimum equity in accordance with the directives of the Israel Securities Authority. The companies work continuously to comply with this requirement. At March 31, 2014, the subsidiaries are in compliance with these requirements.

10. Details of the progress made to implement Solvency II

The proposed Solvency II Directive ("the Directive") constitutes a fundamental, comprehensive change in the regulations pertaining to guaranteeing the adequacy of the capital of insurance companies. The purpose of the directive is to protect the money of policyholders, to enhance the integration between markets and to increase competition in this sector.

The circular on the deployment for Solvency II, which was published in July 2008, is designed to ensure that the insurance companies in Israel make the necessary preparations to implement the Directive. In accordance with the directive's requirement, a steering committee has been established under the leadership of a risk manager responsible for preparing the Company for the implementation of Solvency II. Each quarter, the steering committee and the Board of Directors' committee monitor the Company's preparations for the implementation of the directive.

On September 9, 2012, the Commissioner issued a letter regarding the Israeli solvency regime. In view of concerns implementation of the directive in Europe may be postponed, the Commissioner announced that he will continue to formulate a solvency regime for Israeli insurance companies, which will not adhere to the progress of the process in Europe, but will be based on the principles of the directives with appropriate adjustments for Israel.

To formulate the quantitative requirements according to the standard model for calculating the equity requirements in the first pillar of the Directive, quantitative impact studies (QIS) have been conducted in recent years to help consolidate the structure and calibration of the standard model, and which enable the insurance companies themselves to make the necessary organizational, operational and automation preparations for the entering into force of the Directive.

Commencing in 2009, four QISs have been submitted to the Commissioner, which are based on data for 2008-2012. The studies are a preparatory stage for implementation of the first pillar of Solvency II, with respect to both the technical (data, processes and automation) and the equity position. In addition to the quantitative studies, qualitative studies were submitted and a gap analysis, internal audit and external audit of the work processes were conducted.

The results of the quantitative studies and quality questionnaires were presented to the boards of directors of the Company and the Group's insurance companies prior to submittal of the report to the Commissioner. Concurrent with the submittals, during the course of 2011, the Company performed a gap analysis relating to the processes for calculating the capital requirements that includes, inter alia, automation and data optimization requirements, manpower requirements, required controls and difficulties encountered in the work processes. Pursuant to Ministry of Finance instructions, the results of the study were reported to the boards of directors including, inter alia, information on automation and data optimization requirements, manpower requirements, required controls and difficulties encountered in the work processes. Pursuant to Ministry of Finance instructions, the results of the study were reported to the boards of directors.

Additionally, pursuant to Ministry of Finance instructions, an internal audit was performed relating to the calculation process for the quantitative evaluation report and relevant controls. The audit also addressed the gap analysis.

Note 7 - Management and capital requirements (contd.)

On December 1, 2013, the Commissioner published an instruction to conduct an Insurance Quantitative Impact Study (IQIS) of 2012 data, which the Company submitted to the Commissioner in February 2014. A requirement for a special report prepared by the external auditor was added to the study.
At this stage, it is a supervisory evaluation survey and there is uncertainty about the final principles to calculate the economic balance sheet and capital requirements.
Calculation of the risk-based capital requirements requires a broad range of data to be collected which are used for a variety of purposes and managed in different information systems.
During the second half of 2011, a detailed mapping of the relevant data, their source systems, quality, their inter-relationship and suitability for performing the calculations, was performed. Furthermore, the Company, as part of the Group, entered into an agreement for use of a system that streamlines the work process for calculating the capital requirements based on IQIS.

In addition to the preparations relating to the first pillar, the Company continues to make the necessary preparations for the second pillar of the Directive, which focuses on upgrading the risk management system, controls and corporate governance.

11. In December 2011 the Commissioner published a draft 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 will be added to equity required in order to distribute dividends, because of the balance of the original difference imputed to the managing companies and the trust funds ("the Addition to the Required Equity") (see also Note 2).

    To obtain the approval, the insurer must submit an annual profit forecast 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 equity management in the insurance companies, against the backdrop of fluctuations in the financial markets. Pursuant to the letter, insurance companies must report to the Commissioner on the state of their equity situation each month.

12. At meetings held on March 24, 2010 and June 15, 2010, the Board of Directors of Harel Insurance adopted a policy for management of Harel Insurance's equity, based on the principles prescribed in the Commissioner's draft circular from December 28, 2009, concerning a plan of action for management of an insurer's equity. The equity policy of Harel Insurance comprises a range of provisions that define the method by which it manages its equity and capital surpluses at all times. The various pillars arise from the regulatory environment of Harel Insurance which determines that Harel Insurance will be able to distribute a dividend only after significant equity surpluses have been accumulated and from the aforementioned decisions made by Harel Insurance and Harel Investments whereby Harel Insurance will provide a regulatory equity surplus of at least NIS 150 million. Accordingly, it was decided that, at all times, Harel Insurance will strive to comply with the volume of equity recognized under the Capital Regulations, by an amount that is NIS 150 million higher than the capital requirement applicable to it from time to time, pursuant to the regulations. This means that below this level of equity surplus, Harel Insurance or the Company will take active measures to maintain the said minimum surplus. Furthermore, it was decided that reports would be submitted to the Board of Directors from time to time regarding compliance with the capital requirements and regarding developments that may affect Harel Insurance's compliance with the applicable capital requirements. The CFO was charged with for managing, monitoring, and reporting of capital requirements.

Note 7 - Management and capital requirements (contd.)

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; (iii) Dividend distribution will be at the green channel accordance with the Supervisor instructions.

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

14. On September 12, 2013, the board of directors of EMI adopted an equity management policy. Accordingly, it was decided that, at all times, EMI will strive to comply with the volume of equity recognized under the Capital Regulations, by an amount that is NIS 30 million higher than the capital requirement applicable to it from time to time, pursuant to the regulations. This means that if the equity surplus falls below this level, EMI or Harel Insurance or the Company will take active measures to maintain the said minimum surplus. This policy was prescribed taking into account the limited nature of EMI’s operations, as well as various scenarios relating to investment loss, nature of the insurance risk and an increase in the rate of surrenders and claims.

15. On March 20, 2013, the Board of Directors of EMI resolved to distribute a dividend of NIS 30 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 EMI at December 31, 2013, presenting the distributable surplus of EMI at December 31, 2013, and examining the capital surplus and capital requirements of EMI as consistent with its equity management policy. The dividend was paid on March 23, 2014.

16. On March 30, 2014, the Board of Directors of Harel Insurance resolved to distribute a cash dividend in the amount of NIS 85 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 December 31, 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. Concerning the raising of tier-3 capital by Harel Insurance during the Reporting Period, see Note 8.

18. To enable Turk Nippon to comply with the capital regulations as an insurer operating in Turkey, on April 27, 2014 the Company’s Board of Directors approved an injection of capital of TRY 15 million (about NIS 24 million) into Turk Nippon. On May 12, 2014, the Company gave TRY 10 million (about NIS 16 million) of this amount to Turk Nippon.

19. In March 2014, Harel Insurance Company Ltd. issued a subordinated capital note to the Company in the amount of NIS 50 million. Harel Insurance Company Ltd. will use this capital note as hybrid tier-1 capital. The subordinated capital note was issued after obtaining the approval of the Commissioner and the Board of Directors.

Note 7 - Management and capital requirements (contd.)

The capital note is CPI-linked and interest will be paid on it at a rate of 4.2%. This rate of interest reflects twice the existing risk margin on the marketable promissory notes that were issued by Harel Financing and Share Issues, taking into account the conditions of subordination of the capital note (as detailed below), the maturity periods, etc.

The capital note that was issued: (a) is subordinate to all the insurer's other liabilities, excluding the ordinary shareholders; (b) the maturity date is 49 years; (c) includes a loss-absorption mechanism in the event of delaying circumstances; (d) interest payments will be cancelled or will be converted to shares and will not be accrued when certain circumstances detailed below, arise; (e) payment of the principal will be postponed, and in the instances listed below, the principal will be written off or converted to ordinary shares; (f) early redemption will be possible only after ten years, and subject to prior approval from the Commissioner; (g) does not include an incentive for early redemption.

In accordance with the capital note, when the following circumstances arise, Harel Insurance Company has the right to convert payment of the interest into shares and to postpone payment of the principal without this affecting Harel Insurance's right to other payments of higher priority. Interest that is not paid will be converted to shares and will not be added to the outstanding amount of the loan.

Causes for postponement of the principal and converting payment of the interest into shares, in accordance with a conversion mechanism defined in the capital note: (a) according to the last financial statements published by Harel Insurance before the date for payment of the interest, Harel Insurance has no distributable profits, according to the meaning of this term in the Companies Law; (b) according to the last financial statements published before the date for payment, the recognized equity of Harel Insurance is less than the capital it is required to hold under the Capital Regulations, plus 3% or as defined by the Board of Directors of Harel Insurance from time to time; (c) The Board of Directors of Harel Insurance issues an instruction not to pay interest or to postpone payment of the principal, if it believes that there is real and immediate concern as to Harel Insurance's ability to comply with the minimum equity it is required to hold under the Capital Regulations, or to repay liabilities that take precedence over those of this capital note in a timely manner, provided that the Commissioner has given his approval to this effect in advance; (d) the Commissioner orders that the interest not be paid or that payment of the principal should be postponed, if he believes that there is a significant infringement of the issuer's recognized capital or there is real and immediate concern that the issuer will not be able to comply with the minimum equity required of it under the Capital Regulations.

Any principal that is postponed will not accrue interest in arrears of any kind, and it will be paid when the delaying circumstances are no longer present, as decided by the insurer's board of directors and with the prior approval of the Commissioner.

The capital note principal will be written off or converted to ordinary shares of the issuer based on a conversion mechanism specified in the capital note, in the event of one of the following: (a) according to the one before last published financial statements, the issuer's recognized equity is less than the minimum capital it is required to hold according to the Capital Regulations, plus NIS 150 million or as determined from time to time by the Board of Directors of Harel Insurance, and Harel Insurance has not supplemented the equity at the publication date of the last financial statements. (b) According to the last published financial statements, the recognized equity of Harel Insurance is less than 80% of the minimum capital it is required to hold under the Capital Regulations, and the insurer has not supplemented the equity at the publication date of the statements. (c) In an opinion or study attached to the last financial statements published prior to the date of payment, the insurer's external auditors draw attention to notes that raise serious doubts as to the insurer's ability to continue as a going concern.

Note 8 - Financial liabilities

A. Details of financial liabilities

	March 31 (Unaudited)		December 31 (Audited)	March 31 (Unaudited)		December 31 (Audited)
	Book Value			Fair Value		
	2014	2013	2013	2014	2013	2013
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Financial liabilities, at amortized cost						
Loans from banks (1)	**371,020**	330,325	375,191	**371,020**	330,325	375,191
Loans from non-bank entities (1)	**98,627**	101,817	102,677	**100,832**	101,817	103,953
Loans from Interested parties	**920**	-	911	**920**	-	911
Short term credits from banks and others	**26,810**	52,148	26,984	**26,810**	52,148	26,984
Deferred notes (2)	**2,385,583**	2,159,824	2,319,410	**2,706,543**	2,384,045	2,569,630
	2,882,960	2,644,114	2,825,173	**3,206,125**	2,868,335	3,076,669
Financial liabilities at fair value, through profit and loss						
Loans from banks (3)	**5,904**	50,184	90,121	**5,904**	50,184	90,121
Derivatives	**263,233**	208,106	289,966	**263,233**	208,106	289,966
Short sales	**14,060**	62,567	26,694	**14,060**	62,567	26,694
	283,197	320,857	406,781	**283,197**	320,857	406,781
Total financial liabilities	**3,166,157**	2,964,971	3,231,954	**3,489,322**	3,189,192	3,483,450
Deferred notes, which are second tier capital	**2,225,834**	1,997,797	2,203,293			

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

(2) Subordinated promissory notes were revalued to fair value based on the price on the stock exchange at March 31, 2014 and March 31, 2013: The annual linked average interest rates used to determine the fair value of the promissory notes which are not marketable is 1.35% and 2.27% at March 31, 2014 and March 31, 2013, respectively.

(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. As 31 March 2014 there was no exposure for this activity, but it existed both during the reporting period and after the Reporting Period.

Note 8 - Financial liabilities (contd.)

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

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

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

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

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

	March 31 2014 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks	-	5,904	5,904
Derivatives	27,845	235,388	263,233
Short sales	14,060	-	14,060
Total financial liabilities stated at fair vale through profit or loss	41,905	241,292	283,197

	March 31 2013 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks	-	50,184	50,184
Derivatives	23,788	184,319	208,107
Short sales	62,566	-	62,566
Total financial liabilities stated at fair vale through profit or loss	86,354	234,503	320,857

	December 31 2013 (Audited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks	-	90,121	90,121
Derivatives	42,739	247,227	289,966
Short sales	26,694	-	26,694
Total financial liabilities stated at fair vale through profit or loss	69,433	337,348	406,781

Note 8 - Financial liabilities (contd.)

C. Additional Information

1. Private placement - expansion of Series 6-8 bonds

   On January 29, 2014, the Board of Directors of Harel Share Issues entered into agreement with classified investors ("the Recipients") on a private placement of bonds, as follows: (a) 25,000,000 par value bonds (Series 6) of Harel Share Issues, registered in name, NIS 1 par value each, at a price of NIS 113.5 for every NIS 100 par value, and for total consideration of NIS 28,375,000, by way of an expansion of Series 6 bonds in circulation; (b) NIS 15,000,000 bonds (Series 7) of Harel Share Issues, registered in name, NIS 1 par value, each at a price of NIS 113 for every NIS 100 par value, and for total consideration of NIS 16,950,000, by way of an expansion of Series 7 bonds in circulation; (c) NIS 60,000,000 bonds (Series 8) of Harel Share Issues, registered in name, NIS 1 par value, each at a price of NIS 102.9 for every NIS 100 par value, and for total consideration of NIS 61,740,000, by way of an expansion of Series 8 bonds in circulation.

   The bonds will be allotted to the recipients by way of an expansion of series that were first issued according to the shelf prospectus of Harel Share Issues dated February 28, 2013, and amended on June 18, 2013. And by virtue of the Deed of Trust between Harel Share Issues and Gafni Trusts Ltd. in connection with the Series 6-8 bonds, dated February 27, 2012, and amended on June 18, 2013. Issuance of the bonds was made conditional on obtaining the following approvals: (1) approval from the TASE to register the additional bonds for trading; (2) approval of the Superintendent of the Capital Market, Insurance and Savings in the Ministry of Finance to recognize the proceeds of the additional bonds as hybrid tier-3 capital held by Harel Insurance; (3) approval from Standard & Poor's Maalot for the private placement. At the publication date of the report, all the aforementioned approvals had been obtained and the bonds were registered for trading. On February 2, 2013, Maalot published an -ilAA rating for these bonds, based on the previous rating of these series.

   The effective interest rate, after costs of the issuance, of the Series 6 promissory notes is 2.793%.
   The effective interest rate, after costs of the issuance, of the Series 7 promissory notes is 2.934%.
   The effective interest rate, after costs of the issuance, of the Series 8 promissory notes is 2.696%.

2. On the issuance of hybrid, tier-1 capital by Harel Insurance to the Company during the Reporting Period, see Note 7.

3. Shelf prospectus - Harel Share Issues

   On February 11, 2014, the shelf prospectus of Harel Share Issues was published. The shelf prospectus includes possible expansions of existing series of promissory notes as well the possible issuance of new series of promissory notes to be used as hybrid tier-2 and tier-3 capital by Harel Insurance.

4. For information in connection with the financial covenants for significant loans from banks and non-bank corporations which the Company and its subsidiaries took, see Note 26 to the annual financial statements. At March 31, 2014 the Company and its subsidiaries are in compliance with the financial covenants which were determined.

Note 9 - 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 a reduced cost. The book value of these assets at March 31, 2014 is NIS 409,744 thousand whereas the fair value of these assets at March 31, 2014 is NIS 456,047 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. For further information regarding the different levels defined see Note 8.

	March 31 2014			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets	**14,950,369**	**17,086**	**-**	**14,967,455**
Non negotiable debt assets	**-**	**4,676,827**	**116,819**	**4,793,646**
Shares	**4,151,542**	**-**	**609,246**	**4,760,788**
Other	**3,896,763**	**93,784**	**1,644,572**	**5,635,119**
Total	**22,998,674**	**4,787,697**	**2,370,637**	**30,157,008**

	March 31 2013			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets	11,878,155	2,819	-	11,880,974
Non negotiable debt assets	-	4,300,997	90,291	4,391,288
Shares	3,561,022	-	476,493	4,037,515
Other	2,968,896	175,506	1,256,238	4,400,640
Total	18,408,073	4,479,322	1,823,022	24,710,417

	December 31 2013			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets	14,039,277	18,653	-	14,057,930
Non negotiable debt assets	-	4,553,692	100,922	4,654,614
Shares	3,859,643	-	618,689	4,478,332
Other	3,709,142	157,703	1,433,444	5,300,289
Total	21,608,062	4,730,048	2,153,055	28,491,165

Note 9 - investment property for yield-dependent contracts (contd.)

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, 2014	100,922	618,689	1,433,444	2,153,055
Total profit (loss) recognized				
In statement of income	7,902	15,052	75,654	98,608
Interest and dividend receipts	(1,526)	(3,729)	(16,140)	(21,395)
Purchases	9,705	2,806	192,244	204,755
Sales	(47)	(293)	(40,551)	(40,891)
Redemptions	(137)	(1,055)	(79)	(1,271)
Transfers from level 3*	-	(22,224)	-	(22,224)
Balance as at march 31, 2014	116,819	609,246	1,644,572	2,370,637
Total profit for the period included in the statement of income for assets held in the period ended march 31, 2014	5,041	12,075	75,494	92,610

* Respect of securities issued for trading.

	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	61,946	490,302	1,198,764	1,751,012
Total profit (loss) recognized				
In statement of income	(1,266)	(12,740)	1,521	(12,485)
Interest and dividend receipts	(765)	(4,102)	(12,920)	(17,787)
Purchases	2,009	3,033	113,979	119,021
Sales	-	-	(45,106)	(45,106)
Transfers to level 3*	28,367	-	-	28,367
Balance as at march 31, 2013	90,291	476,493	1,256,238	1,823,022
Total profit (loss) for the period included in the statement of income for assets held in the period ended march 31, 2013	(1,266)	(12,740)	2,006	(12,000)

* Respect of securities that changed their rating.

Note 9 - investment property for yield-dependent contracts (contd.)

C. Level 3 assets measured at fair value (contd.)

	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	61,946	490,302	1,198,764	1,751,012
Total profit (loss) recognized				
In statement of income	(5,396)	67,863	47,312	109,779
Interest and dividend receipts	(7,548)	(16,476)	(75,254)	(99,278)
Purchases	30,730	146,212	417,496	594,438
Sales	-	(39,612)	(136,676)	(176,288)
Redemptions	(12,274)	(29,600)	(18,198)	(60,072)
Transfers to level 3*	33,464	-	-	33,464
Balance as at december 31, 2013	100,922	618,689	1,433,444	2,153,055
Total profit (loss) for the period included in the statement of income for assets held in the year ended december 31, 2013	(6,097)	53,937	46,707	94,547

* Respect of securities that changed their rating.

D. Level 2 and 3 assets measured at fair value

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 10 - Other financial investments

A. Fair value compared with book value

	March 31 2014				
	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)	1,166,648	7,291,279	361,888	-	8,819,815
Non-negotiable debt assets (2)	782	-	-	9,672,154	9,672,936
Shares (3)	-	613,616	-	-	613,616
Other (4)	277,776	1,721,553	-	-	1,999,329
Total	1,445,206	9,626,448	361,888	9,672,154	21,105,696

	March 31 2013				
	Presented at fair value through profit and loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets (1)	1,151,185	6,803,708	388,078	-	8,342,971
Non-negotiable debt assets (2)	25	-	-	9,411,420	9,411,445
Shares (3)	15,785	484,196	-	-	499,981
Other (4)	345,227	1,441,064	-	-	1,786,291
Total	1,512,222	8,728,968	388,078	9,411,420	20,040,688

	December 31 2013				
	Presented at fair value through profit and loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets (1)	1,185,340	6,800,318	370,923	-	8,356,581
Non-negotiable debt assets (2)	788	-	-	9,663,185	9,663,973
Shares (3)	14,792	580,535	-	-	595,327
Other (4)	308,725	1,568,087	-	-	1,876,812
Total	1,509,645	8,948,940	370,923	9,663,185	20,492,693

* The assets held for redemption are presented at adjusted cost. The fair value of these assets at March 31, 2014, March 31, 2013 and December 31, 2013 are NIS 393,003, 409,169, 396,475 thousands respectively.

Note 10 - Other financial investments (contd.)

A. Fair value compared with book value (contd.)

(1) Marketable debt assets

	Book Value as of March 31,		Book Value as of December 31,
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Government bonds			
Reported at fair value, through profit and loss, designated upon initial recognition	**538,926**	444,979	532,932
Available for sale	**3,371,016**	3,070,931	3,023,882
Total government bonds	**3,909,942**	3,515,910	3,556,814
Other debt assets			
Non-convertible			
Reported at fair value, through profit and loss, designated upon initial recognition	**615,319**	692,700	641,742
Held to maturity	**361,888**	388,078	370,923
Available for sale	**3,920,262**	3,732,778	3,776,437
Total other debt assets - non convertible	**4,897,469**	4,813,556	4,789,102
Convertible			
Reported at fair value, through profit and loss, designated upon initial recognition	**12,404**	13,505	10,665
Total other debt assets -convertible	**12,404**	13,505	10,665
Total marketable debt assets	**8,819,815**	8,342,971	8,356,581
Impairment balances - recognized through profit and loss in respect of available for sale debt instruments	**1,138**	15,590	7,524

Note 10 - Other financial investments (contd.)

A. Fair value compared with book value (contd.)

(2) Non marketable debt assets

	March 31, (Unaudited)		December 31, (Audited)	March 31, (Unaudited)		December 31, (Audited)
	Book Balue			Fair Value		
	2014	2013	2013	2014	2013	2013
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Government bonds						
Reported as loans and debts:						
Designated bonds	**4,327,271**	4,374,961	4,339,783	**5,187,859**	5,231,360	5,122,751
Total government bonds	**4,327,271**	4,374,961	4,339,783	**5,187,859**	5,231,360	5,122,751
Non-convertible other debt assets						
Reported as loans and debts, including bank deposits	**5,344,883**	5,036,459	5,323,402	**6,115,164**	5,480,667	5,911,822
Total Non-convertible other debt assets	**5,344,883**	5,036,459	5,323,402	**6,115,164**	5,480,667	5,911,822
Convertible other debt assets						
Reported at fair value, through profit and loss, designated upon initial recognition	**782**	25	788	**782**	25	788
Total convertible other debt assets	**782**	25	788	**782**	25	788
Total non convertible debt assets	**9,672,936**	9,411,445	9,663,973	**11,303,805**	10,712,052	11,035,361
Impairment balances	**62,225**	68,149	67,584			

Note 10 - Other financial investments (contd.)

A. Fair value compared with book value (contd.)

(3) Shares

	March 31, (Unaudited)		December 31, (Audited)
	2014	2013	2013
	NIS Thousands	NIS Thousands	NIS Thousands
Marketable			
Reported a fair value, through profit and loss, upon initial designation	**-**	15,785	14,792
Available for sale	**509,942**	386,336	473,323
Total marketable shares	**509,942**	402,121	488,115
Non marketable shares			
Available for sale	**103,674**	97,860	107,212
Total non marketable shares	**103,674**	97,860	107,212
Total	**613,616**	499,981	595,327
Impairment balances, charged to profit and loss	**56,116**	79,070	63,775

(4) Other Financial Investments

	Book Value as of March 31,		Book Value as of December 31,
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Marketable			
Reported at fair vale through profit and loss designated upon initial recognitions	**156,074**	176,087	146,889
Available for sale	**989,661**	941,364	939,404
Derivative instruments	**4,734**	3,751	15,024
Total marketable financial investments	**1,150,469**	1,121,201	1,101,317
Non marketable			
Classified as held for trading	**73,322**	85,484	72,117
Available for sale	**731,892**	499,701	628,683
Derivative instruments	**43,646**	79,906	74,695
Total non marketable financial investments	**848,860**	665,091	775,495
Total other financial investments	**1,999,329**	1,786,291	1,876,812
Impairment balances - other financial investments reported as available for sale	**81,743**	78,171	80,313
Derivative instruments, reported as financial liabilities	**194,824**	131,759	182,770

Note 10 - Other financial investments (contd.)

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 9B.

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

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets	8,452,666	5,261	-	8,457,927
Non-negotiable debt assets	-	-	782	782
Shares	509,942	-	103,674	613,616
Other	1,150,469	43,646	805,214	1,999,329
Total	10,113,077	48,907	909,670	11,071,654

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets	7,954,894	-	-	7,954,894
Non-negotiable debt assets	-	-	25	25
Shares	402,121	-	97,860	499,981
Other	1,121,201	79,906	585,184	1,786,291
Total	9,478,216	79,906	683,069	10,241,191

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets	7,980,468	5,190	-	7,985,658
Non-negotiable debt assets	-	-	788	788
Shares	488,115	-	107,212	595,327
Other	1,101,317	74,695	700,800	1,876,812
Total	9,569,900	79,885	808,800	10,458,585

Note 10 - Other financial investments (contd.)

C. Level 3 financial instruments 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, 2014	788	107,212	700,800	808,800
Total profit (loss) recognized				
In statement of income	-	4,707	7,575	12,282
In comprehensive incom	-	(533)	32,918	32,385
Interest and dividend receipts	-	(1,368)	(4,921)	(6,289)
Purchases	-	380	80,580	80,960
Sales	(6)	(141)	(11,738)	(11,885)
Transfers from level 3*	-	(6,583)	-	(6,583)
Balance as at march 31, 2014	782	103,674	805,214	909,670
Total profit (loss) for the period included in the statement of income for assets held in the year ended march 31, 2014	-	1,378	7,690	9,068

Note 10 - Other financial investments (contd.)

C. Level 3 financial instruments measured at fair value (contd.)

	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 profit (loss) recognized				
In statement of income	-	999	8,695	9,694
In comprehensive incom	-	(2,737)	(7,900)	(10,637)
Interest and dividend receipts	-	(1,089)	(6,563)	(7,652)
Purchases	-	143	26,344	26,487
Sales	-	(1)	(21,111)	(21,112)
Balance as at march 31, 2013	25	97,859	585,185	683,068
Total profit (loss) for the period included in the statement of income for assets held in the year ended march 31, 2013	-	999	8,656	9,655

	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	100,543	585,721	686,289
Total profit (loss) recognized				
In statement of income	(365)	4,329	24,118	28,082
In comprehensive incom	-	7,186	(1,213)	5,973
Interest and dividend receipts	(83)	(4,647)	(30,078)	(34,808)
Purchases	-	354	197,101	197,455
Sales	-	(553)	(74,849)	(75,402)
Transfers to level 3*	1,211	-	-	1,211
Balance as at december 31, 2013	788	107,212	700,800	808,800
Total profit (loss) for the period included in profit and loss for assets held for the year ended December 31, 2013	(365)	4,316	24,489	28,440

* In respect of securities whose marketability changed

D. Level 2 and 3 assets measured at fair value

Regarding the interests rates used to determine the fair value of non-marketable debt assets, see Note 9D.

Note 11 - Subsequent events during the reporting period

1. Liability Adequacy tests

   The Group conducts a review of the adequacy of the reserves. If the test shows that the premiums received are inadequate for covering the expected claims, minus the insurance reserves at the date of the computation, special provision is recorded in respect of the shortfall. The test is performed separately for personal lines policies and for collective policies. For personal lines policies, the test is performed at the level of the insurance plan in the policy, including the riders that are relevant for that policy. The test for collective policies is performed at the individual collective level, except for long-term care policies where the test is performed for all the collective policies.

   The parameters and assumptions used for the abovementioned tests include assumptions for cancellations, operational expenses, additions for gaps in fair value, in comparison to book value of the non-negotiable assets, mortality and morbidity determined by the actuary every year, according to past experience and other relevant studies. Studies on the adequacy of reserves are conducted for collective policies, according to the claims experience of the collectives.

   Based on a test conducted by Harel Insurance at March 31, 2014, Harel Insurance included provision in the amount of NIS 21 million for reserves for personal lines life assurance policies. The need to make such provision can be attributed mainly to a further decline in yields and to falling interest rates.

2. Dividend distribution

   On March 30, 2014, the Company's Board of Directors resolved to distribute a dividend in the amount of NIS 106 million (NIS 0.5 per share). The Board of Directors made its decision after taking into account the Company's financial performance for 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 solvency test prescribed in Section 302 (a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on April 24, 2014.

3. EMI Management Fee Agreement

   Pursuant to the agreement which was approved by the Board of Directors of the Company on 30, 2014, EMI pays Harel Insurance annual management fees of NIS 250,000 for a variety of services that it receives from Harel Investments and for officers in Harel Investments who serve as directors in EMI. This agreement replaces a previous agreement on management fees that came to an end on December 31, 2013 and was not renewed.

Note 11 - Subsequent events during the reporting period (contd.)

4. Transactions with a controlling shareholder

   On March 30, 2014, the Company's Board of Directors affirmed the aforementioned resolution in connection with negligible transactions, and it determined that a transaction with a controlling shareholder will be construed as a negligible transaction if it meets all the following conditions:

   a. It is not an extraordinary transaction (according to the meaning of this term in the Companies Law).

   b. Regarding insurance, long-term savings and finance transactions: they are performed under the same rules applicable to benefits given to all the Group's employees, as approved on August 27, 2013 by the Board of Directors.

   c. The sum insured in self-retention of the Company in each policy is no more than NIS 10 million (2% of normative income).

   d. The cumulative annual cost of other agreements is no more than NIS 100,000.

   It should be clarified that separate transactions, that are interdependent, so that in practice they are part of the same agreement, shall be construed as a single transaction.

5. Approval of an agreement between Harel Insurance and EMI

   On March 19, 2014 and March 30, 2014, the Audit Committee and Board of Directors, respectively, approved an agreement between Harel Insurance and the subsidiary EMI, in connection with an investment by EMI in the Israel Infrastructures Fund (IIF) partnership, which holds Derech Eretz Highways. According to the agreement, the commitment to make further investments in IIF, that IIF will be able to exercise subject to the conditions prescribed in the investment agreement, will be transferred from EMI to Harel Insurance, and accordingly if the commitment is exercised, any further investment will be made by Harel Insurance which will receive the means of control allotted to the investors who make the additional investment. The amount of the additional investment commitment is insignificant.

6. Internal Auditor

   On November 28, 2013 announced the company's internal auditor, who also serves as Auditor of Harel Insurance, Dikla and EMI, his desire to terminate his employment in the group. The internal auditor left his office on February 1, 2014. On 24 December 2013 the Board approved the appointment of Ms. Osnat Manor Zisman as the company's internal auditor. The appointment received the approval of the Supervisor and Ms. Manor Zisman began serving as internal auditor, February 1, 2014.

7. Banks holding shares

   Since December 31, 2013, as an institutional reporting group, the Group has held more than 5% of the shares of Bank Leumi and Discount Bank. The deviation from the 5% limit on the holding of shares in the two banks was caused by an issuer of ETNs making a forced redemption of ETNs on the TA-Banks Index that Harel Sal purchased from the same issuer, and the transfer of the underlying assets to Harel Sal. The redemption was made due to the fact that the same issuer deviated from the 5% limit on the holding of shares in several banks. The Company's subsidiaries applied to the Supervisor of Banks for temporary permission to hold these shares, and they also submitted a request to regulate these holdings, so that the holding of bank shares by Harel Sal will not be listed among the Group's holdings of the bank shares. The subsidiaries received temporary permission for this deviation which is in force until June 2014. During the Reporting Period the Supervisor of Banks and the ISA circulated a draft version of the regulation concerning the amount

Note 11 - Subsequent events during the reporting period (contd.)

of holdings by ETN issuing companies of bank shares which are held for ETNs on the TA-Banks index. Implementation of the proposed regulation may, at this time, resolve the deviation from the 5% rate by Harel Group as an institutional reporting entity

8. Amendment to Section 49 of the Funds Law and Regulation 41 to the Joint Investments in Trust (Report on a Joint Investment)

   In September 2013, as part of the preparations for Amendment no. 21 to the Funds Law, the Israel Securities Authority [ISA] published a proposal for comments from the public on an amendment to Section 49 of the Funds Law and Regulation 41 to the Joint Investments in Trust (Report on a Joint Investment) Regulations ("the Proposed Regulations"). In accordance with the explanation to the Proposed Regulations, Section 49 of the Funds Law will be amended within the context of Amendment no. 21 to the Funds Law, so that a portfolio manager who is part of the group of companies to which the fund manager belongs ("associate portfolio manager"), who holds 25% or more of the net value of the fund's assets for his customers, will be considered an "associate entity" and various obligations and limitations will apply to the fund manager who belongs to the group of companies to which the associate portfolio manager belongs ("associate fund manager"), who manages such an "associate fund". These obligations and limitations include that the fee paid to the fund manager for the fund will not exceed the average rates paid to the fund manager for all the funds of that class that he manages, and the fund supplement will not exceed the average supplement rates in any of the funds that he manages ("the proposed amendment").

   At this stage, it is impossible to estimate the impact on the Group's financial statements, given that the proposed amendment is still being discussed by the Association of Mutual Fund Managers and the ISA.

9. Reform of management fees of long-term savings product

   In the wake of the reform of management fees on long-term savings products, the average management fees collected by the subsidiaries (Harel Insurance and the fund managers) declined in respect of the long-term savings products that they manage. This reform may significantly affect the revenues from management fees earned by the provident fund management companies and it may impact the profitability of these companies and of Harel Insurance. As a result of the reform, 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 prepared by Harel Insurance at December 31, 2013, Harel Insurance reviewed the recoverable amount of the provident activity. Accordingly, it was found that the recoverable amount is higher than the carrying amount and therefore no write-down in the books of Harel Insurance is necessary.

   Implementation of the reform affects on-going profit and the embedded value (EV) in respect of new life insurance policies that are sold by the Company. The Company believes that the foregoing will not have any material impact on its financial status, the results of its operations or its cash flows.

10. Double management fees

    In February 2012, the Supervision of Financial Services (Provident Funds) (Direct Expenses on account of Transactions Performed) Regulations (Amendment), 5771-2011, were revised so that subsequent to the revision, supervised entities are prohibited from paying management fees to certain external managers, from the balances retained in the fund, including to ETN companies, except on notes to which both the following 2 conditions apply:

Note 11 - Subsequent events during the reporting period (contd.)

a. At least 75% of the exposure obligation of the note is for assets that were not issued in the State of Israel and are not traded or held in Israel.

b. The issuer of the ETN is not a related party.

The revision was passed as a temporary provision for a two-year period commencing July 1, 2012.

At the beginning of April 2014, a draft amendment to the circular was published which states that for certain ETNs that meet additional definitions defined in the draft amendment and were acquired by the supervised entities prior to April 1, 2014, the payment of management fees on ETNs will be permitted in the amount of 0.1% of the fair value of each note.

11. Establishment of a hedge fund

On October 28, 2013, a subsidiary of Harel Finance established a limited partnership called: Harel Algo Limited Partnership, which will operate as a hedge fund. The general partner in the fund will be a subsidiary of Harel Finance, and initially, the limited partners who are investing in the fund are Harel Investments, which will invest NIS 15 million, and Harel Insurance, which will invest NIS 14.5 million. Harel Insurance will invest only nostro funds, and the investment was approved by the Nostro Investments Committee, the Audit Committee and Board of Directors, as required according to the Investment Regulations. The Fund began its investment activity in the first quarter of 2014.

12. Circular concerning a ruling in principle with regard to management fees that were increased without giving advance notice

On August 27, 2013, the Commissioner published a circular concerning a ruling in principle with regard to management fees that were increased without giving advance notice (“the Ruling”). The Ruling concerns the restitution of management fees to members, in those cases where the management fees were increased without prior notice, as required in Regulation 53B(a) of the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1964 (“the Regulation”). According to the Ruling, no later than January 1, 2015, management companies must review all the accounts in which management fees were increased during the period commencing January 1, 2006 and ending December 31, 2009 (“the Restitution Period”), and it must refund any excess charges to members from whom management fees were collected not in accordance with the Regulation, and who are not covered by one of the exclusions mentioned in the Ruling. Financial institutions are exempt from conducting an individual review and from refunding money in certain cases, inter alia, where management fees on members’ accounts were determined by agreement or according to an arrangement between the management company and the employer or a workers’ union and where the provident fund was managed by a management company owned by a bank during the restitution period. Financial institutions are exempt from refunding money in certain cases, inter alia, where the member was informed of the rate and period of the benefit, and where the fees were increased after notice was submitted to the member, and the company has documentation of the notice.

The financial institutions that are part of Harel Group are in the process of preparing a work plan in accordance with the provisions of the Ruling and they have made reasonable provision in the management companies’ books in relation to the Ruling.

13. Issuance of new ETNs

During the Reporting Period, Harel Sal issued 4 series of new ETNs, and after the Reporting Period and up to the publication date of this report, Harel Sal issued 7 series of new ETNs.

Note 11 - Subsequent events during the reporting period (contd.)

14. 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.

15. Contract with syndicate

    On December 24, 2012, the Board of Directors of the Company and of Harel Insurance approved the renewal of the contract with Lloyd's Broadgate syndicate for the 2014 underwriting year. Harel will continue to share 10% of Broadgate's insurance portfolio in 2014. According to the business plan presented to Harel Insurance by Broadgate, the expected volume of premiums for the 2014 underwriting year is about NIS 1,140 million. Accordingly, Harel Insurance's share is expected to be NIS 114 million. In the context of the renewal of its contract with Broadgate, Harel Insurance increased the bank guarantee provided to Lloyd's by GBP 2.8 million, total guarantee in respect of this transaction amounts to GBP 12.1 million.

16. KaDeWe credit transaction

    On March 19, 2014 and March 30, 2014, the Audit Committee and Board of Directors of the Company and Harel Insurance, respectively, revised the terms of agreement in a credit transaction between Harel Insurance and other financial institutions in the Group in the amount of EUR 75 million (about NIS 360 million) which was provided as a mezzanine loan to the owners of Berlin's KaDeWe. The revised conditions of the credit transaction relate to the original conditions that were approved by the credit committees, investment committees, audit committee and boards of directors of the Group's financial institutions in December 2013. The approved revision is the granting of a 90-day extension to the interim period until the lenders have signed the agreement, and the condition for granting the extension is the payment of additional interest by the borrower. This revision was approved after it had previously been approved by the investment committees of the Group's financial institutions. The agreement was submitted for the approval of the Audit Committee and Board of Directors due to the fact that Mr. David Granot served until recently as an officer in Beny Steinmetz Group, which is a related party of the owners of KaDeWe. Mr. Granot was not involved in the transaction agreement with the financial institutions. Pursuant to the recommendation of the audit committees, the Audit Committee and Board of Directors determined that the transaction was made under market conditions and was for the benefit of the financial institutions.

17. Regarding dividend distribution by EMI, see Note 7.

18. Regarding dividend distribution by Harel Insurance, see Note 7.

19. Concerning the raising of tier-3 capital by Harel Insurance(expansion of Series 6-8 bonds), see Note 8.

20. Regarding a shelf prospectus, see Note 8.

21. Concerning the setting of an equity management policy for the Company and Harel Insurance, see Note 7.

22. Concerning the raising of hybrid, tier-1 capital by Harel Insurance - see Note 7.

Note 12 - Subsequent events after the reporting

1. Acquisition of the non-controlling interest in Turk Nippon

   On April 29, 2014, a transaction was completed in which the Company (which immediately prior to the acquisition held 99.98% of the issued and paid-up capital of Turk Nippon) acquired all the holdings of the non-controlling shareholders in Turk Nippon (Gentas Genel Metal A.S. and Yenisan Yenileme Sanayi A.S.). Upon completion of the transaction, the Company holds all the issued share capital of Turk Nippon. The consideration paid by the Company for acquiring the shares (0.02%) amounted to TRY 15,000 (about NIS 27,000). The Company financed the aforementioned acquisition from its own sources.

2. Dividend paid by Harel Insurance

   On May 20, 2014, the Board of Directors of Harel Insurance resolved to distribute a cash dividend in the amount of NIS 200 million, on the "green track" (distribution which does not require prior approval from the Commissioner, based on the Commissioner's instructions on 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 March 31, 2014; the distributable surplus of Harel Insurance at March 31, 2014 was presented, and the capital surpluses and capital requirements of Harel Insurance were tested in accordance with the equity management policy of Harel Insurance.

3. Termination of the service of an officer of the Company

   On April 27, 2014, Adv. Hanan Friedman, who is currently legal advisor (general counsel) to the Company and other companies in the Group, including Harel Insurance, announced that he would be terminating his service for the Company. The circumstances of this announcement do not require that they be brought to the attention of the public or the Commissioner. Adv. Freedman will step down at the end of the transfer period with his replacement.

4. Appointment of senior officers

   Pursuant to Adv. Hanan Friedman’s announcement, on April 28, 2014, the Board of Directors of the Company and of Harel Insurance approved the appointment of Adv. Nataly Mishan-Zakai as legal advisor to the Company and Harel Insurance. Adv. Mishan-Zakai is well known to the management of the Group and its Board of Directors for the legal services she has provided in recent years through her work as a partner in FBC & Co. (Fischer Behar Chen Well Orion & Co.). The appointment will enter into force at the end of the job transfer period and subject to the Commissioner’s approval, as required by law.

5. Annual General Meeting

   On April 30, 2014, an annual general meeting was held. The items on the agenda were: (a) reappointment of the Company's auditors; (b) 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, and Doron Cohen; (c) discussion of the 2013 Periodic Report. The general meeting approved all the items on the agenda.

Note 12 - Subsequent events after the reporting (contd.)

6. Reinsurance - Dikla

   In April 2014 Dikla Insurance Company entered into reinsurance treaties concerning its personal lines, long-term care activity. The rate of the proportional reinsurance is 70% and it will apply to policies that were issued from January 1, 2013. The reinsurance treaty has no significant effect on the results of Dikla and/or the Group during the Reporting Period.

7. Transaction to provide credit to Azrieli Group

   On March 19, 2014 and March 30, 2014, the Audit Committee and Board of Directors of the Company and Harel Insurance, respectively, approved an agreement in which Harel Insurance and other financial institutions in the Group will provide credit in the amount of EUR 300 million to Azrieli Group, against a pledge on the Ramla shopping mall. The agreement was approved after it had previously been approved by the credit committees and investment committees of the Group's financial institutions. The agreement was submitted for the approval of the Audit Committee and Board of Directors due to the fact that Mr. Yoseph Ciechanover, who serves as a Company director, is also a director in Azrieli Group. Mr. Ciechanover was not involved in the transaction agreement with the financial institutions in any way. Pursuant to the recommendation of the audit committees, the Audit Committee and Board of Directors determined that the transaction was made under market conditions and was for the benefit of the financial institutions.

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:

	March 31		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Fixed assets	**1,144,950**	834,032	1,140,536
financial investments			
Marketable debt assets	**14,967,455**	11,880,974	14,057,930
Non marketable debt assets	**4,793,646**	4,391,287	4,654,614
Shares	**4,760,788**	4,037,514	4,478,332
Other financial investments	**5,635,119**	4,400,642	5,300,289
Total financial investments	**30,157,008**	24,710,418	28,491,165
Cash and cash equivalents	**844,950**	1,103,263	1,088,024
accounted for as loans and payables including bank deposits			
Non marketable debt assets*	**409,744**	454,401	418,002
Other	**500,714**	426,541	396,905
	33,057,366	27,528,655	31,534,632
Other payables	**6,654**	2,626	4,268
**Financial liabilities	**41,792**	70,363	51,948
Financial liabilities in respect of yield dependent	**48,446**	72,989	56,216

* Assets held contra to liabilities for yield dependent insurance contracts are presented pursuant to the directives of Circular 2-9-2009 at adjusted cost. The fair value of these assets as at March 31, 2014, is NIS 456,047 thousand (as at March 31, 2013, and as at December 31, 2013, NIS 485,119 thousand and NIS 454,856 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

	(Unaudited) March 31 2013				
	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	1,164,502	7,248,146	361,888	-	8,774,536
Non marketable debt assets	782	-	-	9,643,718	9,644,500
Shares	-	613,609	-	-	613,609
Others	266,715	1,246,178	-	-	1,512,893
Total	1,431,999	9,107,933	361,888	9,643,718	20,545,538

	(Unaudited) March 31 2012				
	Reported at fair value, through profit and loss	Available for sale	Held to maturity	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	1,149,097	6,749,647	388,078	-	8,286,822
Non marketable debt assets	25	-	-	9,407,886	9,407,911
Shares	-	484,188	-	-	484,188
Others	334,487	976,729	-	-	1,311,216
Total	1,483,609	8,210,564	388,078	9,407,886	19,490,137

	(Audited) December 31 2012				
	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	1,183,216	6,744,829	370,923	-	8,298,968
Non marketable debt assets	788	-	-	9,634,689	9,635,477
Shares	-	580,528	-	-	580,528
Others	297,139	1,159,942	-	-	1,457,081
Total	1,481,143	8,485,299	370,923	9,634,689	19,972,054

* The fair value of these assets is NIS 393,003 thousands, as at March 31, 2014. (as at March 31, 2013 and as at December 31, 2013 NIS 409,169 thousand and NIS 396,475 thousand respectively).

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

b. Details of other financial investments (contd.)

1. Negotiable debt assets

	Book Value			Amortized Cost (**)		
	March 31		December 31	March 31		December 31
	2014	2013	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Government bonds	**3,887,281**	3,488,643	3,529,611	**3,727,646**	3,398,695	3,452,870
Other debt instruments						
Total other debt instruments, non convertible	**4,874,851**	4,784,674	4,758,692	**4,566,885**	4,557,154	4,514,577
Other debt instruments convertible (*)	**12,404**	13,505	10,665	**10,971**	16,812	13,986
Total marketable debt	**8,774,536**	8,286,822	8,298,968	**8,305,502**	7,972,661	7,981,433
Fixed impairments recognized in aggregate in profit and loss	**1,138**	15,590	7,524			

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

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

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

b. Details of other financial investments (contd.)

2. Non-negotiable debt assets

	Book Value			Fair Value		
	March 31		December 31	March 31		December 31
	2014	2013	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Government bonds						
Designated bonds	**4,327,271**	4,374,961	4,339,783	**5,187,859**	5,231,360	5,122,751
Total government bonds	**4,327,271**	4,374,961	4,339,783	**5,187,859**	5,231,360	5,122,751
Other debt instruments						
other debt instruments, non convertible	**5,316,447**	5,032,925	5,294,906	**6,086,944**	5,477,887	5,883,654
Reported at fair value, through profit and loss, designated upon initial recognition	**782**	25	788	**782**	25	788
Total non marketable debt	**5,317,229**	5,032,950	5,295,694	**6,087,726**	5,477,912	5,884,442
Fixed impairments recognized in aggregate in profit and loss	**62,225**	68,149	67,584			

3. Shares

	Book Value			Cost		
	March 31		December 31	March 31		December 31
	2014	2013	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Marketable Shares	**509,942**	386,336	473,323	**391,099**	305,672	368,004
Non marketable Shares	**103,666**	97,852	107,205	**78,713**	82,318	81,718
Total Shares	**613,608**	484,188	580,528	**469,812**	387,990	449,722
Impairment balances - other financial investments reported as available for sale	**56,116**	79,070	63,775			

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

b. Details of other financial investments (contd.)

4. Other financial investments

	Book Value			Cost		
	March 31		December 31	March 31		December 31
	2014	2013	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Marketable Financial investments	**693,642**	662,210	697,830	**632,985**	621,332	638,087
Non marketable Financial investments	**819,251**	649,006	759,251	**686,807**	634,429	621,587
Total other Financial investments	**1,512,893**	1,311,216	1,457,081	**1,319,792**	1,255,761	1,259,674
Fixed impairments recognized in aggregate in profit and loss	**81,743**	78,172	80,313			
Derivative instruments, reported as financial liabilities	**194,824**	127,202	182,770			

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 & FINANCIAL SERVICES LTD

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2014

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

Introduction

Introduction
We reviewed the separate interim financial information presented pursuant to Regulation 38d of the Securities Regulations - 1970 of Harel Insurance Investments and Financial Services Ltd. (hereinafter - "the Company") as at March 31, 2014 and for the three months periods ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for the interim periods, based on our review.

We did not reviewed the separate interim financial information from the financial reports of the investee companies, in which the investment in them is NIS 702,946 thousand as at March 31, 2014, and the Company's loss from the investee companies is NIS 5,158 thousand to the three months periods ended on that date. The condensed interim financial information of these companies was reviewed by other auditors, whose reviewed reports were furnished to us, and our conclusion, to the extent that it relates to the amounts included for those subsidiaries, is based on the reviewed reports of the other auditors.

Scope of the review

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

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

Somekh Chaikin
Certified Public Accountants

May 20, 2014

Condensed interim consolidated statements of financial position at

	March 31		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**-**	17	-
Deferred tax assets	**3,050**	-	2,860
Fixed assets	**1,797**	1,599	1,916
Investments in investee companies	**4,664,625**	4,232,608	4,490,167
Loans to investee companies	**50,000**	47,321	-
Real estate for investment	**18,215**	18,325	18,325
Other receivables	**15,416**	95,638	14,979
Other financial investments			
Marketable debt assets	**-**	-	6,553
Non marketable debt assets	**28,436**	3,534	28,496
Share	**-**	-	14,792
Others	**396,473**	329,840	335,772
Total financial investments and others	**424,909**	333,374	385,613
Cash and cash equivalents	**61,145**	107,278	62,823
Total assets	**5,239,157**	4,836,160	4,976,683
Capital			
Share capital and premium on shares	**317,053**	308,555	316,595
Treasury stock	**(167,618)**	(145,632)	(163,458)
Capital reserves	**432,171**	306,854	316,139
Retained earnings	**4,096,338**	3,823,264	4,037,093
Total capital	**4,677,944**	4,293,041	4,506,369
Liabilities			
Liabilities for deferred taxes	**-**	1,092	-
Liabilities for benefits to employees, Net	**20,069**	17,517	19,838
Other payables	**144,481**	83,297	37,508
Liabilities for current taxes	**9,155**	9,737	6,703
Financial liabilities	**387,508**	431,476	406,265
Total liabilities	**561,213**	543,119	470,314
Total liabilities and capital	**5,239,157**	4,836,160	4,976,683

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

Date of approval of the financial statements: May 20, 2014

* Reclassified from loans to investee companies to investments in investee companies accounted for under the equity method.

Condensed interim consolidated statements of income and loss

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profits from investments, net, and financing revenues	1,819	4,825	15,308
Revenues from management fees	24,060	22,285	85,244
Total revenues	25,879	27,110	100,552
General and administrative expenses	5,543	7,662	31,633
Other expenses	-	-	24
Financing expenses	2,482	3,442	16,498
Total expenses	8,025	11,104	48,155
Company's shares in profits of investee companies	152,898	209,758	636,024
Income before taxes on income	170,752	225,764	688,421
Taxes on income	4,789	3,525	8,089
Income for period ended March 31 relating to the Company's shareholders	165,963	222,239	680,332

Condensed interim consolidated statements of income and loss

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profit for the year	**165,963**	222,239	680,332
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	**(97)**	493	3,087
Net changes in fair value of financial assets available for sale transferred to statement of income	**(172)**	(2,552)	(7,090)
Foreign currency transaction's difference in respect of overseas operations	**362**	(3,377)	(5,384)
The Group share in the comprehensive income (loss) of investee companies	**114,623**	(17,252)	14,277
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	**71**	515	925
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	**114,787**	(22,173)	5,815
Other items of comprehensive income (loss) which will not be transferred to profit or loss			
Remeasurement of a defined benefit plan	**(30)**	42	(154)
Taxes on income for other items of comprehensive income which will not be transferred to profit or loss	**8**	(10)	38
Other comprehensive income (loss) for the period which will not be transferred to profit or loss, net of tax	**(22)**	32	(116)
Other comprehensive income (loss) for the year	**114,765**	(22,141)	5,699
Total income for the year Attributed to the company's owners	**280,728**	200,098	686,031

Condensed interim consolidated statements of cash flows

	Share capital and premium	Capital reserve for financing assets available for sale	Transactions with non-controlling interests	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of investment Fixed assets	Balance of retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the three months ended March 31 (Unaudited)									
Balance as at January 1, 2014	316,595	313,637	(48,908)	(22,075)	34,172	(163,458)	39,313	4,037,093	4,506,369
Comprehensive income (loss) for year									
Profit for year	-	-	-	-	-	-	-	165,963	165,963
Total other comprehensive income (loss)	-	111,105	-	4,040	-	-	-	(380)	114,765
Total comprehensive income (loss) for year	-	111,105	-	4,040	-	-	-	165,583	280,728
Transactions with owners credited directly to equity									
Dividends paid	-	-	-	-	-	-	-	(106,338)	(106,338)
Share based payment	-	-	-	-	887	-	-	-	887
Purchase of treasury stock	-	-	-	-	-	(6,920)	-	-	(6,920)
Reissuing of treasury stock	458	-	-	-	-	2,760	-	-	3,218
Balance as at March 31, 2014	317,053	424,742	(48,908)	(18,035)	35,059	(167,618)	39,313	4,096,338	4,677,944

Condensed interim consolidated statements of cash flows

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

Condensed interim consolidated statements of cash flows

	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, 2013 (Audited)									
Balance as at January 1, 2013	308,446	303,691	(48,908)	(6,881)	40,327	(142,300)	39,944	3,652,909	4,147,228
Comprehensive income for year									
Profit for year	-	-	-	-	-	-	-	680,332	680,332
Total other comprehensive income (loss)	-	9,946	-	(15,194)	-	-	(631)	11,578	5,699
Total comprehensive income (loss) for year	-	9,946	-	(15,194)	-	-	(631)	691,910	686,031
Transactions with owners credited directly to equity									
Dividends paid	-	-	-	-	-	-	-	(307,726)	(307,726)
Share based payment	-	-	-	-	5,954	-	-	-	5,954
Purchase of treasury stock	-	-	-	-	-	(34,828)	-	-	(34,828)
Reissuing of treasury stock	(3,960)	-	-	-	-	13,670	-	-	9,710
Exercising of stock options	12,109	-	-	-	(12,109)	-	-	-	-
Balance as at December 31, 2013	316,595	313,637	(48,908)	(22,075)	34,172	(163,458)	39,313	4,037,093	4,506,369

Condensed interim consolidated statements of cash flows

	Appendix	For the three months ended March 31		For the year ended December 31
		2014	2013	2013
		(Unaudited)	(Unaudited)	(Audited)
		NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities				
Before taxes on income	A	**17,783**	19,418	74,886
Income tax (paid) received		**(2,337)**	1,892	(9,657)
Net cash provided by operating activities		**15,446**	21,310	65,229
Cash flows from investing activities				
Investment in investee companies		**-**	-	(89,661)
investment in fixed assets		**-**	-	(810)
Proceeds from realizing fixed assets		**-**	-	651
Dividends from investee companies		**85,000**	-	409,264
Net Financial investments		**(53,517)**	(62,010)	(93,364)
Loans to investee companies		**(50,000)**	-	(158,064)
Repayment of loans given to investee companies		**4,772**	-	131,768
Net cash provided by (used for) investing activities		**(13,745)**	(62,010)	199,784
Cash flows from financing activities				
Dividends paid		**-**	-	(307,726)
Loans from banks and others		**-**	100,000	100,900
Repayment of loans to banks and others		**(3,379)**	-	(43,342)
Net cash provided by (used for) financing activities		**(3,379)**	100,000	(250,168)
Increase (Decrease) in cash and cash equivalents		**(1,678)**	59,300	14,845
Cash and cash equivalents at beginning of year		**62,823**	47,978	47,978
Cash and cash equivalents at end of the period		**61,145**	107,278	62,823

Condensed interim consolidated statements of cash flows

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Appendix A – Cash flows from operating activities before taxes on income			
Profit for year	**165,963**	222,239	680,332
Items which are not connected with cash flows			
Company's shares in revenues of investee companies	**(152,898)**	(209,758)	(636,024)
Net profits from financing activities	**(793)**	(3,994)	(12,089)
Financing expenses, net	**3,120**	4,933	156
Taxes on income	**4,789**	3,525	8,089
Depreciation and amortization	**119**	110	20
Gains from realizing fixed assets	**-**	-	(53)
Share-based payment	**887**	459	1,085
Changes in other balance sheet items			
Other receivables	**(437)**	(17,104)	63,555
Other payables	**(3,198)**	17,238	(34,276)
Liabilities for benefits to employees, net	**231**	1,770	4,091
Total adjustments required to present cash flows from operating activities	**(148,180)**	(202,821)	(605,446)
Total cash flows from operating activities, before taxes on income	**17,783**	19,418	74,886

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, 2013.

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.

Note 2 - Affiliations, agreements, and significant transactions with investees

1. To enable Turk Nippon to comply with the equity regulations as an insurer operating in Turkey, on April 27, 2014 the Board of Directors approved the injection of TRY 15.5 million (about NIS 24 million). On May 8, 2014, the Company transferred a total of TRY 10 million (about NIS 16 million) of the amount.

2. In March 2014, Harel Insurance Company Ltd. issued a subordinated capital note to the Company in the amount of NIS 50 million. Harel Insurance Company Ltd. will use this capital note as hybrid tier-1 capital. The subordinated capital note was issued after obtaining the approval of the Commissioner and the Board of Directors. The capital note is CPI-linked and interest will be paid on it at a rate of 4.2%. This rate of interest reflects twice the existing risk margin on the marketable promissory notes that were issued by Harel Financing and Share Issues, taking into account the conditions of subordination of the capital note (as detailed below), the maturity periods, etc.

   The capital note that was issued: (a) is subordinate to all the insurer's other liabilities, excluding the ordinary shareholders; (b) the maturity date is 49 years; (c) includes a loss-absorption mechanism in the event of delaying circumstances; (d) interest payments will be cancelled or will be converted to shares and will not be accrued when certain circumstances detailed below, arise; (e) payment of the principal will be postponed, and in the instances listed below, the principal will be written off or converted to ordinary shares; (f) early redemption will be possible only after ten years, and subject to prior approval from the Commissioner; (g) does not include an incentive for early redemption.

   In accordance with the capital note, when the following circumstances arise, Harel Insurance Company has the right to convert payment of the interest into shares and to postpone payment of the principal without this affecting Harel Insurance's right to other payments of higher priority. Interest that is not paid will be converted to shares and will not be added to the outstanding amount of the loan.

   Causes for postponement of the principal and converting payment of the interest into shares, in accordance with a conversion mechanism defined in the capital note: (a) according to the last financial statements published by Harel Insurance before the date for payment of the interest, Harel Insurance has no distributable profits, according to the meaning of this term in the Companies Law; (b) according to the last financial statements published before the date for payment, the recognized equity of Harel Insurance is less than the capital it is required to hold under the Capital Regulations, plus 3% or as defined by the Board of Directors of Harel Insurance from time to time; (c) The Board of Directors of Harel Insurance issues an instruction not to pay interest or to postpone payment of the principal, if it believes that there is real and immediate concern as to Harel Insurance's ability to comply with the minimum equity it is required to hold under the Capital Regulations, or to repay liabilities that take precedence over those of this capital note in a timely manner, provided that the Commissioner has given his approval to this effect in advance; (d) the Commissioner orders that the interest not be paid or that payment of the principal should be postponed, if he believes that there is a significant infringement of the issuer's recognized capital or there is real and immediate concern that the issuer will not be able to comply with the minimum equity required of it under the Capital Regulations.

   Any principal that is postponed will not accrue interest in arrears of any kind, and it will be paid when the delaying circumstances are no longer present, as decided by the insurer's board of directors and with the prior approval of the Commissioner. The capital note principal will be written off or converted to ordinary shares of the issuer based on a conversion mechanism specified in the capital note, in the event of one of the following: (a) according to the one before last published financial statements, the issuer's recognized equity is less than the minimum capital it is required to hold according to the Capital Regulations, plus NIS 150 million or as determined from time to time by the Board of Directors of Harel Insurance, and Harel Insurance has not supplemented the equity at the publication date of the last financial statements.

Note 2 - Affiliations, agreements, and significant transactions with investees (contd.)

(b) According to the last published financial statements, the recognized equity of Harel Insurance is less than 80% of the minimum capital it is required to hold under the Capital Regulations, and the insurer has not supplemented the equity at the publication date of the statements. (c) In an opinion or study attached to the last financial statements published prior to the date of payment, the insurer's external auditors draw attention to notes that raise serious doubts as to the insurer's ability to continue as a going concern.

3. EMI Management Fee Agreement

   Pursuant to the agreement which was approved by the Board of Directors of the Company on 30, 2014, EMI pays Harel Insurance annual management fees of NIS 250,000 for a variety of services that it receives from Harel Investments and for officers in Harel Investments who serve as directors in EMI. This agreement replaces a previous agreement on management fees that came to an end on December 31, 2013 and was not renewed.

Note 3 - Subsequent events during the reporting period

1. On March 30, 2014, the Company's Board of Directors resolved to distribute a dividend in the amount of NIS 106 million (NIS 0.5 per share). The Board of Directors made its decision after taking into account the Company's financial performance for 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 solvency test prescribed in Section 203(a) [302 (a)??]of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on April 24, 2014.

2. Concerning dividend distribution by Harel Insurance, see Note 8 to the consolidated financial statements.

3. Concerning the financial covenants, see Note 8 to the consolidated financial statements.

4. Concerning the termination of the internal auditor of the Company, see Note 11 to the consolidated financial statements.

5. Concerning the establishment of a hedge fund see Note 11 to the consolidated financial statements.

Note 4 - Subsequent events after the reporting period

1. On April 29, 2014, a transaction was completed in which the Company (which immediately prior to the acquisition held 99.98% of the issued and paid-up capital of Turk Nippon) acquired all the holdings of the non-controlling shareholders in Turk Nippon (Gentas Genel Metal A.S. and Yenisan Yenileme Sanayi A.S.). Upon completion of the transaction, the Company holds all the issued share capital of Turk Nippon. The consideration paid by the Company for acquiring the shares (0.02%) amounted to TRY 15,000 (about NIS 27,000). The Company financed the aforementioned acquisition from its own sources.

2. Concerning the conclusion of the term of office of the Company's legal advisor, see Note 12 to the consolidated financial statements.

3. Concerning the Transaction to provide credit to Azrieli Group, see Note 12 to the consolidated financial statements.

4. Concerning the credit transaction in Germany, see Note 11 to the consolidated financial statements.

5. Concerning dividend distribution by Harel Insurance following the reporting period, see Note 12 to the consolidated financial statements.

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Harel Insurance Investments & Financial Services Ltd.

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

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

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

In this instance, management consists of:

(a) Co-CEOs:

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

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

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

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

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

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

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

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

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

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

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

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

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

In the annual report on the evaluation of effectiveness, which was attached to the periodical report for the period ended in December 31, 2013 ("last annual report concerning the effectiveness of internal control over financial reporting and disclosure), the Company's Board of Directors and management evaluated the internal control in the Company; based on the mentioned evaluation, the Company's Board of Directors and management concluded that the internal control, at December 31, 2013, is effective.

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

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

Declaration

I, Michel Siboni, hereby attest that:

(1) I have reviewed the Periodic Report of Harel Insurance Investments & Financial Services Ltd. ("the Company") for the first quarter of 2014 ("the Reports").

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

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

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

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

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

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

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

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

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

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

May 20, 2014

Michel Siboni

Co-CEO

Declaration

I, Shimon Elkabetz, hereby attest that:

(1) I have reviewed the Periodic Report of Harel Insurance Investments & Financial Services Ltd. ("the Company") for the first quarter of 2014 ("the Reports").

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

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

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

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

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

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

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

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

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

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

May 20, 2014

Shimon Elkabetz

Co-CEO

Declaration

I, Ronen Agassi, hereby attest that:

(1) I have reviewed the Interim Financial Statements and other financial information included in the Interim Financial Statements of Harel Insurance Investments & Financial Services Ltd. ("the Company") for the first quarter of 2014 ("the Reports" or "the Interim Financial Statements").

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

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

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

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

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

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

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

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

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

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

May 20, 2014

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Ronen Agassi

CFO

Report Regarding Embedded Value Of

Harel Insurance Company Ltd.

(Including Pension Fund Management Companies and Dikla)

as at 31.12.2013

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1. General

1.1. Background and extent of disclosure

According to the Commissioner for Insurance’s circular dated 12 August 2007 (insurance circular 1-11-2007) (“**the circular**”), together with financial reports for the first quarter, insurance companies must publish annual information regarding embedded value (**EV** or **embedded value**) of long term insurance policies (life and medical insurance) for the end of the previous year. In accordance with the circular, Harel Insurance Co. Ltd. (“**the company”**) hereby publishes the embedded value of company long term insurance business as at 31 December 2013.

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

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

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

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

On January 1, 2013, Harel Insurance completed a transaction whereby it acquired the operations included in the life insurance segment of Eliahu Insurance Co. Ltd. ("Eliahu Insurance"). The transaction included the acquisition of all the rights and obligations of Eliahu Insurance in the life-assurance sector, including the life and healthcare insurance segments, and all of its rights and obligations towards policyholders, reinsurers, agents and the like.

The allocation of the intangible assets included in the acquired assets and liabilities was calculated in accordance with generally accepted accounting practices. Based on the valuation prepared by an external appraiser, future profits, before tax, in the amount of NIS 252 million, were attributed to the insurance liabilities. This estimate of future profit was calculated in accordance with the methodology used in the valuation. The key variance in this estimate, in relation to the value of future profits as computed in this report is in the discounting interest rate used for the calculation.

The insurance liabilities were calculated in accordance with generally accepted actuarial practice, and with the assumptions and methods that the Company uses for its calculations. Except for future profit, as noted above, which was subtracted from the amount of the reserve, no other adjustments were made in the insurance liabilities. Accordingly, calculation of the Value in Force was based on the outstanding insurance liabilities after the deduction of future profit. The outstanding future profit at year end, which reduced the insurance liabilities and as a consequence also the Value in Force, is NIS 231 million (pre-tax).

1.2. Clarification regarding forward looking information

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

1.3. Major chapters in the document

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

1.4. Definitions

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

Present value of future profits (PVFP)	Capitalization of the future anticipated flow of profit, emanating from the existing portfolio on the date of the included business' report (see paragraph 2.5.2 hereunder).
Adjusted Net Worth (ANW)	The company equity, after adaptation in order for same to be consistent with the in force portfolio value (see paragraph 2.5.1).
Cost of required capital	The influence on the embedded value – from company shareholders point of view – following the minimal equity holding requirement imposed on the company (see paragraph 2.5.3 hereunder).
Value In Force (VIF)	Current value of future profits, less the required capital cost.
Embedded value (EV)	Comprised of a combination of the in force portfolio value (VIF) and the adjusted equity. It is to be clarified that the adjusted equity is the company equity relating to the array of the activities of the entire company and not only in respect of the businesses included in the embedded value. It should also be clarified that the in force portfolio value does not include: General (elementary) insurance business. Other company fields of operation controlled by the company, such as insurance agencies and provident fund management. The ability to generate future business (reputation).
Value of new business (VNB)	Current value of profits of businesses sold during the 12 months preceding the report date.
Included businesses	Businesses included in calculation of in force portfolio value: Long term personal policies in life and medical insurance portfolios, valid on 31 December 2013, including increases in premium and one-time future deposits emanating from an increase in wages in respect of the aforementioned policies. Group life and medical insurance policies valid on 31 December 2013. According to the rules and principles in the committee report, the profits of these policies have only been valued until the next renewal date of these policies.

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

1.5. Comments, clarifications and exceptions

1.5.1. General

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

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

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

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

1.5.2. Reforms and legislation

Advisory committee to strengthen the public health system ("German Commission")

In April 2013, the Minister of Health announced the formation of an advisory committee to strengthen the public health system ("German Commission"). The Commission, which is headed by the minister, is reviewing the following topics: (a) review of the relationship between the public and private health systems; (b) medical insurance (SHS and commercial insurance policies); (c) medical tourism; (d) the status of the Ministry of Health as a service provider, insurer and regulator. If adopted in binding provisions, the Commission's conclusions may affect various aspects of activity in the health insurance segment as well as the Embedded Value for this activity.

The report does not address the impact of the Commission's possible conclusions, in part in view of the fact that at this stage no conclusions have yet been formulated and that even after they are formulated, some uncertainty will remain concerning their impact due to the large number of factors involved in their implementation.

Reform to Encourage Competition

In February 2012, the Finance Committee approved the Control of Financial Services (Provident Funds) (Management Fees) Regulations, 5772-2012 ("the Regulations"), after the Commissioner of Insurance had published a position paper in November 2011 concerning the plan to encourage competition in the pension savings market. Accordingly, the Commissioner intends to take a series of measures to improve the market and enhance competition and transparency in an effort to improve the quality and price of the products offered and to allow savers to better adapt the products to their needs. According to the regulations, there will be a gradual change in the maximum annual management fee rates for managers' insurance (for new policies) and in provident funds and in a supplementary pension fund (also for existing members as well). In addition, the rates of management fees on the accounts of deceased members or members whom contact has been severed will also be reduced.

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

Circular concerning guaranteed annuity coefficients in life assurance policies

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

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

1.5.3. Risk handling

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

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

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

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

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

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

In order to reflect the estimation of the risks which have not been taken into account as aforementioned, the readers of the report may adapt the presented embedded value at their discretion, by means of the sensitivity analyses presented in paragraph 3.6. It should be emphasized that, as already noted above, the company cannot estimate from a quantity, scientific and objective point of view, the influence of the aforementioned matters on the embedded value and therefore the sensitivity analysis presented by the company does not constitute an estimate by the company, but rather is intended to serve as a tool for the readers of the report in order to assess the possible influence of the realization of the risks detailed above and other matters, at their discretion.

1.5.4. Asset revaluation by fair value

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

1.5.5. Pension fund governmental subsidization arrangements

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

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

As aforementioned the in force portfolio value does include not include general (elementary) insurance business and does not other fields of operation by companies controlled by the company or the ability to generate future business (reputation). Furthermore, it should be emphasized that the embedded value does not relate to Harel Insurance Investments and Financial Services Ltd., the company's holding company which has additional operations and businesses.

Furthermore, embedded value does not include certain risks specified in paragraph 1.5.3 above.

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

2. Embedded value calculation methodology

2.1. General

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

2.2. Handling risks

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

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

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

2.3. Financial assumptions

2.3.1. Yield, interest, capitalization and inflation

Future yield and capitalization interest were determined according to the yield curve of the index linked risk-free interest. The risk free (spot) interest rates at the end of 2013 were:

End of	Interest Rate	End of	Interest Rate	End of	Interest Rate
2014	-0.56%	2024	1.79%	2034	2.38%
2015	-0.68%	2025	1.92%	2035	2.40%
2016	-0.48%	2026	2.03%	2036	2.42%
2017	-0.11%	2027	2.11%	2037	2.44%
2018	0.30%	2028	2.17%	2038	2.46%
2019	0.66%	2029	2.22%	2039	2.48%
2020	0.96%	2030	2.26%	2040	2.50%
2021	1.21%	2031	2.30%	2041	2.51%
2022	1.43%	2032	2.33%	2042	2.53%
2023	1.63%	2033	2.35%	2043	2.54%

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

2.3.2. Taxation

Statutory tax applied to financial institutions (including profit tax)

Year	2013	2014	2015	2016	2017	2018	2019	2020+
Tax rate	36.22%	37.71%	37.71%	37.71%	37.71%	37.71 %	37.71%	37.71%

2.4. Demographic and operational assumptions

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

2.4.1. Demographic assumptions

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

2.4.2. Future management and general expenses

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

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

2.5. Calculation method

2.5.1. Adjusted equity (ANW)

The Appraised Net Worth (ANW) is based on the Company’s equity at the reporting date plus a revaluation of fair value (net of tax) of the assets corresponding with covered business which are presented in the financial statements at cost. Several adjustments were made to this amount so that it is consistent with the Value in Force. See table in Section 3.3.

2.5.2. Present value of future profits (PVFP)

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

2.5.3. Cost of capital (CoC)

A forecast of the required capital was compiled according to the existing demands and the anticipated future development of included businesses. The cost of capital is capitalization of taxes on investment profits in respect of the required capital for the included businesses.

2.5.4. Value of new business (VNB)

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

VNB was calculated for the following populations:

- All the policies which were issued in 2013
- New coverage issued in 2013 as an addition to policies which were issued before 2013.
- Group policies which were renewed in 2013.
- One-time premiums on existing policies which do not emanate from a wage increase.
- New members of the pension funds during 2013.

It should be clarified that the present value of future profits (PVFP) includes the value of profits from the end of 2013 onwards in respect of new businesses as aforementioned.

2.6. Handling options and financial guarantees

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

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

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

1. Adjustments to embedded value as at 31 December 2012 – this paragraph includes corrections in respect of the opening data.

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

   a) Life insurance: a reduction arising from a revision of the assumptions for morbidity and expenses and an increase arising from a revision of the lapse assumption.

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

   c) Pension: an increase stemming from a revision of the assumption for lapses.

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

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

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

    c) Profit anticipated to transfer from the in force portfolio value to the adjusted equity during 2013 – during 2013the anticipated profit for the year 2013 was removed from the portfolio value and added to the adjusted capital so that in total, this source did not influence the sum of the embedded value in its entirety, but rather brought about a transfer from the in force portfolio value component to the adjusted capital component. In accordance with the method of determining the adjusted equity, this profit did not include the influence of reduction of the DAC.

4. The influence of the deviations from the operational and demographic assumptions during this period the actual experience regarding the rate of claims, cancellations, expenses, etc. were different than the assumptions based on section 2 above for the purpose of calculating the embedded value. These deviations also influence the anticipated profits from the end of the year and the profits of the year itself. The influences are presented separately in this paragraph in respect of the in force portfolio value and the adjusted capital respectively. In addition, this paragraph includes the influence from a number of causes, each of which is immaterial in the company estimate which include inter alia, changes in existing insurance policies, reinsurance conditions or commission agreements with agents. In 2013, most of the deviations in insurance business were in the increase in claims payments for amounts that were higher than expected and an increase in the reserves that were higher than anticipated and led to a reduction in ANW. In pension business, the main cause of the deviation is a reduction in agents' commissions.

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

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

6. Development expenses not included in the embedded value – the influence on the actual profits during the year is reflected due to extraordinary expenses which were not included in the embedded value but rather were attributed to future sales. During 2013, there were no expenses which were not included in the embedded value.

7. Profit from special items:

   Personal Accident covers that were sold in Dikla Insurance Company were exchanged from annual to long-term covers during 2013. As a result, these covers are first included in the EV as of December 31, 2013. The contribution to the EV of these covers, in the amount of NIS 107 million, is shown on this line. Notably, this population is a supplement to the conversion process which commenced in 2012 and for which the contribution was first included in the EV at the end of 2012.

8. Influence of inflation during 2013 – this paragraph includes the influence of inflation during 2013 (1.9%) on the opening balance of the embedded value. The influence of inflation was mainly in respect of linking the policies to the index, a fact which influences the in force value of the portfolio and the influence of the expected yield in the index rate on the adjusted capital.

9. Profit resulting from deviation from the economic assumptions during 2013 and changes in the economic assumptions – this paragraph includes three components:

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

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

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

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

    c) Increase in future tax rates. The effect of this increase amounts to NIS 167 million in the insurance segment and to NIS 56 million in pension segment.

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

Profit from non-included businesses – the embedded value sum includes the company’s entire equity and therefore a part of the increase/ decrease of the embedded value is explained by the profits/ losses of spheres of activity which are not included in the portfolio value. Also included in this paragraph (increase to capital adapted) are financing expenses in a sum of NIS 85 million (after taxes).

Profit from non-included businesses – the embedded value sum includes the company’s entire equity and therefore a part of the increase/ decrease of the embedded value is explained by the profits/ losses of spheres of activity which are not included in the portfolio

value. Also included in this paragraph (increase to capital adapted) are financing expenses in a sum of NIS 85 million (after taxes).
The summary of the changes in paragraphs 2-10 constitutes the 'sum of the profit on an embedded value basis' (including inflation effect).

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

2.8. Sensitivity tests

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

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

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

c) The sensitivity in respect of the value of new businesses relates to changes from the end of 2013 onwards, not to the period from the time of sale until the end of 2013.

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

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

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

g) Interest – sensitivity test results include:

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

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

h) Annuity Utilization Rate – sensitivity test relates to an increase in the rate of conversion, at the assumed retirement age, of savings balances to monthly annuities.

2.9 Embedded value report review

Annexed to this report is an external reviewer's report that performed a review of the report regarding the embedded value as at December 31, 2013 and value of new businesses for the year ending on that date, as well as the sensitivity analysis presented in this report.

3. Results

3.1. Embedded value on 31.12.2013 (in NIS millions)

	Included businesses in life and health insurance	Pension fund management businesses	Adjustment to joinder of pension fund management businesses into the company's Embedded Value	Total Embedded Value of life and health insurance and pension fund management businesses
Adjusted equity	3,131	116	(341)	2,906
Present value of future profits, less taxes	6,394	2,139	0	8,533
Less cost of required capital	(284)	(33)	0	(317)
Embedded value	**9,241**	**2,222**	**(341)**	**11,122**

3.2. Value of new businesses for sales during 2013 (in NIS millions)

	VNB for included life and health insurance businesses	VNB for pension fund management businesses	Total VNB for insurance and pension
Value of new businesses before required capital cost	1,039	219	1,258
Value of required capital in respect of new businesses	(35)	(4)	(39)
Total value of new businesses	**1,004**	**215**	**1,219**

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

Table 3.3a – Insurance Business

	NIS millions
Equity (company's balance)	3,617
Reevaluation of overlapping assets of included businesses and displayed in financial reports by cost of fair value, less taxes	291
Less deferred acquisition costs (DAC)	(1,208)
Plus reserves for deferred tax on DAC	431
Adjusted equity in respect of long-term insurance included businesses	**3,131**

Table 3.3b – Pension fund management companies

	NIS millions
Equity (company's balances)	226
Less deferred acquisition costs (DAC)	(156)
Plus reserves for deferred tax and future tax benefits on DAC	47
Less reputation in respect of purchased pension funds, appearing in the company's balance sheet of the pension fund management company	(1)
Adjusted equity in respect of pension businesses	**116**

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

	NIS millions
Adjusted equity in respect of long-term insurance policies (life and health insurance), from table 3.3a above	3,131
Less deferred acquisition costs (balance sheet DAC) in respect of pension	(156)
Plus reserves for deferred tax and future tax benefits on DAC, Pension	47
Less the value of purchased pension fund management companies and reputation in respect thereof included in the equity	(116)
Adjusted equity of Harel Insurance, taking pension fund management businesses into account	**2,906**

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

Table 3.4a –Insurance business

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2012 (opening balance)		**2,872**	**5,064**	**7,936**
Adjustment to embedded value in respect of the opening balance	2.7.1	0	70	70
Eliahu portfolio acquisition	1.1	0	108	108
Embedded value adjusted to the opening balance		**2,872**	**5,242**	**8,114**
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	(53)	(64)	(117)
- Anticipated profit on the value in force	2.7.3	76	255	331
- Inclusive profit predicted in 2013, transferred from portfolio value to equity	2.7.3	524	(524)	0
- Influence of deviations from the operational and demographic assumptions during 2013, plus other changes to the inforce portfolio	2.7.4	(138)	6	(132)
Total operational profit from the in-force portfolio 31.12.2012		**409**	**(327)**	**82**
Profit from new businesses	2.7.5	(242)	1,246	1,004
Real operational profit according to embedded value		**167**	**919**	**1,086**
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	107	107
Influence of inflation in 2013	2.7.8	35	95	130
Profit (loss) from deviations from the economic assumptions during 2013 and amendments of the economic assumptions	2.7.9	291	(253)	38
Total real profit on an embedded value basis		**493**	**868**	**1,361**
Profit from pension businesses		28	0	28
Profit from non-included businesses	2.7.10	85	0	85
Total real profit on an embedded value basis - including all business of the company		**606**	**868**	**1,474**
Capital Movements		(347)	0	(347)
Embedded value as at 31.12.2013		**3,131**	**6,110**	**9,241**

Table 3.4b - Pension fund management businesses

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2012 (opening balance)		**98**	**1,478**	**1,576**
Adjustment to embedded value in respect of the opening balance	2.7.1	0	57	57
Embedded value adjusted to the opening balance		**98**	**1,535**	**1,633**
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	0	221	221
- Anticipated profit on the value in force	2.7.3	2	25	27
- Inclusive profit predicted in 2013, transferred from portfolio value to equity	2.7.3	40	(40)	0
- Influence of deviations from the operational and demographic assumptions during 2013, plus other changes to the inforce portfolio	2.7.4	6	60	66
Total operational profit from the in-force portfolio 31.12.2012		**48**	**266**	**314**
Profit from new businesses	2.7.5	(36)	251	215
Real operational profit according to embedded value		**12**	**517**	**529**
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	0	0
Influence of inflation in 2013	2.7.8	1	29	30
Profit (loss) from deviations from the economic assumptions during 2013 and amendments of the economic assumptions	2.7.9	(2)	25	23
Total real profit on an embedded value basis		**11**	**571**	**582**
Capital Movements		7	0	7
Embedded value as at 31.12.2013		**116**	**2,106**	**2,222**

Table 3.4c - Total Insurance and Pension fund management businesses

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2012 (opening balance)		**2,628**	**6,542**	**9,170**
Adjustment to embedded value in respect of the opening balance	2.7.1	0	127	127
Eliahu portfolio acquisition	1.1	0	108	108
Embedded value adjusted to the opening balance		**2,628**	**6,777**	**9,405**
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	(53)	157	104
- Anticipated profit on the value in force	2.7.3	69	280	349
- Inclusive profit predicted in 2013, transferred from portfolio value to equity	2.7.3	564	(564)	0
- Influence of deviations from the operational and demographic assumptions during 2013, plus other changes to the inforce portfolio	2.7.4	(132)	66	(66)
Total operational profit from the in-force portfolio 31.12.2012		**448**	**(61)**	**387**
Profit from new businesses	2.7.5	(278)	1,497	1,219
Real operational profit according to embedded value		**170**	**1,436**	**1,606**
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	107	107
Influence of inflation in 2013	2.7.8	32	124	156
Profit (loss) from deviations from the economic assumptions during 2013 and amendments of the economic assumptions	2.7.9	302	(228)	74
Total real profit on an embedded value basis		**504**	**1,439**	**1,943**
Profit from non-included businesses		85	0	85
Capital Movements		(311)	0	(311)
Total Change in EV		**278**	**1,439**	**1,717**
Embedded value as at 31.12.2013		**2,906**	**8,216**	**11,122**

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

a. Insurance business

	NIS millions
Net profit for 2013	**635**
Items attributed directly to equity	15
Total After-Tax Profit	**650**
Changes in DAC, before tax	(189)
Tax in respect of changes in DAC not included in the in force portfolio value	79
Changes in the difference of fair value, less tax	66
Total Profit Adjusted to EV Basis	**606**
Opening Adjustment to Adjusted Equity	0
Capital Movements	(347)
Total Change in Adjusted Equity	**259**

b. Pension management businesses

	NIS millions
Net profit for 2013	**31**
Items attributed directly to equity	(1)
Total After-Tax Profit	**30**
Changes in DAC, before tax	(30)
Tax in respect of changes in DAC not included in the in force portfolio value	11
Changes in the difference of fair value, less tax	0
Total Profit Adjusted to EV Basis	**11**
Capital Movements	7
Total Change in Adjusted Equity	**18**

3.6. Sensitivity analysis for included businesses as at 31.12.2013

a. Insurance businesses

	Change in embedded value		Change in value of new business	
	NIS millions	%	NIS millions	%
Base result	**9,241**		**1,004**	
0.5% reduction in risk-free interest	55	0.6%	35	3.5%
10% increase in administration and general expenses	(283)	(3.1%)	(38)	(3.8%)
Relative 10% increase in cancellation rate (including redemptions and settlements)	(398)	(4.3%)	(113)	(11.2%)
10% increase in mortality rates among pre-retired insured's	(51)	(0.6%)	(23)	(2.3%)
10% increase in morbidity rates	(580)	(6.3%)	(81)	(8.0%)
Relative 10% decrease in mortality rate among recipients of old-age pensions	(234)	(2.5%)	(3)	(0.3%)
Relative 10% increase in annuity utilization rate	(100)	(1.1%)	0	(0.0%)
Relative 0.5% increase in risk-free interest	(15)	(0.2%)	(35)	(3.5%)
10% decrease in administration and general expenses	283	3.1%	38	3.8%
Relative 10% decrease in cancellation rate (including redemptions and settlements)	454	4.9%	141	14.0%
10% decrease in mortality rates among pre-retired insureds	41	0.4%	19	1.9%
10% decrease in morbidity rates	538	5.8%	91	9.1%
Relative 10% increase in mortality rate among recipients of old-age pensions	207	2.2%	6	0.6%

b. Pension businesses

	Change in embedded value		Change in value of new business	
	NIS millions	%	NIS millions	%
Base result	2,222		215	
0.5% reduction in risk-free interest	131	5.9%	18	8.4%
10% increase in administration and general expenses	(142)	(6.4%)	(19)	(8.8%)
Relative 10% increase in cancellation rate (including redemptions and freezing)	(174)	(7.8%)	(36)	(16.7%)
1% decrease in wages rises	(126)	(5.7%)	(23)	(10.7%)
Increase in governmental interest by 0.5%	(119)	(5.3%)	(16)	(7.4%)
10% decrease in administration and general expenses	142	6.4%	19	8.8%
10% decrease in cancellation rate (including redemptions and freezing)	193	8.7%	42	19.5%
1% increase in wages rises	143	6.4%	26	12.1%

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May 20, 2014

Addendum A

To:
The Board of Directors
Harel Insurance Company Ltd.

Dear Sir or Madam,

Re: Review of embedded value report dated 31.12.2013

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

B. Inter alia, our review included:

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

2. Reconciliation between calculated results and company financial information.

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

4. Examination of the compliance of the methodology, assumptions and method of presentation, according to which the embedded value report was prepared, with Circular No. 2007-1-11 issued by the Commissioner for Insurance and its appendices (hereinafter: Commissioner's circular). The Commissioner's circular adopted the rules and principles established in the report of the joint committee of the insurance companies and the Commissioner for Insurance (hereinafter the 'committee') which operated together with Israeli and foreign consultants.

C. On the basis of our review and relying on the information and data provided by the company, we note as follows:

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1. The methodology and assumptions described in the embedded value report substantively comply with the Commissioner's circular, subject to item D(3) below.

2. The method of disclosure in the embedded value report substantively complies with the Commissioner's circular and with instructions specified in the "Disclosure Format" which was prepared by the committee, in coordination with the Insurance Commissioner.

3. Nothing came to our attention indicating that the demographic and operational assumptions presented to us during the review were unreasonable in relation to the company's past and present experience and the management's expectations regarding the future, subject to paragraph D(2) hereunder.

4. Nothing came to our attention indicating that the embedded value of NIS 11,122 million, value of new business of NIS 1,219 million, the sensitivity tests in respect thereof and the analysis of movement in embedded value were improperly evaluated according to the methodology and assumptions specified in the embedded value report and which were presented to us during the review.

D. We draw your attention to the following issues:

1. The embedded value report was based on assumptions which are derived from the extrapolation of existing experience to the future, in reference to the environment in which the company operates. Naturally, when dealing with long term future estimations, actual results may be expected to differ from those assumed when calculating the embedded value.

2. There is uncertainty regarding the ramifications of the reforms in the long-term savings and health market. The calculation of the embedded value does not include the possible effects, if any, as detailed in paragraph 1.5.2 of the embedded value report.

3. Comments, clarifications and limitations relating to the treatment of risks described in paragraph 1.5.3 of the embedded value report.

Yours faithfully,

Kost Forer Gabbay & Kasierer C.P.A.
Certified Public Accountants