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HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Interim Statement
At June 30, 2014

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

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Contents

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Board of Directors' Report

Harel Insurance Investments & Financial Services Ltd.

Board of Directors' Report

For the six months ended June 30, 2014

The Board of Directors' Report for the six months ended June 30, 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 (wholly controlled), which operates in Turkey;

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

Provident fund 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 Fund Management Company Ltd. (wholly controlled) ("Tzva Hakeva").

Pension fund management companies: Harel Pension Fund 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) and its subsidiaries: Harel Pia Mutual Funds Ltd. ("Harel-Pia"), Harel Finance Investments Management Ltd. (a licensed investment advisor), Harel Financial Products Ltd. ("Harel Products") (which engages in financial products such as: ETNs, 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 ETNs) and through the subsidiary, Harel Sal Currencies Ltd. (Formerly: 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. Based on the financial statements for the first quarter of 2014, the Group is the largest insurance group in Israel with respect to insurance premiums, accounting for 21% of the market. 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 15.8%. In the provident fund management sector, the Group has a market segment of about 7.9%. In the mutual fund management sector, the Group has a market segment of about 13.5%.

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 date, the Hamburger family (Yair Hamburger, Gideon Hamburger and Nurit Manor) holds – mainly through G.Y.N. Financial Consulting & Management Ltd., a holding company which they fully control - 50.28% of the Company's Voting rights and 49.73% of the Company's Issued share capital.

2. Financial position 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. Distribution of a dividend

Regarding a resolution to distribute a dividend in the amount of NIS 107 million, which was passed on June 17, 2014 and executed on July 14, 2014, see Note 11 to the financial statements. Regarding a resolution to distribute a dividend in the amount of NIS 106 million, which was passed on March 30, 2014 and executed on April 24, 2014, see Note 11 to the Financial Statements.

2.1.2. Bonus for 2013

Concerning approval by the Board of Directors on June 17, 2014 of the method of computing the bonuses for the Company’s senior officers, in accordance with the compensation policy - see Note 11 to the Financial Statements.

2.1.3. Private placement - expansion of Series F-G bonds

Concerning an expansion of Series 6-7 bonds, by way of a private placement in the amount of NIS 83.4 million par value - see Note 8 to the Financial Statements. Concerning a Standard & Poor’s Maalot rating dated June 5, 2014 for the aforementioned private placement - see Note 8 to the Financial Statements.

2.1.4. 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 Company's external auditors; (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) discussion of the periodic report for 2013.

The general meeting approved all the items on the agenda.

2.1.5. Turk Nippon

Regarding the acquisition of all the holdings in Turk Nippon on April 29, 2014 - see note 11 to the Financial Statements.

2.1.6. Capital injection

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

2.1.7. 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.

2.1.8. Credit transaction to the Azrieli Group

Regarding the entering into agreement by Harel Insurance and other financial institutions of the Group in a credit transaction in the amount of NIS 300 million for the Azrieli Group, against a lien on the Ramle Mall - see Note 11 to the Financial Statements.

2.1.9. Permit to control a corporate agent

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

2.1.10. Shelf Prospectus - Harel Share Issues

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

2.1.11. Private Issue - expansion of Series 6-8 bonds

Concerning a private placement of promissory notes of Harel Share Issues from 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.

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

2.2.1. Credit provided to Harel Financial Products

Concerning a credit facility provided by the Company to Harel Financial Products on August 13, 2014, to enable Harel Sal to comply with the relevant capital requirements - see Note 2 to the consolidated interim Financial Statements attributed to the actual company.

2.2.2. Maalot rating of Harel Insurance

Concerning a rating of Harel Insurance published by Maalot on August 10, 2014, see Note 7 to the Financial Statements.

2.2.3. Discontinuation of the Maalot rating of EMI

On July 15, 2014, Maalot announced termination of the monitoring process of EMI's rating, in light of a request by EMI.

2.3. Developments in the Group's macroeconomic environment

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 most recent indicators for the second quarter of 2014 show an improvement in the global economy, particularly in the US, UK and China. This follows a weaker first quarter which was affected by the severe winter in the US, as well as increased tensions between Russian and the Western world on the Ukrainian issue.

In the US, economic indicators in the second quarter were mostly positive, particularly given that the employment market and company surveys showed a slower rate of growth during the quarter. The Fed continued to taper its bond-purchasing plan (QE).

In the Eurozone, most economic indicators showed moderately improved growth during the quarter together with high variance among the Eurozone countries.

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 market

The TA-100 index declined 2.3% in Q2 2014 but at the end of the first half of the year, the index had risen 3.7%. Average daily turnover of shares and convertible stock was NIS 1.2 billion in the first half, a 9% increase compared with average turnover recorded at the end of the first half of 2013.

2.3.4. Bond Market

The general bond index rose by 1.8% in the Q2 2014 and 3.9% in the first half of the year. During the first half, the government bond index rose 4.5% and the corporate bond index rose 2.9%. Daily turnover in bonds was NIS 4 billion in the first half, a decline of 17% compared with the average turnover in the first half of 2013.

2.3.5. Mutual Funds

Net amounts of NIS 11.8 billion were raised in the mutual funds market during the Q2 2014 and NIS 26.3 billion during the first half of the year, 17% decline compared with the average turnover recorded in the first half of 2013. Most of the amounts raised in the quarter were by mutual funds specializing in bonds (NIS 26.5 billion in the first half) while the money-market funds recorded net redemptions of NIS 2.9 billion in the first half of the year.

2.3.6. Index products

According to the Association of ETFs, the index-linked certificate market manages assets in the amount of NIS 109.4 billion at the end of the second quarter of 2014, compared with NIS 101.3 billion at the end of 2013, an increase of 8%. During the first half of 2014 the ETNs specializing in foreign shares were particularly strong and raised NIS 3 billion.

2.3.7. Foreign Currency Market

During the second quarter of 2014, the shekel strengthened by 1.4% against the dollar (to NIS 3.438 / 1 USD) and by 2.5% against the euro (to NIS 4.6939 / 1 EUR). Summing up the first half of the year, the shekel strengthened by 1.0% against the dollar, and 1.8% against the euro.

2.3.8. Inflation

According to the last known index, over the last 12 months up to the index for May, inflation was 1%. The known index for the second quarter rose 0.5% (March - May).

2.3.9. Bank of Israel Interest

The Bank of Israel Interest remained 0.75% during the second quarter of 2014.

2.3.10. Significant events in the economy after the Reporting Period

The Bank of Israel lowered the interest rate for the month of August by 0.25 percentage points to 0.5%.

In July 2014 Operation Protective Edge commenced. At this stage it is impossible to estimate the impact of the operation on economic growth. The operation had no significant effect on the domestic capital market.

2.4. Legislation and regulation regarding the Company's area activity

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

2.4.1. General

2.4.1.1. Provisions of Law

2.4.1.1.1. FATCA - Foreign Account Tax Compliance Act

In March 2010, the Foreign Account Tax Compliance Act (FATCA) 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 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. Bills, law memoranda, and draft regulations

On June 9, 2014, a law memorandum was published concerning Compensation of Officers of Financial Institutions (Special Approval and Limitations on Expenses on account of Extraordinary Compensation), 5774-2014. The law memorandum proposes a corporate mechanism for the approval of transactions that provide compensation of more than NIS 3.5 million a year to senior officers or employees in financial institutions. Likewise, the memorandum proposes that when a person's taxable income is investigated, no tax deductions will be allowed on the salaries of officers and employees of financial institutions that are in excess of NIS 3.5 million per year, and expenses that are not tax deductible will be subtracted from this maximum amount.

2.4.1.3. Circulars

2.4.1.3.1. On June 10, 2014, the Commissioner published a circular concerning an amendment to the provisions of the special circular - management of investment assets (trust deeds). The circular adds conditions which, when met, will allow financial institutions to purchase ordinary non-government bonds issued in Israel commencing November 1, 2013, in the primary or secondary market (the conditions do not apply to the expansion of a series of bonds that were issued prior to October 31, 2013) and an instruction whereby financial institutions must verify that the trust deed reflects its defined investment policy. The provisions of the circular entered into force on its date of publication.

2.4.1.3.2. 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.; (d) provisions concerning compensation for officeholders who are engaged in control, marketing, sales and brokerage; (e) provisions for maintaining control, audit, documentation and publication of the policy.

The provisions of the circular apply to all financial institutions from July 1, 2014. The circular also prescribes transitional provisions for existing agreements. On July 1, 2014, the boards of directors of the financial institutions approved updates to their compensation policy pursuant to the provisions of the circular - see Section 4.1.2 below.

2.4.1.3.3. 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.

2.4.1.3.4. 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.

2.4.1.3.5. 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 operating segment.

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

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 operating segment.

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.

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

2.4.1.4. Draft circulars

2.4.1.4.1. 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 sets provisions concerning 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.

2.4.1.4.2. On March 25, 2014, a draft circular was published concerning the renewal of an insurance contract, which proposes establishing provisions that require notice to be sent to a policyholder regarding a proposal to renew or not renew a policy and to obtain the policyholder’s agreement for renewal, and if the policy is not renewed - to send notice of the non-renewal. The provisions of the circular will become applicable to the following lines of insurance, within three months of their date of publication: in the life assurance branches - term assurance only; personal accident insurance (for policies with a policy period of no more than one year); illness and hospitalization insurance; compulsory motor insurance; motor property insurance; and comprehensive insurance for homeowners and businesses. The provisions of the circular will not apply to group life assurance plans, group work disability insurance, and group health insurance policies. The provisions of the circular concerning the sending of such notice will not apply to policies where the policy period is less than three months.

2.4.1.4.3. 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.

2.4.1.5. Instructions and clarifications

2.4.1.5.1. On August 12, 2014, the Commissioner published an opinion on the subject of “business day”, whereby a business day is any day except Saturday, Friday, public holidays, day before Rosh Hashanah (Jewish New Year), Yom Kippur, day before first day of Sukkot (Tabernacles), first day of Sukkot, day before Shmini Atzeret, Shmini Atzeret, day before first day of Passover, day before seventh day of Passover, Seventh day of Passover, day before Shavuot (Pentecost), Shavuot, Purim, Israel Independence Day, and Ninth of Av (Tisha B’Av). Likewise, a business day will commence when the previous business day ends and it will end at 18:30 on that day of business.

2.4.1.5.2. On June 5, 2014, a draft ruling in principle was published that addresses the Equal Rights for People with Disabilities Law. The ruling proposes that insurance companies must provide a written explanation for an insured who is disabled and received differential treatment in an insurance contract or who an insurance company refuses to insure, within 90 days, and it must specify all the details listed in the draft. The Commissioner and the insurance companies are discussing the draft ruling.

2.4.1.5.3. 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. Accordingly, on June 26, 2014, a business continuity exercise took place among the group’s financial institutions. On July 24, 2014, the Commissioner published a letter to the managers of the financial institutions as well as a draft position paper detailing the findings of the exercise and dividing them into several areas (specifying instances of cases of proper implementation and of deficient implementation). The letter also stipulated that in view of the importance of the subject, the on-going review of the financial institutions’ deployment for business continuity will continue through individual audits and exercises, including a review of any deficiencies found in the financial institutions during their exercises.

2.4.1.5.4. 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 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 assurance and long-term savings

2.4.2.1. Provisions of Law

2.4.2.1.1. On August 6, 2014, the Bill for the Division of Pension Savings between Divorced Couples, 5774-2014, was published. The bill regulates the allocation of pension rights between couples who have divorced/separated, through financial institutions. The law will apply to any couples where one party has pension rights in respect of which property must be divided in accordance with a judgment for the division of pension savings, under the pension law or as part of the old pension funds or in insurance policies, provident funds and new pension funds. Furthermore, provisions were also determined concerning a spouse's entitlement to pension rights if the eligible spouse dies before the spouse from whom s/he divorced. It was also determined that in respect of such rights as can be dealt with in this way, the divorcee's share will be divided in accordance with the divorce agreement at the time of dividing the property in such manner that the financial institution will open an account in the name of the other spouse and transfer to him/her the rights to which s/he is entitled, so that the payment is made directly by the paying entity. These rights will be like those of a member whose status is frozen but will be protected from attachment and encumbrance. The date of exercising the rights is according to the date for exercising the rights of the spouse in respect of whom the property was divided and the tax rules that would have applied to the spouse for whom the rights were accrued will apply to these rights as if he were to receive them in full.

2.4.2.1.2. On June 12, 2014 Supervision of Financial Services (Provident Funds) (Participation of Management Companies in General Meetings) Regulations (Amendment), 5774-2014 entered into force. The regulations stipulate that: (a) an institutional investor will attend and vote at a general meeting of a corporation in which it has voting rights; (b) an institutional investor that holds securities of a financial corporation or a corporation that controls a financial corporation or of a bank, may attend and vote at the general meeting of the said corporation in the manner to be approved by a majority of the outside representatives of the financial institution's investment committee, if the subject of the resolution submitted for the approval of the general meeting is approval of the compensation policy for senior officers or approval of transactions that require the general meeting's approval on those topics listed in the regulations.

Concurrently, on June 10, 2014, a circular was published on increasing the involvement of the financial institutions in the capital market, which updates provisions regarding the manner in which financial institutions may enter into agreement with professional entities. The circular makes recommendations about the topics that are voted on at general meetings and the degree of reliance on the recommendations. The provisions of the circular become applicable on June 12, 2014, except for a provision that enters into force on August 1, 2014.

Following amendments that were made to the aforementioned circular, on June 10, 2014, a circular was published concerning an amendment to the provisions of the consolidated circular - Management of Investment Assets (Participation of Financial Institutions in General Meetings). In the amendment, a section was added to the chapter on the management of investment assets stipulating that when the conditions therein are met, it is presumed that the institutional investor and its investment committee have met their obligations under the Supervision of Financial Services (Provident Funds) (Participation of Management Companies in General Meetings) Regulations, 5769-2009, to examine the qualifications of the professional entity and that they are persuaded that it works to formulate its recommendations while investing the necessary resources. The provisions of the circular become applicable on August 1, 2014.

The provisions of both the above circulars apply to insurance companies – with respect to their yield-dependent liabilities, and to management companies – with respect to the provident funds and pension funds that they manage, as well as to the old pension funds.

2.4.2.1.3. 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. The regulations 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 regarding notices and publications to members concerning the withdrawal of funds permitted by the above regulations and the reports to the Commissioner.

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.

2.4.2.1.4. 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.

2.4.2.1.5. 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. The regulations become applicable on April 1, 2014 (transition provisions were prescribed in relation to direct expenses originating in transactions that were performed before the commencement date).

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 following 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. Circulars

2.4.2.3.1. On July 27, 2014, the Commissioner published a circular on the subject of a discount on management fees on account of recipients of annuities in a pension fund. The circular stipulates that a management company's undertaking to give a discount on management fees to the recipient of an old-age pension, will be given close to his retirement. The circular also prescribes the method of calculating the annuity and that the discount on management fees will be given for the entire payment period in which the annuity is paid. The provisions of this circular apply to all the management companies of new pension funds from its date of publication.

2.4.2.3.2. On July 23, 2014, a circular was published concerning the annual and quarterly reports that financial institutions are required to send members and policyholders. The circular prescribes the annual and quarterly reporting format for pension savings products and life assurance products, including group life assurance policies in the event of death and work disability. The circular replaces a series of circulars on the subject, extends the disclosure obligations that apply to financial institutions and simplifies the information to be presented in the report so that members and policyholders can use the reports as a control and monitoring tool. The provisions of the circular will become applicable from the annual report for 2014, except for provisions that are specified as entering into force from the annual report for 2015.

2.4.2.3.3. On June 10, 2014, the Commissioner published a circular concerning an amendment to the provisions of the consolidated circular - Management of Investment Assets (Direct Expenses on Account of Performing Transactions). The circular prescribes which indices and under what conditions provident funds will be allowed expenses for investing in ETNs in Israel (based on the Supervision of Financial Services (Provident Funds) (Direct Expenses on Account of Performing Transactions) (Amendment no. 2) Regulations, 5775-2014). The provisions of the circular apply from their date of publication to all financial institutions, excluding insurers in relation to liabilities that are not yield dependent. In 2014 financial institutions may collect expenses from provident fund assets or money held against yield-dependent liabilities, also on account of investments in ETNs that track the indices listed in the circular, provided that the ETNs were purchased before April 1, 2014.

2.4.2.4. Draft circulars

2.4.2.4.1. On May 19, 2014 a draft circular was published concerning conditions in pension arrangements that include insurance cover. The purpose of the draft circular is to prescribe provisions that will limit the concern over conflicts of interests between the employer and his employees when they enroll in pension savings arrangements, and to prevent making a discount on management fees of a pension product or the cost of the insurance cover conditional on the purchase of any other product or service. The provisions of the circular apply to group and personal lines life assurance policies and group and personal lines work disability policies that are sold or renewed after the commencement date of the circular. The Commissioner and the insurance companies are discussing the draft circular.

2.4.2.4.2. 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 sets 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.

2.4.2.5. Instructions and clarifications

2.4.2.5.1. On June 2, 2014, the Commissioner published a clarification concerning Section 20 of the Supervision of Financial Services (Provident Funds) Law, 5765-2005. Accordingly, preventing an employee from enrolling in a specific provident fund, including preventing his enrollment according to conditions agreed upon between the employee and the provident fund, is in contravention of the provisions of Section 20(A) of the Supervision of Financial Services (Provident Funds) Law, 5765-2005.

2.4.2.5.2. On April 27, 2014, a draft ruling in principle was published concerning enrolment in group life assurance. In cases where insured's were enrolled in group life assurance without having given their express consent in writing and in advance, and 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, without 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).

2.4.3. Health 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 serve as policyholder for group overseas travel insurance, 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.

2.4.3.2. Instructions and clarifications

2.4.3.2.1. On July 7, 2014, the Superintendent published a draft position concerning the definition of an insured event in long-term care insurance. The draft position states that the intention which forms the basis for the method of determining entitlement through a test of ADLs, is to examine whether or not the insured is capable of performing acts of daily living unassisted. The circular on drawing up a long-term care insurance plan therefore prescribes a significant test which also has a quantitative value ("at least 50% of the activity"), although originally the intention was not that the significant test would become an exclusively numerical calculation. Consequently, according to the Commissioner, insofar as an ADL cannot be significantly performed, the insurance company cannot determine that the insured is capable of performing 50% of the activity. The draft proposes establishing that when claims are settled, insurance companies must examine whether the policyholder is capable of performing a substantial part of the activity unassisted, so that the examination is conducted according to the intentional interpretation above. The Commissioner and the insurance companies are discussing the Superintendent's draft position. At this stage, it is impossible to estimate the effect of the Superintendent's draft position on the Company.

2.4.3.2.2. On April 9, 2014, a draft Superintendent's position was published concerning yield-dependent personal lines long-term care insurance that sets principles to the this plan such as including a balancing mechanism whereby the premiums or insurance compensation, assets management 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), including 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.

2.4.3.2.3. German Commission

On June 25, 2014, the recommendations of the advisory committee established by the Minister of Health to strengthen the public health system ("German Commission") were published. With respect to medical insurance (Supplementary Health Services and commercial insurance), the Commission recommended breaking up the SHS plans into three independent components which will not cross-subsidize one another: (a) first component - surgery, surgery-related consultation, consultations, and a second opinion. For this component, standard conditions will apply to all SHS plans and insurance companies, and the deductible rate will be the same. Cover other than cover for surgery or consultation may not be sold without the approval of the Commissioner and the Minister of Health, the insurance tariffs will be reviewed and revised periodically, a procedure for announcing renewal of the insurance at the end of the policy period will be determined, the premium will change by pre-defined age group and uniformly for the health funds and insurance companies, premiums may be changed only on the appointed date for all policyholders, the premium will not be dependent on the question of whether or not a policyholder purchased another product (the standard surgery policy), there will be no sale of insurance products to cover or reduce the deductible, and surgery will be performed exclusively by doctors who are part of the arrangement; (b) second component - medicines, pregnancy, dental treatment, child development, enhancement of the health services basket; (c) third component - everything else. Additional recommendations made by the commission with respect to healthcare insurance are: (a) the elimination of unnecessary service notes; (b) a two-way subrogation obligation will be established between the health funds and the insurance companies; (c) insurance companies may not contact health funds on operational issues or purchasing arrangements; (d) an ethical code must be established relating to the advertising of health insurance; (e) independent consultants will monitor surgery in the private sector; (f) a mechanism will be formulated to limit the existing incentives that redirect patients from the public to the private sectors; (g) an advisory committee will be established to review and supervise the other components of the SHS that are currently sold as a bundle; (h) information to be given to the regulators and the general public regarding prices, waiting times, marketing costs, etc.; (i) there will be no exclusivity arrangements with service providers (surgeons and medical institutions); (j) a price comparison site and website will be set up to allow policyholders to clarify the existing health policies and SHS that are registered in their names; (k) the Commissioner of Insurance will be empowered to review the insurance companies' Loss Ratios and to intervene where necessary; (l) obstacles that impede the movement of policyholders from existing to new policies will be removed, and the insurance companies will be supervised to ensure that they do not force policyholders to leave personal lines policies. At this stage, it is impossible to estimate the effect of the results of the commission's recommendations on the Company, in part in view of the fact that changes may take place in the process of adopting the recommendations as legislation, there is no way of knowing whether the standard policy in the first layer will lead to an increase in premium for the other layers, and it is impossible to estimate what the response of existing insureds will be to possible changes in the format of the insurance cover

2.4.4. Non-life 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, Supervision 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.

2.4.4.3. Instructions and clarifications

2.4.4.3.1. On May 26, 2014, the Commissioner published a letter concerning the principles for writing insurance plans - Superintendent's position. The letter instructed the deferment of the onset of the provisions of the Superintendent's position as published on July 10, 2013, with respect to the comprehensive homeowners' insurance branch, so that they will become applicable on June 1, 2015.

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.

2.4.5.2. Circulars

2.4.5.2.1. On February 19, 2014, the Israel Securities Authority published a circular for fund managers and trustees regarding an agreement between a fund manager and a professional entity for the purpose of receiving recommendations as to the manner of voting at a general meeting. The circular presents the ISA's position in relation to the manner in which a fund manager is required to ensure that the professional entity provides a professional service to a reasonable standard, that the consultant is reliable and is not subject to conflicts of interests and alien considerations, and with respect to the control mechanisms that the fund manager must apply.

2.4.5.3. Instructions and clarifications

2.4.5.3.1. On June 10, 2014, the ISA published an instruction for license holders in connection with clarifying the customer's needs and instructions. The instruction replaces a previous ISA instruction on this subject from 2010, and it prescribes new guidelines for the process of clarifying the needs of new customers and with respect to revising the needs of existing customers.

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

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

	For the six months ended June 30		% change	For the three months ended June 30		For year ended December 31
	2014	2013		2014	2013	2013
Life assurance and long-term savings segment						
Gross earned premiums	1,891,456	1,909,174	(1)	934,100	975,004	3,809,905
Income from management fees	439,645	368,970	19	190,927	161,471	825,563
Profit (loss) from life assurance business	(26,130)	194,282	-	(86,196)	43,260	333,086
Profit from provident fund management	23,340	14,798	58	12,459	7,117	29,785
Profit from pension fund management	29,526	27,441	8	13,787	16,919	57,962
Total profit from life assurance and long-term savings	26,736	236,521	-	(59,951)	67,296	420,833
Total comprehensive income (loss)from life assurance and long-term savings	87,922	213,391	-	(55,487)	61,295	431,769
Non-life insurance segment						
Gross earned premiums	1,576,868	1,543,507	2	801,337	776,700	3,111,095
Premiums earned on retention	882,014	893,430	(1)	443,903	438,986	1,775,688
Total profit from non-life insurance	153,273	114,222	34	63,944	41,028	212,142
Comprehensive income from non-life insurance	200,990	94,331	113	53,882	33,322	218,506
Health insurance segment						
Gross premiums earned	1,723,465	1,528,142	13	878,578	769,311	3,192,205
Premiums earned on retention	1,619,094	1,426,378	14	825,078	715,801	2,986,116
Total profit from health insurance	93,228	90,384	3	58,120	27,159	194,930
Comprehensive income from health insurance segment	116,697	85,159	37	58,029	26,430	201,997
Insurance companies overseas segment						
Gross premiums earned	101,491	87,150	16	52,941	44,291	176,651
Premiums earned on retention	58,080	54,793	6	29,797	27,892	112,320
Total profit (loss) from insurance companies overseas	6,233	(7,350)	-	5,347	(3,066)	(6,586)
Total comprehensive profit (loss) from insurance companies overseas	4,960	(10,770)	-	2,519	(3,955)	(12,435)
Capital market and financial services segment						
Revenues from capital market and financial services	144,118	110,713	30	74,384	68,538	253,680
Total expenses from capital market and financial services	118,715	103,700	14	59,810	60,587	226,320

Total profit from capital market and financial services segment	25,467	7,088	259	14,616	8,026	27,403
Total comprehensive profit from capital market and financial services segment	25,544	6,945	268	14,693	7,789	26,600
Items not included in operating segments						
Net profit from investments and financing income	146,185	156,723	(7)	91,206	77,712	315,994
Income from commissions	53,342	41,566	28	29,835	19,282	96,672
General & administrative expenses not charged to reports for operating segments	72,361	56,427	28	38,290	25,530	117,293
Financing expenses	49,449	70,764	(30)	37,181	43,786	152,508
Pre-tax profit	386,679	524,586*	(26)	128,706	173,054*	1,059,400*
Net profit for the period	251,569	336,374	(25)	85,249	113,988	680,791
Other comprehensive income (loss) for the period	95,282	(47,006)	-	(19,586)	(24,879)	5,653
Total comprehensive profit for the period	346,851	289,368	20	65,663	89,109	686,444
Net profit for the period attributed to the Company's shareholders	251,482	336,111	(25)	85,519	113,872	680,332
Net profit (loss) attributed to non-controlling interests	87	263	-	(270)	116	459
Return on equity in terms of annual comprehensive income in percent	14%	13%	10	6%	8%	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):

	At June 30		change%	At December 31
	2014	2013		2013
Total balance sheet	84,230	71,449*	17.9	78,734*
Assets for yield-dependent contracts	34,140	28,573	19.5	31,535
Other financial investments	21,206	19,958	6.3	20,493
Intangible assets	1,603	1,623	(1.2)	1,618
Reinsurance assets	5,448	5,351	1.8	5,423
Insurance liabilities (insurance reserves and outstanding claims) in life assurance				
For yield-dependent investment contracts and insurance contracts	30,495	25,369	20.2	28,040
For insurance contracts that are not yield dependent	11,199	10,558	6.1	10,910
In non-life insurance	10,242	10,167	0.7	10,115
In health insurance (yield dependent and non-yield dependent)	6,431	5,410	18.9	5,953
In insurance companies overseas	237	218	8.5	225
Adjustments and Offsets between segments	(7)	(8)	(7.0)	(8)
Total insurance liabilities	58,597	51,715	13.3	55,235
Equity attributed to holders of the Company's equity	4,639	4,377	6.0	4,506

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

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

	June 30		change%	December 31
	2014	2013		2013
For yield dependent investment contracts and insurance contracts	34,140	28,573	19.5	31,535
For members of provident funds and pension funds*	56,900	47,092	20.8	52,562
For mutual fund customers*	35,280	30,905	14.2	32,915
For customers portfolios*	8,863	8,211	-	8,526
ETNs	13,740	8,880	-	12,054
Total assets under management for the Group's policyholders and members	148,923	123,661	20.4	137,591

* 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 the results of operations

The total amount of the premium earned from insurance business during the Reporting Period amounted to NIS 5.29 billion compared with NIS 5.06 billion during the corresponding period last year, an increase of 4% compared with the corresponding period last year.

The total earned premium from insurance business amounted to NIS 2.7 billion in the second quarter of 2014, compared with NIS 2.6 billion in the corresponding period last year, an increase of 4% compared with the same period last year.

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 347 million for the Reporting Period, compared with comprehensive profit of NIS 289 million for the corresponding period last year - a 20% increase. The increase is due mainly to the effect of the capital market, where yields were high than those in the corresponding period last year, to the volume of variable management fees collected during the reporting period that were higher than those in the corresponding period last year and due to the impact of the negative inflation rate of 0.19% relative to a positive inflation rate of 0.71% last year. These effects were partially offset by an increase in the insurance obligations in the amount of NIS 168 million before tax and NIS 105 million after tax. The need to increase the insurance obligations stems mainly from the ongoing decline in yields, the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities (for additional information, see Note 11 to the Financial Statements).

Comprehensive income after tax in the second quarter of 2014 amounted to NIS 66 million, compared with NIS 89 million for the corresponding quarter last year, a decline of 26%. The decline in comprehensive income in the second quarter of 2014, compared with the corresponding quarter last year, is mainly due to the capital market yields that were lower than those of the corresponding quarter last year, to the increase in the insurance obligations in the amount of NIS 130 million before tax and NIS 81 million after tax. The need to increase the insurance obligations stems mainly from the ongoing decline in yields, the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities (for additional information, see Note 11 to the Financial Statements).

Net profit for the reporting period was NIS 252 million, compared with net profit of NIS 336 million for the corresponding period last year, a decline of 25%.

Net profit in the second quarter of 2014 amounted to NIS 85 million, compared with net profit of NIS 114 million for the corresponding quarter last year.

Pre-tax profit during the Reporting Period amounted to NIS 387 million compared to pre-tax profit of NIS 525 million during the corresponding period last year, a decline of about 26%.

Pre-tax profit in the second quarter of 2014 was NIS 129 million, compared with NIS 173 million in the corresponding quarter last year.

During the Reporting Period net revenues from investments and financing income amounted to NIS 1,812 million, compared with NIS 1,739 million during the corresponding period last year.

The Company's financing expenses that were not attributed to the operating segments, amounted to NIS 49 million in the Reporting Period, compared with NIS 71 million for the corresponding period last year. The decline in financing expenses in the Reporting Period compared to the corresponding period last year was due to the effect of inflation which was a negative 0.19%, compared to positive inflation of 0.71% in the corresponding period last year.

The Company's financing expenses that were not attributed to the operating segments in the second quarter of 2014, amounted to NIS 37 million, compared with NIS 44 million for the corresponding quarter last year. The decline in financing expenses in the second quarter of 2014 compared to the corresponding quarter last year was due to the effect of inflation which was lower than inflation in the corresponding quarter last year.

The Company's equity at June 30, 2014, relating to the Company’s shareholders, amounts to NIS 4,639 million, compared to equity of NIS 4,377 million at June 30, 2013, and to equity of NIS 4,506 million at December 31, 2013. The change in equity stems from: (a) comprehensive income attributed to the Company’s shareholders of NIS 347 million; and (b) dividend in the amount of NIS 213 million; (c) insignificant amounts for a translation fund for foreign activities, a capital reserve for the issue of stock options to employees, and the holding of Company shares by a subsidiary which manages ETNs.

For information about the regulatory capital requirements from the group's insurance companies and from the provident fund and pension fund management companies, based on the supervisory regulations and circulars, including information about the effect of the entering into force of the Supervision 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 income in life assurance and long-term savings during the Reporting Period amounted to NIS 88 million, compared with NIS 213 million in the corresponding period last year.

The decline in comprehensive income is mainly due to the increase in the insurance obligations in the amount of NIS 126 million before tax. The need to increase the insurance obligations stems mainly from the ongoing decline in yields, the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities (for additional information, see Note 11 to the Financial Statements). These effects were partially offset by: performance 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, amounting to NIS 101 million, compared with management fees of NIS 68 million collected during the corresponding period last year; and the effect of inflation during the Reporting Period which was a negative 0.19%, compared to positive inflation of 0.71% in the corresponding period last year.

There was a comprehensive loss in the amount of NIS 55 million in the life assurance and long-term savings segment in the second quarter of 2014, compared with comprehensive income of NIS 61 million in the corresponding quarter last year. The comprehensive loss in the second quarter of 2014, compared with comprehensive income the corresponding quarter last year, is mainly due to the increase in the insurance obligations in the amount of NIS 105 million before tax. The need to increase the insurance obligations stems mainly from the ongoing decline in yields, the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities (for additional information, see Note 11 to the Financial Statements) . These effects were partially offset by the collection of variable management fees of NIS 18 million in the second quarter of 2014, compared with NIS 5.5 million in the corresponding quarter last year.

Pre-tax profit in the life assurance and long-term savings segment was NIS 27 million in the Reporting Period, compared with NIS 237 million for the corresponding period last year, a decline of 89%.

Pre-tax profit in the life assurance and long-term savings segment in the second quarter of 2014 was NIS 60 million, compared with NIS 67 million in the corresponding quarter last year.

Life assurance

2.7.1. Total premiums earned during the Reporting Period amounted to NIS 1,891 million, compared with NIS 1,909 million during the corresponding period last year, a 1% decline compared to the corresponding period last year. Premiums earned during the Reporting Period constituted 36% from the total premiums earned by the Group during the Reporting Period.

Total premiums earned on life assurance amounted to NIS 934 million in the second quarter of 2014, compared with NIS 975 million in the corresponding quarter last year, down 4% relative to the corresponding quarter last year.

Comprehensive income in the life assurance and long-term savings segment was NIS 32 million in the Reporting Period, compared with NIS 172 million for the corresponding period last year. The decline in comprehensive income is mainly due to the increase in the insurance obligations in the amount of NIS 126 million before tax. The need to increase the insurance obligations stems mainly from the ongoing decline in yields, the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities (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 101 million compared with NIS 68 million in the corresponding period last year; the effect of inflation which was negative at the rate of 0.19% during the Reporting Period compared to positive inflation at the rate of 0.71% in the corresponding quarter last year.

The comprehensive loss in the second quarter of 2014 was NIS 83 million, compared with comprehensive income of NIS 38 million for the corresponding quarter last year. The comprehensive loss in the second quarter of 2014, compared with comprehensive income the corresponding quarter last year, is mainly due to the increase in the insurance obligations in the amount of NIS 105 million before tax. The need to increase the insurance obligations stems mainly from the ongoing decline in yields, the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities (for additional information, see Note 11 to the Financial Statements). These effects were partially offset by the collection of variable management fees of NIS 18 million in the second quarter of 2014, compared with NIS 5.5 million in the corresponding quarter last year.

Pre-tax loss in life assurance during the Reporting Period amounted to NIS 26 million compared with pre-tax profit of NIS 194 million during the corresponding period last year.

Pre-tax loss in life assurance during the second quarter of 2014 amounted to NIS 86 million compared with pre-tax profit of NIS 43 million during the corresponding period last year.

Revenues from investments held against insurance obligations in life assurance totaled NIS 1,418 million for the reporting year, compared with investment revenues of NIS 1,281 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 higher than the financial margin for the corresponding period last year, due both to yields on the capital market that were higher than those of the corresponding quarter last year and to inflation which negative compared to positive inflation in the corresponding quarter.

Income from investments that are held against insurance obligations in life assurance amounted to NIS 562 million in the second quarter of 2014, compared with NIS 479 million in the corresponding quarter last year.

During the Reporting Period redemptions amounted to NIS 434 million and accounted for approximately 2.4% of the average reserve in life assurance, compared to redemptions of about NIS 457 million during the corresponding period last year that accounted for about 2.8% of the average reserve last year.

Total life assurance reserves at June 30, 2014, amounted to NIS 41.7 billion.

Yield-dependent policies:

Policies issued from 1991-2003

	1-6.2014 (in percent)	1-6.2013 (in percent)	4-6.2014 (in percent)	4-6.2013 (in percent)
Real yield before payment of management fees	4.36	3.34	0.86	0.40
Real yield after payment of management fees	3.48	2.61	0.61	0.22
Nominal yield before payment of management fees	4.16	4.07	1.35	1.10
Nominal yield after payment of management fees	3.27	3.34	1.11	0.92

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

Policies issued from 2004

	1-6.2014 (in percent)	1-6.2013 (in percent)	4-6.2014 (in percent)	4-6.2013 (in percent)
Real yield before payment of management fees	4.30	3.26	0.84	0.36
Real yield after payment of management fees	3.71	2.66	0.56	0.07
Nominal yield before payment of management fees	4.10	4.00	1.34	1.06
Nominal yield after payment of management fees	3.50	3.39	1.05	0.77

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

	1-6.2014	1-6.2013	4-6.2014	4-6.2013
Profits (losses) after management fees	920	754	307	210
Total management fees	217	164	78	55

Pension funds

2.7.2. The number of members in the pension funds managed by the Group at June 30, 2014, is 847,000, 441,000 of which are active members, a 2% increase in the number of active members compared with December 31, 2013.

The volume of assets managed by the pension funds at June 30, 2014, amounted to NIS 28.5 billion compared with NIS 21.9 billion on June 30, 2013, a 30% increase and compared with the volume of assets of NIS 25.4 billion at December 31, 2013, an increase of 12%. The increase compared to the previous year can be attributed to an increase in the amounts of provisions made by members, an increase in the number of members, and the yield attainted during the Reporting Period.

Contribution fees that were collected by the Group's pension funds during the Reporting Period amounted to NIS 2,258 million, compared with NIS 1,914 million in the corresponding period last year, an 18% increase.

Total assets of the pension funds and the contribution fees deposited therein are not included in the Company's consolidated financial statements.

Total revenues from management fees collected from pension funds managed by the Group during the Reporting Period amounted to NIS 116 million, compared with NIS 106 million in the corresponding period last year, a 10% increase.

Total revenues from management fees which were collected from the pension funds managed by the Group amounted to NIS 59 million in the second quarter of 2014, compared with NIS 57 million for the corresponding quarter last year, an increase of 4%.

Expenses in connection with management of the pension funds amounted to NIS 88 million in the Reporting Period, compared with NIS 80 million in the corresponding period last year.

Expenses in connection with management of the pension funds amounted to NIS 46 million for the second quarter of 2014, compared with NIS 41 million for the corresponding quarter last year.

Total pre-tax comprehensive income from the management of pension funds and operation of an old pension fund during the Reporting Period amounted to NIS 32 million, compared with NIS 27 million during the corresponding period last year.

Pre-tax comprehensive income from the management of pension funds and the operation of an old pension fund amounted to NIS 15 million for the second quarter of 2014, compared with NIS 16 million for the corresponding quarter last year. The decline in comprehensive income in the second quarter of 2014, compared with the corresponding quarter last year, is mainly due to an erosion of the average management fees and an increase in expenses.

Total pre-tax profit from the management of pension funds and operation of an old pension fund during the Reporting Period amounted to NIS 30 million, compared with NIS 27 million for the corresponding period last year.

Pre-tax profit from the management of pension funds and the operation of an old pension fund amounted to NIS 14 million for the second quarter of 2014, compared with NIS 17 million for the corresponding quarter last year.

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

For the six months ended June 30, 2014

Fund name	Investment yield (in percent)
Harel Gilad Pension	4.05%
Harel - Manof	4.04%

For the three months ended June 30, 2014

Fund name	Investment yield (in percent)
Harel Gilad Pension	4.14%
Harel - Manof	4.19%

Provident funds

2.7.3. At 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 a non-contributory pension fund). Some of the provident funds have several investments tracks of which the members can choose. At June 30, 2014, the Group operates 35 tracks in its provident funds.

The volume of assets in the provident funds managed by the Group at June 30, 2014, amounted to NIS 28.4 billion compared with NIS 25.2 billion at June 30, 2013, and compared with NIS 27.2 billion at December 31, 2013, a 12.5% increase relative to June 30, 2013, and an increase of 4.6% 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 financial statements.

Income from management fees collected by the provident funds managed by the Group during the Reporting Period amounted to NIS 106 million, compared with NIS 99 million for the corresponding period last year, a 6.8% increase. The increase is mainly due to the increase in the volume of assets during the Reporting Period compared with the corresponding period last year, although it was partially offset by the erosion in the rate of management fees.

Total revenues from management fees collected by the provident funds managed by the Group amounted to NIS 54 million in the second quarter of 2014, compared with NIS 50 million in the corresponding quarter last year.

Expenses in the provident funds during the Reporting Period amounted to NIS 83 million, compared with NIS 86 million for the corresponding quarter last year.

Expenses in the provident funds during the second quarter of 2014 amounted to NIS 42 million, compared with NIS 43 million for the corresponding quarter last year.

Total comprehensive income before tax for the provident fund management companies which is included in the consolidated statement of income in the life assurance and long-term savings segment in the Reporting Period is NIS 24 million, compared with NIS 15 million for the corresponding period last year.

Total comprehensive income before tax for the provident fund management companies which is included in the consolidated statement of income in the life assurance and long-term savings segment, was NIS 13 million in the second quarter of 2014, compared with NIS 7 million in the corresponding quarter last year.

Total pre-tax profit from provident fund activity which is included in the consolidated statement of income in the life assurance and long-term savings segment during the Reporting Period was NIS 23 million, compared with NIS 15 million in the corresponding period last year.

Total pre-tax profit from provident fund activity, which is included in the consolidated statement of income in the life assurance and long-term savings segment for the second quarter or 2014, was NIS 13 million, compared with NIS 7 million in corresponding quarter last year.

The provident funds' net accumulation (not including the effect of the yields that were attained in respect of the assets under management) during the Reporting Period was positive and amounted to NIS 415 million compared with positive accrual of NIS 285 million for the corresponding period last year.

2.8. Health Insurance

Total premiums earned in the health insurance segment were NIS 1,723 million for the Reporting Period, compared with NIS 1,528 million for the corresponding period last year, a 13% increase. Total premiums earned in health insurance during the Reporting Period, accounted for 33% of all premiums earned by the Group.

Total premiums earned in the health insurance segment during the second quarter of 2014 amounted to NIS 879 million, compared with NIS 769 million in the corresponding quarter last year, an increase of 14%.

During the Reporting Period the health insurance sector posted comprehensive income of NIS 117 million compared with comprehensive income of NIS 85 million in the corresponding period last year. The increase in comprehensive income is due mainly to the effect of the capital market, where yields were higher than those in the corresponding period last year, which was partially offset by a revision of the discounting interest, to falling interest rates in the economy, in the amount of NIS 31 million before tax (for additional information, see Note 11 to the Financial Statements), and the ongoing erosion of the results of operations in group health policies, stemming from an increase in the rate of claims.

Comprehensive income in the health insurance segment in the second quarter of 2014 was NIS 58 million, compared with NIS 26 million for the corresponding quarter last year. The increase in mainly due to the effect of the capital market, where yields were higher than those in the corresponding period last year, as well as improved underwriting results, and this despite the ongoing erosion of the results of operations in group health policies, stemming from an increase in the rate of claims.

Pre-tax profit in the health insurance segment totaled NIS 93 million for the Reporting Period, compared with NIS 90 million in the corresponding period last year, a 3% increase.

Pre-tax profit in the health insurance segment totaled NIS 58 million for the second quarter of 2014, compared with NIS 27 million in the corresponding quarter last year.

Total payments and the change in gross liabilities in respect of insurance contracts in the health insurance sector during the Reporting Period amounted to NIS 1,396 million, compared with NIS 1,226 million in the corresponding period last year, a 14% increase. Most of the change is due to an increase in claims under group insurance and investment gains that were credited to a group long-term care policy in which most of the insurance risk is imposed on the program itself, in the amount of NIS 71.8 million compared with NIS 58 million in the corresponding period last year.

2.9. Non-life insurance

The composition of gross premiums and profit in non-life insurance activity for the Reporting Period, before tax, by lines of activity that are included in non-life insurance, is as follows (in NIS thousands):

	Gross premiums					
	1-6.2014	**1-6.2013**	**%change**	**4-6.2014**	**4-6.2013**	**2013**
Compulsory motor	296,465	304,121	(2.5)	92,118	97,377	484,636
Motor property	633,585	581,513	9.0	170,906	174,973	898,958
Property & other branches	450,026	448,697	0.3	201,679	225,798	956,121
Other liabilities branches	417,937	402,679	3.8	162,985	153,908	761,274
Credit & mortgage insurance*	(11,678)	(6,436)	-	(6,004)	(4,643)	(17,396)
Total	1,786,335	1,730,574	3.2	621,684	647,413	3,083,593

*Net of settlements

	Comprehensive income before taxes					
	1-6.2014	**1-6.2013**	**%change**	**4-6.2014**	**4-6.2013**	**2013**
Compulsory motor	94,934	59,575	59.4	33,470	30,677	111,261
Motor property	26,230	9,331	-	9,871	3,068	24,274
Property & other branches	19,002	11,679	62.7	5,493	3,621	24,628
Other liabilities branches	24,217	(2,999)	-	(4,922)	(10,592)	4,154
Credit & mortgage insurance	36,607	16,745	118.6	9,970	6,548	54,189
Total	200,990	94,331	113.1	53,882	33,322	218,506

Gross premiums during the Reporting Period totaled to approx. NIS 1,786 million, compared with NIS 1,731 million during the corresponding period last year, a 3% 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).

Gross premiums during the second quarter of 2014 totaled to approx. NIS 622 million, compared with NIS 647million during the corresponding quarter last year, a 4% decrease.

Premiums in retention during the Reporting Period totaled to approx. NIS 1,034 million, compared with NIS 1,000 million in the corresponding period last year, a 3% increase.

Premiums in retention during the second quarter of 2014 totaled to approx. NIS 309 million, compared with NIS 310 million in the corresponding quarter last year.

Comprehensive income in general (non-life) insurance during the Reporting Period, amounted to NIS 201 million, compared with comprehensive loss of NIS 94 million in the corresponding period last year. The increase in comprehensive income in the Reporting Period stems mostly from the influence of the capital market in which yields were higher than those in the corresponding period last year, and from negative inflation of 0.19% compared to a positive inflation rate of 0.71% in the corresponding period last year.

Comprehensive income in non-life insurance in the second quarter of 2014 was NIS 54 million, compared with comprehensive income of NIS 33 million for the corresponding quarter last year. The increase in comprehensive income in the second quarter of 2014, compared with the corresponding quarter last year, is mainly due to improved underwriting performance and an extraordinary claim in the liabilities branch which was recorded in the corresponding quarter last year. These were partially offset by the revised discounting interest rates, falling interest rates in the economy, in the amount of NIS 11 million (for additional information, see Note 11 to the Financial Statements), and the effect of the capital market, where yields were lower than those in the corresponding quarter last year.

Pre-tax profit in general (non-life) insurance during the Reporting Period amounted to NIS 153 million compared with pre-tax profit of NIS 114 million in the corresponding period last year, a 34% increase.

Pre-tax profit from non-life insurance in was NIS 64 million in the second quarter of 2014, compared with pre-tax profit of NIS 41 million in the corresponding quarter last year.

2.9.1. Motor property

In motor property insurance gross premiums during the Reporting Period amounted to NIS 634 million, compared with gross premiums of NIS 582 million during the corresponding period last year, an increase of 9%. The increase in premiums stems mostly from an increase in the share held by Harel Insurance of the insurance for state employees' vehicles during the Reporting Period, compared with the corresponding period last year.

Total premiums from motor property insurance amounted to NIS 171 million in the second quarter of 2014, compared with NIS 175 million in the corresponding quarter last year, a decline of 2%.

During the Reporting Period, premiums in retention amounted to NIS 499 million compared with NIS 459 million in the corresponding period last year, an increase of 9%.

Premiums in retention during the second quarter of 2014 totaled approx. NIS 134 million, compared with NIS 137 million in the corresponding quarter last year, a 2% decrease.

Comprehensive income in motor property insurance in the Reporting Period amounted to NIS 26 million, compared with comprehensive income of about NIS 9 million in the corresponding period last year. The increase in comprehensive income stems mostly from improved underwriting performance in this sector, inflation that was lower than inflation during the corresponding period last year, and from the effect of the capital market, where yields were higher than those in the corresponding period last year.

Comprehensive income in motor property insurance during the second quarter of 2014 amounted to NIS 10 million compared with pre-tax profit of about NIS 3 million in the corresponding period last year. The increase in comprehensive income stems mostly from improved underwriting performance in this sector.

Pre-tax profit in motor property insurance in the Reporting Period amounted to NIS 22 million compared with pre-tax profit of about NIS 11 million in the corresponding period last year.

Pre-tax profit in motor property insurance during the second quarter of 2014 amounted to NIS 11 million compared with pre-tax profit of about NIS 4 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 insurance sector amounted to NIS 296 million, compared with gross premiums of NIS 304 million during the corresponding period last year, a decline of 3%.

Total premiums from motor property insurance amounted to NIS 92 million in the second quarter of 2014, compared with NIS 97 million in the corresponding quarter last year, a decline of 5%.

On compulsory motor insurance for vehicles owned by state employees - Section 2.9.1 above regarding motor property insurance.

During the Reporting Period, premiums in retention amounted to NIS 236 million compared with NIS 242 million in the corresponding period last year.

Premiums in retention during the second quarter of 2014 totaled approx. NIS 73 million, compared with NIS 77 million in the corresponding quarter last year, a 5% decrease.

Comprehensive income in compulsory motor insurance in the Reporting Period amounted to NIS 95 million compared with NIS 60 million in the corresponding period last year. The increase in comprehensive income stems mainly from the effect of the capital market in which yields were high than those in the corresponding period last year, the effect of inflation which was a negative 0.19% during the Reporting compared to positive inflation of 0.71% in the corresponding period last year, and improved underwriting performance.

Comprehensive income for compulsory motor insurance during the second quarter of 2014 amounted to NIS 33 million, compared with NIS 31 million during the corresponding quarter last year.

Pre-tax profit for compulsory motor insurance during the Reporting Period amounted to NIS 75 million, compared with NIS 69 million during the corresponding period last year.

Pre-tax profit from compulsory motor insurance was NIS 37 million in the second quarter of 2014, compared with NIS 34 million in 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).

This participation by Harel Insurance in the Pool's premiums had no significant effect on Harel Insurance's performance.

2.9.3. Liability segment and other branches

During the Reporting Period gross premiums in liability segment and other insurance amounted to NIS 418 million, compared with NIS 403 million during the corresponding period last year, a 4% increase.

Gross premiums during the second quarter of 2014 totaled approx. NIS 163 million, compared with NIS 154 million during the corresponding period last year.

Premiums in retention in the Reporting Period amounted to NIS 185 million compared with NIS 188 million during the corresponding period last year, a 2% decrease.

Premiums in retention during the second quarter of 2014 totaled approx. NIS 51 million, compared with NIS 47 million in the corresponding quarter last year, an 8% increase.

Comprehensive income in the other liability segment insurance in the Reporting Period amounted to NIS 24 million compared with a comprehensive loss of about NIS 3 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 and an extraordinary claim in the liabilities branch which was recorded in the corresponding period last year. These were partially offset by the revised discounting interest rates, falling interest rates in the economy, in the amount of NIS 11 million before tax.

The comprehensive loss in the other liability segment insurance amounted to NIS 5 million in the second quarter of 2014, compared with NIS 11 million for the corresponding quarter last year. The change in the loss was due to capital market yields that were lower than those of the corresponding quarter last year and a revision of the discounting interest rates, due to falling interest rates in the economy, in the amount of NIS 11 million before tax. These were offset by an extraordinary claim in the liabilities branch which was recorded in the corresponding quarter last year.

Pre-tax profit in the other liability segment insurance in the Reporting Period amounted to NIS 8 million, compared with NIS 3 million during the corresponding period last year.

Pre-tax loss in the other liability segment insurance during the second quarter of 2014 amounted to NIS 2 million, compared with loss of about NIS 8 million in the corresponding quarter last year.

2.9.4. Property and other branches

Premiums in property and other branches during the Reporting Period amounted to NIS 450 million compared with NIS 449 million during the corresponding period last year.

Premiums in property and other branches during the second quarter of 2014 amounted to NIS 202 million compared with NIS 226 million during the corresponding quarter last year, an 11% decrease.

Premiums in retention during the Reporting Period amounted to NIS 126 million compared with NIS 116 million during the corresponding period last year, an 8% increase.

Premiums in retention during the second quarter of 2014 amounted to NIS 58 million compared with NIS 53 million during the corresponding quarter last year, an 8% increase.

Comprehensive income in property and other branches in the Reporting Period amounted to NIS 19 million, compared with NIS 12 million in the corresponding quarter last year. The increase stems mostly from improvement in the underwriting results.

Comprehensive income in property and other branches during the second quarter of 2014 amounted to NIS 5 million, compared with NIS 4 million in the corresponding quarter last year.

Pre-tax profit in property insurance and other branches during the Reporting Period amounted to NIS 18 million, compared with NIS 12 million in the corresponding period last year.

Pre-tax profit in property insurance and other branches during the second quarter of 2014 amounted to NIS 6 million, compared with NIS 4 million in the corresponding quarter last year.

2.9.5. Insurance for mortgage-related credit risks

Premiums in retention for mortgage-related credit risks during the Reporting Period amounted to NIS 24 million, compared with NIS 25 million for the corresponding period last year, a 6% decline. The premiums earned in mortgage-related credit insurance are not for new sales, but premiums that were recorded in accordance with the mechanism for recording premiums, based on the conditions prescribed in EMI’s license.

Premiums earned on retention in mortgage-related credit risks in the second quarter of 2014 amounted to NIS 10 million compared with NIS 11 million during the corresponding period last year.

EMI does not have reinsurance agreements in this branch.

Comprehensive income in mortgage-related credit insurance during the Reporting Period amounted to NIS 37 million compared with NIS 17 million in the corresponding period last year. The increase in profit stems mostly from the effect of the capital market during the Reporting Period in which yields were high than those in the corresponding period last year, and to a decline in expenses due to a change in the format of the company’s operations.

Comprehensive income in mortgage-related credit insurance during the second quarter of 2014 amounted to NIS 10 million compared with NIS 7 million in the corresponding quarter last year.

Pre-tax profit in mortgage-related credit insurance during the Reporting Period amounted to NIS 30 million compared with NIS 19 million in the corresponding period last year.

Pre-tax profit in mortgage-related credit insurance during the second quarter of 2014 amounted to NIS 12 million compared with pre-tax profit of NIS 8 million in the corresponding quarter 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 at 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 101 million, compared with NIS 87 million for the corresponding period last year, an increase of 16%. Total premiums earned by the insurance companies operating overseas segment for the Reporting Period account for 2% of all premiums earned by the Group.

Total premiums earned in the insurance companies operating overseas segment during the second quarter of 2014 amounted to NIS 53 million, compared with NIS 44 million in the corresponding period last year. Total premiums earned by the insurance companies operating overseas segment in the second quarter of 2014 account for 2% of all premiums earned by the Group.

The insurance companies in the overseas operating segment posted comprehensive income of NIS 5 million, compared with a comprehensive loss of NIS 11 million for the corresponding quarter last year. The increase stems mostly from improvement in the underwriting results and from the influence of the capital market.

The insurance companies in the overseas operating segment posted a comprehensive income of NIS 3 million during the second quarter of 2014, compared with a comprehensive loss of NIS 4 million for the corresponding quarter last year.

During the Reporting Period, the insurance companies overseas posted pre-tax profit of NIS 6 million, compared with a pre-tax loss of NIS 7 million for the corresponding quarter last year.

During the second quarter of 2014, the insurance companies overseas posted pre-tax profit of NIS 5 million, compared with a loss of NIS 3 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 144 million, compared with NIS 111 million for the corresponding period last year, a 30% increase. 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 the mutual fund company of Clal Finance.

Total management fees from the mutual funds and managed portfolios during the Reporting Period were NIS 122 million, compared with NIS 96 million for the corresponding period last year.

The volume of assets under management in the capital market and financial services segment at June 30, 2014, was NIS 58 billion, compared with NIS 48 billion at June 30, 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, relative to December 31, 2013, can be attributed to the growth of assets under management in the mutual funds, as well as to the expansion of activity in ETNs and deposit certificates.

These amounts include mutual fund assets in the amount of NIS 35.3 billion at June 30, 2014, compared with NIS 30.9 billion at June 30, 2013 and NIS 32.9 million at December 31, 2013, as well as ETN assets, which at June 30, 2014 amounted to NIS 13.8 billion against to NIS 8.9 billion at June 30, 2013 and NIS 12.1 billion at December 31, 2013. The assets under management, excluding the assets of the ETN and deposit certificates 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 and comprehensive income of NIS 25 million, as against pre-tax profit and comprehensive income of NIS 7 million for the corresponding period last year. The increase in comprehensive income can be attributed to the acquisition of the portfolio management activity and mutual fund company of Clal Finance and to further growth of activity in ETNs and deposit certificates.

During the second quarter of 2014, the capital market and financial services sector recorded pre-tax profit and comprehensive income of NIS 15 million, as against NIS 8 million for the corresponding quarter last year. The increase in comprehensive income is mainly due to further profitable growth of activity in ETNs and deposit certificates.

2.12. Taxes on income

Taxes on income during the Reporting Period amounted to an expense of NIS 135 million, compared with expenses for income tax of NIS 188 million during the corresponding period last year.

Taxes on income in the second quarter of 2014 amounted to an expense of NIS 43 million, compared with NIS 59 million for the corresponding quarter last year.

2.13. Liquidity and sources of finance

2.13.1. Cash flows

During the Reporting Period total net cash flows used for on-going activity amounted to NIS 1,572 million. Net cash flows used for investment activity amounted to NIS 40 million. Net cash flows provided by activity and fluctuations in the exchange rate amounted to NIS 1,583 million. The result of all the above-mentioned activity is reflected in a decline in cash balances in the sum of NIS 30 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 Period, for the first time Harel Insurance raised hybrid tier-1 capital, as specified below:

2.13.2.1. Private placement - expansion of Series 6-7 bonds

Concerning an expansion of Series 6-7 bonds, by way of a private placement in the amount of NIS 83.4 million par value, so that Harel Insurance can use the consideration as hybrid tier-3 capital - see Note 8 to the Financial Statements.

2.13.2.2. 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.

2.13.2.3. 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.

2.13.2.4. 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.

2.13.2.5. 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.

2.13.2.6. In addition to the above-mentioned loans, at June 30, 2014, the Company and the other companies in the Group have short term loan in the amount of approximately NIS 27 million.

3. Market Risk Exposure and Management

There were no material changes during the Reporting Period in the Company's exposure to market risks and the management of these risks compared with the Periodic Report.

4. Corporate governance

4.1. Senior officers

4.1.1. Termination of service and appointment of senior officers

4.1.1.1. On June 5, 2014, Mr. Lior Dar, manager of the Sales and Marketing Division of Harel Insurance, announced that he would be terminating his term of office for the Company. Subsequently, on June 17, 2014, the Board of Directors of Harel Insurance resolved to implement a restructuring in which the Sales and Marketing Division would be merged with the HQ Division. Mr. Nir Cohen, who has been head of the HQ Division for the last four years, will now head the consolidated division. Mr. Dar will step down at the end of the job transfer period with Mr. Cohen.

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

4.1.1.3. 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. Friedman will formally end his term of office in August 2014.

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 of Adv. Mishan-Zakai was approved by the Commissioner, as required by law, and will take effect during the course of August 2014.

4.1.1.4. 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**.**

4.1.2. Compensation policy in the Group's financial institutions

As specified in Regulation 21(A) in Chapter 5 - Additional Information about the Company, in the Company's Periodic Report, on November 24, 2013, the boards of directors of the Company's subsidiaries that are financial institutions ("the Financial Institutions"), adopted a compensation policy which is based on the Company's compensation policy as approved by the general meeting on August 22, 2013.

On April 10, 2014, the Commissioner published a circular concerning compensation policy in financial institutions ("the Circular").

As a rule, the compensation policy of the Company and the Financial Institutions corresponds with the provisions of the Circular, with the exception of a small number of issues.
Pursuant to the recommendations of the Compensation Committee and after consulting with the Audit Committee, the Risk Management Committee and the Members' Investments Committee, after the reporting period, the boards of directors of the Financial Institutions approved a revised compensation policy after accepting the recommendation of the Financial Institutions' compensation committee.

The principal revisions to the compensation policy are: (a) the addition of a mechanism for deferring and rescheduling the payment of annual bonuses; (b) the addition of a mechanism for deferring and rescheduling the payment of retirement bonuses; (c) conditions were determined for the payment of deferred amounts: (d) it was determined that the ratio between the fixed and variable components will not be more than 1:1, and with respect to officeholders involved in audit and reporting, a lower ratio was determined; (e) the policy was applied to a number of officeholders who were not previously included in the policy; (f) transitional provisions were determined regarding accrued rights; (g) provisions were prescribed concerning the bonus in the first year of employment; (h) provisions were prescribed concerning application of the policy to outsourcing; (i) principles were prescribed for the compensation of all the employees of the Financial Institutions. The policy stipulates that it is not intended to infringe on rights that have already been accrued. (j) Several additional risk indices were included in the plan which will reduce the compensation should the risk materialize.

In view of the revised compensation policy of the Financial Institutions, the officers currently serve the Company and the Financial Institutions voluntarily accepted upon themselves the mechanism for the deferment and rescheduling of the annual bonus, as prescribed in the Financial Institutions' compensation policy, thus downgrading their present terms of employment.

The discussions of the revised compensation policy also addressed the possible impact of a memorandum of the Compensation of Officers of Financial Institutions (Special Approval and Limit to Expenses on account of Extraordinary Compensation) Bill, 5774-2014 ("the Bill"), if and insofar it becomes a law. An interim decision was passed on this subject, as follows: (a) new agreements will not be approved and agreements with officers will not be revised in which the cost of employment is more than NIS 3.5 million per year; (b) within three months of legislation of the law or on a date that is no later than July 2015, whichever is later, even if the law has not been passed by this date, a meeting will take place to review revisions of the compensation policy based on the final text of the law.

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 approving 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. For information about the members of the Committee for the Review of the Financial Statements, see Article 26 in Chapter 5 of the Periodic Report – "Additional information about the Company".

4.2.3. Procedure for approval of the financial statements:

To approve the financial statements at June 30, 2014, the Committee convened on August 14, 2014.

In addition, the Company's CPA are invited to and attend the 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 Friedman. A meeting of the Committee held on August 14, 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, 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.

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

At a meeting of the Committee held on August 14, 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.

At a meeting of the Company's Board of Directors held on August 20, 2014, the Board of Directors was advised of the Committee's recommendations, the CFO and CEOs reviewed the main points of the aggregate financial statements, divided into the different operating segments, and the relevant, material issues were discussed.

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** **Co-CEO**	**Shimon Elkabetz** **Co-CEO**

August 20, 2014

For your peace of mind | HAREL Insurance & Finance

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2014

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arbaa Street, P.O. Box 609
Tel-Aviv 61006
Telephone: 03-684 8000
Fax: 03-684 8444
Internet: www.kpmg.co.il

Review Report to the Shareholders of
Harel Insurance Investments and Financial Services Ltd.

Introduction

We have reviewed the accompanying financial information of Harel Insurance Investments and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") comprising of the condensed consolidated interim statement of financial position as of June 30, 2014 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, "Interim Financial Reporting", and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970, insofar as these regulations apply to insurance companies and subject to the disclosure requirements prescribed by the Regulator of Insurance according to the Supervision of Financial Services (Insurance) Law, 1981. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute 17.85% of the total consolidated assets as of June 30, 2014, and whose revenues constitute 2.49% and 2.67% of the total consolidated revenues for the six and three month periods then ended, respectively. Furthermore, we did not review the condensed interim financial information of equity accounted investees the investment in which amounted to NIS 108,310 thousand as of June 30, 2014, and the Group's share in their profits amounted to NIS 6,010 thousand and 2,959 thousand, respectively, for the six and three month periods then ended. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that aforementioned financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970, insofar as these regulations apply to insurance companies and subject to the disclosure requirements prescribed by the Regulator of Insurance pursuant to the Supervision of Financial Services (Insurance) Law, 1981.

Without qualifying our above conclusion, we draw attention to that stated in Note 6A to the financial statements regarding the exposure to contingent liabilities.

SOMEKH CHAIKIN
Mamber of KPMG International
Certified Public Accountants (Isr.)

August 20, 2014

Condensed interim consolidated statements of financial position at

	June 30		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**1,602,639**	1,622,501	1,618,091
Deferred tax assets	**10,049**	9,060	14,928
Deferred acquisition costs	**1,739,072**	1,504,603	1,600,418
Fixed assets	**692,391**	663,775	682,673
Investments in investees accounted for by the equity method	**915,955**	744,303*	906,304*
Real estate investments for yield dependent contracts	**1,294,362**	840,778	1,140,536
Other real estate investments	**1,572,610**	1,264,738	1,511,284
Reinsurance assets	**5,448,496**	5,350,744	5,422,847
Current tax assets	**35,250**	69,116	18,298
Other receivables	**521,146**	462,971	469,058
Outstanding premiums	**1,160,682**	1,126,971	1,215,685
Financial investments for yield dependent contracts	**31,548,127**	26,073,259	28,909,167
Financial investment for holders of ETNs	**10,361,361**	6,742,110	9,199,547
Other financial investments			
Marketable debt assets	**8,717,064**	8,265,374	8,356,581
Non-marketable debt assets	**9,703,662**	9,537,102	9,663,973
Shares	**681,419**	528,274	595,327
Other investments	**2,103,681**	1,627,590	1,876,812
Total other financial investments	**21,205,826**	19,958,340	20,492,693
Cash and cash equivalents pledged for ETN holders	**3,674,057**	2,284,651	3,054,696
Cash and cash equivalents for yield dependent contracts	**879,359**	1,222,368	1,088,024
Other cash and cash equivalents	**1,568,246**	1,508,665	1,389,685
Total assets	**84,229,628**	71,448,953	78,733,934
Total assets for yield dependent contracts	**34,140,315**	28,572,840	31,534,632

* 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

	June 30		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Equity and liabilities			
Equity			
Share capital and share premium	**332,135**	315,103	316,595
Treasury stock	**(168,514)**	(153,271)	(163,458)
Capital reserves	**404,335**	268,870	316,139
Retained earnings	**4,070,731**	3,945,810	4,037,093
Total equity attributed to company shareholders	**4,638,687**	4,376,512	4,506,369
Non-controlling interests	**5,594**	5,220	5,403
Total equity	**4,644,281**	4,381,732	4,511,772
Liabilities			
Liabilities in respect of non-yield dependent insurance and investment contracts	**24,884,169**	23,703,586	24,234,519
Liabilities in respect of yield dependent insurance and investment contracts	**33,712,662**	28,011,158	31,000,662
Deferred tax liabilities	**714,218**	500,503*	618,727*
Net liabilities for employee benefits	**286,959**	243,064	269,611
Current tax liabilities	**24,178**	39,443*	60,292*
Other payables	**2,659,681**	2,447,923	2,752,092
Liabilities for ETNs and covered warrants	**13,842,328**	8,879,814	12,054,305
Financial liabilities	**3,461,152**	3,241,730	3,231,954
Total liabilities	**79,585,347**	67,067,221	74,222,162
Total equity and liabilities	**84,229,628**	71,448,953	78,733,934

* reclassification of comparative figures, see Note 2c.

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

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

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

Condensed interim consolidated statements of comprehensive income and loss

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Premiums earned, gross	**5,289,596**	5,063,604	**2,665,119**	2,563,355	10,281,765
Premiums earned by reinsurers	**907,779**	848,157	**466,602**	439,710	1,730,867
Premiums earned in retention	**4,381,817**	4,215,447	**2,198,517**	2,123,645	8,550,898
Net profit from investments and financing income	**1,811,588**	1,739,008	**792,090**	710,209	4,472,898
Income from management fees	**574,345**	474,307	**261,640**	228,617	1,062,060
Income from commissions	**213,295**	207,899	**109,453**	107,032	427,221
Total income	**6,981,045**	6,636,661	**3,361,700**	3,169,503	14,513,077
Payments and changes in liabilities for insurance and investment contracts, gross	**5,725,716**	5,605,865	**2,776,523**	2,853,215	12,203,281
Reinsurers' share of payments and changes in liabilities for insurance contracts	**652,925**	948,602	**349,656**	626,339	1,666,157
Payments and changes in liabilities for insurance and investment contracts, in retention	**5,072,791**	4,657,263	**2,426,867**	2,226,876	10,537,124
Commissions, marketing and other acquisition expenses	**954,911**	870,810	**494,698**	453,795	1,776,071
General and administrative expenses	**533,268**	496,863	**270,760**	256,571	1,027,408
Other expenses	**29,640**	33,479	**14,666**	18,838	72,875
Financing expenses, net	**55,553**	76,087	**41,512**	50,641	164,027
Total expenses	**6,646,163**	6,134,502	**3,248,503**	3,006,721	13,577,505
Company's share of the profits of investee companies accounted for by the equity method	**51,797**	22,427*	**15,509**	10,272*	123,828*
Profit before income taxes	**386,679**	524,586	**128,706**	173,054	1,059,400
Income taxes	**135,110**	188,212*	**43,457**	59,066*	378,609*
Net profit for the period	**251,569**	336,374	**85,249**	113,988	680,791
Attributed to:					
Company shareholders	**251,481**	336,111	**85,518**	113,872	680,332
Non-controlling interests	**88**	263	**(269)**	116	459
Profit for the period	**251,569**	336,374	**85,249**	113,988	680,791
Basic profit per share (NIS)	**1.19**	1.59	**0.41**	0.54	3.23
Diluted profit per share (NIS)	**1.18**	1.53	**0.40**	0.52	3.23

* 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 comprehensive income and loss

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Profit for the period	**251,569**	336,374	**85,249**	113,988	680,791
Other items of comprehensive income which after initial recognition under comprehensive income were or will be carried over to profit or loss					
Net change in the fair value of available-for-sale financial assets	**259,652**	18,311	**52,425**	17,527	166,357
Net change in the fair value of available-for-sale financial assets carried over to statement of income	**(98,100)**	(93,108)	**(64,304)**	(66,138)	(150,536)
Loss from impairment of value of available-for-sale financial assets carried over to statement of income	**4,339**	5,235	**1,155**	1,016	13,238
Foreign currency translation differences in respect of overseas operations	**(3,873)**	(13,601)	**(9,578)**	262	(18,824)
Tax on income for other items of comprehensive income which after initial recognition under comprehensive income were or will be carried over to profit or loss	**(61,845)**	26,367	**5,227**	13,780	(15,529)
Total other comprehensive income (loss) for the period which after initial recognition under comprehensive income was or will be carried over to profit or loss, net of tax	**100,173**	(56,796)	**(15,075)**	(33,553)	(5,294)
Other items of comprehensive income which will not be carried over to profit or loss					
Revised measurement of a defined benefit plan	**(7,626)**	15,343	**(7,146)**	13,610	17,518
Taxes on income for other items of comprehensive income which will not be carried over to profit or loss	**2,735**	(5,553)	**2,635**	(4,936)	(6,571)
Other comprehensive income (loss) for the period which will not be carried over to profit or loss, net of tax	**(4,891)**	9,790	**(4,511)**	8,674	10,947
Total other comprehensive income (loss) for the period	**95,282**	(47,006)	**(19,586)**	(24,879)	5,653
Total comprehensive income for the period	**346,851**	289,368	**65,663**	89,109	686,444
Attributed to:					
Company shareholders	**346,660**	289,138	**65,932**	89,040	686,031
Non-controlling interests	**191**	230	**(269)**	69	413
Total profit for the period	**346,851**	289,368	**65,663**	89,109	686,444

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

Condensed interim consolidated statements of changes in equity

	Attributed to company shareholders										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
For the six months ended June 30, 2014 (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 period											
Profit for period	-	-	-	-	-	-	-	251,481	251,481	88	251,569
Total other comprehensive income (loss)	-	103,568	(3,500)	-	-	-	-	(4,889)	95,179	103	95,282
Total comprehensive income (loss) for period	-	103,568	(3,500)	-	-	-	-	246,592	346,660	191	346,851
Transactions with owners recognized directly in equity											
Dividends	-	-	-	-	-	-	-	(212,954)	(212,954)	-	(212,954)
Share based payment	-	-	-	1,418	-	-	-	-	1,418	-	1,418
Purchase of treasury stock	-	-	-	-	(9,607)	-	-	-	(9,607)	-	(9,607)
Reissuing of treasury stock	2,250	-	-	-	4,551	-	-	-	6,801	-	6,801
Exercising of stock options	13,290	-	-	(13,290)	-	-	-	-	-	-	-
Balance as at June 30, 2014	332,135	417,205	(25,575)	22,300	(168,514)	(48,908)	39,313	4,070,731	4,638,687	5,594	4,644,281

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

Condensed interim consolidated statements of changes in equity

	Attributed to company shareholders										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
For the three months ended June 30, 2014 (Unaudited)											
Balance as at April 1, 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
Comprehensive income for period											
Profit for period	-	-	-	-	-	-	-	85,518	85,518	(269)	85,249
Total other comprehensive loss	-	(7,537)	(7,540)	-	-	-	-	(4,509)	(19,586)	-	(19,586)
Total comprehensive income (loss) for period	-	(7,537)	(7,540)	-	-	-	-	81,009	65,932	(269)	65,663
Transactions with owners recognized directly in equity											
Dividends declared	-	-	-	-	-	-	-	(106,616)	(106,616)	-	(106,616)
Share based payment	-	-	-	531	-	-	-	-	531	-	531
Purchase of treasury stock	-	-	-	-	(2,687)	-	-	-	(2,687)	-	(2,687)
Reissuing of treasury stock	1,792	-	-	-	1,791	-	-	-	3,583	-	3,583
Exercising of stock options	13,290	-	-	(13,290)	-	-	-	-	-	-	-
Balance as at June 30, 2014	332,135	417,205	(25,575)	22,300	(168,514)	(48,908)	39,313	4,070,731	4,638,687	5,594	4,644,281

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

Condensed interim consolidated statements of changes in equity

	Attributed to company shareholders										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
For the six months ended June 30, 2013 (Unaudited)											
Balance as at January 1, 2013	308,446	303,691	(6,881)	40,327	(142,300)	(48,908)	39,944	3,652,909	4,147,228	4,990	4,152,218
Comprehensive income for period											
Profit for period	-	-	-	-	-	-	-	336,111	336,111	263	336,374
Total other comprehensive income (loss)	-	(46,271)	(10,492)	-	-	-	-	9,790	(46,973)	(33)	(47,006)
Total comprehensive income (loss)	-	(46,271)	(10,492)	-	-	-	-	345,901	289,138	230	289,368
Transactions with owners recognized directly in equity											
Dividends paid	-	-	-	-	-	-	-	(53,000)	(53,000)	-	(53,000)
Exercising of stock options	6,041	-	-	(6,041)	-	-	-	-	-	-	-
Share based payment	-	-	-	3,501	-	-	-	-	3,501	-	3,501
Purchase of treasury stock	-	-	-	-	(13,406)	-	-	-	(13,406)	-	(13,406)
Reissuing of treasury stock	616	-	-	-	2,435	-	-	-	3,051	-	3,051
Balance as at June 30, 2013	315,103	257,420	(17,373)	37,787	(153,271)	(48,908)	39,944	3,945,810	4,376,512	5,220	4,381,732

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

Condensed interim consolidated statements of changes in equity

	Attributed to company shareholders										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
For the three months ended June 30, 2013 (Unaudited)											
Balance as at April 1, 2013	308,555	291,082	(17,529)	42,265	(145,632)	(48,908)	39,944	3,823,264	4,293,041	5,151	4,298,192
Comprehensive income (loss) for the period											
Profit for period	-	-	-	-	-	-	-	113,872	113,872	116	113,988
Total other comprehensive income (loss)	-	(33,662)	156	-	-	-	-	8,674	(24,832)	(47)	(24,879)
Total comprehensive income (loss) for period	-	(33,662)	156	-	-	-	-	122,546	89,040	69	89,109
Transactions with owners recognized directly in equity											
Exercising of stock options	6,041	-	-	(6,041)	-	-	-	-	-	-	-
Share based payment	-	-	-	1,563	-	-	-	-	1,563	-	1,563
Purchase of treasury stock	-	-	-	-	(9,071)	-	-	-	(9,071)	-	(9,071)
Reissuing of treasury stock	507	-	-	-	1,432	-	-	-	1,939	-	1,939
Balance as at June 30, 2013	315,103	257,420	(17,373)	37,787	(153,271)	(48,908)	39,944	3,945,810	4,376,512	5,220	4,381,732

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

Condensed interim consolidated statements of changes in equity

	Attributed to company shareholders										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	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 the period											
Profit for period	-	-	-	-	-	-	-	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 the period	-	9,946	(15,194)	-	-	-	(631)	691,910	686,031	413	686,444
Transactions with owners recognized directly in 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	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 six months ended June 30		For the three months ended June 30		For the year ended December 31
		2014	2013	2014	2013	2013
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities						
Before taxes on income	A	**(1,422,025)**	(2,208,170)	**(334,601)**	(861,742)	(4,197,052)
Income tax refund (paid)		**(150,459)**	(99,294)	**(74,996)**	(99,344)	(146,053)
Net cash used for operations		**(1,572,484)**	(2,307,464)	**(409,597)**	(961,086)	(4,343,105)
Cash flows from investing activities						
Investment in investee companies accounted for by the equity method		**(13,805)**	(203,228)	**(13,805)**	(203,228)	(286,248)
Proceeds of the disposal of an investment in a company accounted for by the equity method		**38,101**	-	**37,120**	-	-
Investment in fixed assets		**(21,714)**	(24,066)	**(6,348)**	(10,876)	(67,749)
Investment in intangible assets		**(59,058)**	(39,678)	**(35,415)**	(22,267)	(331,809)
Dividends from investee company		**16,040**	42,364	**13,279**	39,838	61,081
Proceeds from sale of fixed assets		**-**	398	**-**	386	758
Net cash used for investment activities		**(40,436)**	(224,210)	**(5,169)**	(196,147)	(623,967)
Cash flows for financing activities						
Proceeds from issue of promissory notes		**189,724**	163,168	**83,000**	163,168	198,267
Sale (acquisition) of Treasury stock		**(2,806)**	(10,355)	**896**	(7,131)	(25,118)
Proceeds from issue of ETNs and covered warrants		**1,533,415**	2,736,890	**618,600**	984,515	5,318,662
Short-term credit from banks, net		**15,283**	7,646	**103,845**	7,007	6,735
Long-term loans from banks, net		**-**	200,000	**-**	100,000	169,068
Repayments of loans from banks and others		**(50,474)**	(80,353)	**(22,177)**	(52,670)	(154,136)
Dividends paid to Company shareholders		**(106,338)**	(53,000)	**(106,338)**	(53,000)	(307,726)
Net cash provided by financing activities		**1,578,804**	2,963,996	**677,826**	1,141,889	5,205,752
Effect of fluctuations in currency exchange rate on cash balances and cash equivalents		**4,012**	31,467	**2,356**	3,120	(28,215)
Increase (decrease) in cash and cash equivalents		**(30,104)**	463,789	**265,416**	(8,896)	210,465
Cash and cash equivalents at beginning of the period	B	**2,477,709**	2,267,244	**2,182,189**	2,739,929	2,267,244
Cash and cash equivalents at end of the period	C	**2,447,605**	2,731,033	**2,447,605**	2,731,033	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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
(Appendix A - Cash flows from operating activities before taxes on income (1), (2), (3					
Profit for period	**251,569**	336,374	**85,249**	113,988	680,791
Items not involving cash flows					
Company's share of investees' losses accounted for by the equity method	**(51,797)**	(22,427)*	**(15,509)**	(10,272)*	(123,828)*
Net profit from financial investments for yield dependent insurance policies and investment contracts	**(809,826)**	(613,206)	**(219,288)**	(79,873)	(2,111,720)
Net losses (profits) from other financial investments					
Marketable debt assets	**(114,108)**	(103,193)	**(79,331)**	(103,532)	(177,035)
Non-marketable debt assets	**10,301**	(50,367)	**(36,213)**	(59,837)	(130,770)
Shares	**(29,936)**	(18,248)	**(8,239)**	(4,004)	(46,864)
Other investments	**31,528**	(159,820)	**4,398**	(22,433)	(253,760)
Financing expenses (income) for financial liabilities	**240,621**	151,152	**76,077**	(142,121)	756,461
Changes in fair value of real estateinvestments for yield dependent contracts	**5,629**	1,155	**3,967**	618	(13,566)
Changes in fair value of other real estateinvestments	**(30,340)**	(8,807)	**(29,360)**	(16,496)	(38,447)
Depreciation and amortization					
Fixed assets	**13,943**	21,119	**1,845**	9,750	45,403
Intangible assets	**72,463**	(151,481)	**36,240**	(182,088)	145,039
Change in liabilities for non yield-dependent insurance and investment contracts	**646,823**	1,111,334	**199,828**	494,914	1,649,648
Change in liabilities for yield dependent insurance and investment contracts	**2,712,000**	3,622,991	**1,259,552**	865,726	6,502,495
Change in reinsurance assets	**(26,550)**	(379,989)	**36,151**	(281,455)	(450,899)
Change in deferred acquisition costs	**(138,848)**	(105,740)	**(26,630)**	(26,000)	(202,539)
Payroll expenses for share-based payment	**1,418**	3,501	**531**	1,563	5,954
Income tax expenses	**135,110**	188,212*	**43,457**	59,066*	378,609*
Changes in other balance sheet items:					
Financial investments and real estate forinvestments for yield-dependent insurance policies and investment contracts					
Acquisition of real estate investments	**(159,455)**	(27,626)	**(153,379)**	(7,364)	(312,663)
Acquisitions net, of financial investments	**(1,847,967)**	(2,407,154)	**(750,931)**	(802,979)	(3,769,618)
Other financial investments and real estateinvestments					
Acquisition of real estate investments	**(30,986)**	(47,780)	**(13,790)**	(13,718)	(265,586)
Proceeds from the sale of real estate investments	**-**	5,035	**-**	-	5,935
Acquisitions net, of financial investments	**(401,091)**	(593,916)	**47,046**	195,224	(676,098)
Outstanding premiums	**54,792**	(26,583)	**133,836**	139,604	(115,606)
Other receivables	**23,062**	(10,410)*	**(1,082)**	(27,438)	15,949
Investment for ETN holders	**(1,161,814)**	(1,386,705)	**722,452**	(839,817)	(3,844,142)
Cash and cash equivalents pledged for ETN holders	**(619,361)**	(1,466,128)	**(1,495,583)**	(105,547)	(2,236,173)
Other payables	**(209,722)**	(74,801)	**(164,642)**	(18,395)	354,811
Liabilities for employee benefits, net	**10,517**	5,338	**8,747**	2,174	31,167
Total adjustments required to present cash flows from operating activities	**(1,673,594)**	(2,544,544)	**(419,850)**	(974,730)	(4,877,843)
Total cash flows from operating activities, before taxes on income	**(1,422,025)**	(2,208,170)	**(334,601)**	(860,742)	(4,197,052)

Condensed interim consolidated statements of cash flows

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

(1) Cash flows from operating activities include net purchases and sales of financial investments and investment property arising from activity in insurance contracts and investment contracts.
(2) As part of current operations, interest received was presented of NIS 851 million (for the six months ended June 30, 2013 an amount of NIS 766 million and for 2013 an amount of NIS 1,490 million) and the interest paid of NIS 44 million (for the six months ended June 30, 2013 - NIS 50 million, and for 2013 - NIS 107 million).
(3) As part of current operations, a dividend received from other financial investments was presented in the amount of NIS 92 million (for the six months ended June 30, 2013 - NIS 81 million, and for 2013 - NIS 158 million)

* On a reclassification of comparative figures, see Note 2c.

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Appendix B - Cash and cash equivalents, beginning of the period					
Cash and cash equivalents for yield dependent contracts	**1,088,024**	740,754	**844,950**	1,103,263	740,754
Other cash and cash equivalents	**1,389,685**	1,526,490	**1,337,239**	1,636,666	1,526,490
Balance of cash and cash equivalents, beginning of period	**2,477,709**	2,267,244	**2,182,189**	2,739,929	2,267,244
Appendix C - Cash and cash equivalents, end of period					
Cash and cash equivalents for yield dependent contracts	**879,359**	1,222,368	**879,359**	1,222,368	1,088,024
Other cash and cash equivalents	**1,568,246**	1,508,665	**1,568,246**	1,508,665	1,389,685
Balance of cash and cash equivalents, end of period	**2,447,605**	2,731,033	**2,447,605**	2,731,033	2,477,709

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

Note 1 - General

The reporting entity

Harel Insurance Investments and Financial Services Ltd. ("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 that are insurance and finance companies. The condensed interim consolidated financial statements, as at June 30, 2014, include those of the Company and its subsidiaries ("the Group"), the Company's interests in affiliates and companies with joint arrangements.

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

Note 2 - Basis of Preparation

a. Declaration of 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 disclosure requirements issued by the Commissioner of Insurance in accordance with the Supervision of Financial Services (Insurance) Law - 1981 ("the Supervision Law"), and does not include all the information required in the full annual financial statements. These condensed reports should be read together with the annual financial statements as at and for the year ended December 31, 2013 ("the Annual Financial Statements"). Moreover, these statements were prepared in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970, insofar as these regulations apply to a company that consolidates insurance companies.

The condensed interim consolidated financial statements were approved for publication by the Company's Board of Directors on August 20, 2014.

b. Use of estimates and judgments

1. The preparation of the condensed, interim consolidated financial statements in conformity with IFRS and with the Supervision Law and subsequent regulations, requires management to make judgments, estimates and assumptions, including actuarial assumptions and estimates (“the Estimates”) that affect the application of accounting policies, the value of assets and liabilities, and the amounts of income and expenses. It should be clarified that actual results may differ from these estimates. The main estimates included in the financial statements are based on actuarial evaluations and on external evaluations.

   In formulating these accounting estimates used in the preparation of the Group's financial statements, the Company's management is required to make assumptions regarding circumstances and events which entail considerable uncertainty. In applying its discretion in determining the estimates, the Company's management bases itself on past experience, various facts, external factors, and reasonable assumptions based on the circumstances appropriate for each estimate.

   The estimates are regularly reviewed. Changes in accounting estimates are recognized during the period in which the estimates were amended and in every future affected period.

   The estimates and judgments used by management 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. In this context, see also Note 11(2) on the revised discounting interest rates used to calculate the insurance liabilities.

Note 2 - Basis of preparation (contd.)

b. Use of estimates and judgments (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 August 11, 2014, the Commissioner published an announcement whereby the Tender Committee of the Ministry of Finance resolved, on June 22, 2014, to disqualify Shaarey Ribit’s proposal in view of various problems that had been found in the proposal and this subject to a hearing due to take place with Shaarey Ribit. In light of the foregoing, at this stage no date has been set for the transition to revaluation based on the quotes of the company to be declared the winner of the tender. The precise date will be published, at the latest, 30 days before the transition date.

   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 anticipated 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 8 million, NIS 6 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 of six and three months ended June 30, 2013 and December 31, 2013, respectively. A corresponding reclassification from investments in investees accounted for by 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 policies

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

A. Seasonality

1. Life assurance, 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 takes place at the end of the year. The revenues from the finances segment are not characterized by seasonality

2. Non-life insurance

Revenue turnover from gross premiums in general insurance is characterized by seasonality, resulting mainly from motor insurance of various groups of employees and car 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. Adjustment is made for the effect of this seasonality on the reported profits through the provision of unearned premiums.

There is no marked seasonality in the components of other expenses such as claims, and the components of other revenues such as revenues from investments and, therefore, also there is no significant seasonality of profits.

B. New standards and interpretations not yet adopted

IFRS 9 (2014) - Financial Instruments (“IFRS 9")

A final version of IFRS 9, which contains revised provisions for the classification and measurement of financial instruments, as well as a new model for measuring the impairment of financial assets. These provisions are added to the chapter on hedge accounting - general, which was published in 2013.

Accordingly there are three principal categories for measuring financial assets: amortized cost, fair value through profit and loss, and fair value through other comprehensive income. The basis of classification for debt instruments is the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The investment in capital instruments will be measured at fair value through profit or loss (unless, at the time of initial recognition, the company chose to present the changes in the fair value in other comprehensive income). IFRS 9 generally requires that the change in the fair value of financial liabilities that are designated for fair value through profit or loss, attributed to changes in own credit risk, shall be recognized in other comprehensive income.

According to IFRS 9, additional hedging strategies that are used for risk management may be appropriate for hedge accounting. IFRS 9 replaces the current 80%-125% test for determining the effectiveness of the hedge with a requirement for an economic relationship between the hedged item and the hedging instrument, without setting a quantitative threshold. Additionally, IFRS 9 presents new models that form a substitute for hedge accounting in relation to credit exposure and specific contracts that are not part of the scope of the Standard, and it defines new principles for the accounting treatment of hedge instruments. The Standard also prescribes new disclosure requirements.

IFRS 9 presents a new model for the recognition of expected credit losses (“expected credit loss” model). For most of the assets, the new model presents a dual measurement approach to impairment: if the credit risk attributed to a financial asset has not risen significantly since initial recognition, provision for loss will be recorded of an amount equal to the expected credit losses for failure events that could possibly occur during the course of the twelve months after the reporting date. If the credit risk has increased significantly, in most cases the provision for impairment will increase and will be recorded in the amount of the expected credit losses over the entire duration of the financial asset.

IFRS 9 will be implemented for annual periods beginning on January 1, 2018, with an option for early adoption. It will be applied retrospectively, with the exception of several reliefs.

The Group has not yet begun to examine the effects of adopting IFRS 9 on the financial statements.

Note 3 - Significant accounting policies (Contd.)

Amendment to IAS 38 - Intangible Assets (“IAS 38")

The amendment to IAS 38 contains a rebuttable presumption that a revenue-based amortization method is inappropriate for intangible assets. The purpose of the amendment is to limit the use of revenue-based amortization so that companies that wish to continue to amortize the intangible asset using the aforesaid amortization method must be able to demonstrate that the correlation between the revenue and consumption of the economic benefits is not circumstantial.

The amendments will be applied prospectively for annual periods beginning on or after January 1, 2016, with an option for early adoption.

The Group has not yet begun to examine the effects of adopting IAS 38 on the financial statements.

IFRS 15 - Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 replaces the current instructions concerning revenue recognition and presents a new model for the recognition of revenue from contracts with customers, and it establishes two approaches to revenue recognition: at one point in time or over time. The model consists of five steps for analyzing transactions so as to establish the timing and amount of the revenue recognition. Additionally, IFRS 15 prescribes new, more extensive disclosure requirements than the current requirements.

IFRS 15 will be implemented for annual periods beginning on January 1, 2017, with an option for early adoption. When first applying IFRS 15, the transition guidance allows companies to choose one of several options: full retrospective application; full retrospective application with certain limited practical expedients; or application of the standard from the initial date of application, with an adjustment for the outstanding balance at this date for transactions that have not yet been completed. The Group has not yet begun to examine the effects of adopting IFRS 15 on the financial statements.

C. Calculation of Insurance Reserves in Non-Life Insurance

On January, 2013 the Supervision of Financial Services (Insurance) (Calculation of Insurance Reserves in Non-Life Insurance) Regulations, 5773 – 2013 ("The new regulations") and a circular (Called together: "Amendment") were signed 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 the best practice for actuaries in calculating 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.

Note 3 - Significant accounting policies (Contd.)

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 insurance companies and the Commissioner are discussing and clarifying the Commissioner's position.

D. 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

Segment performance is measured based on the segment’s profits before taxes on income. Inter-company transaction 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

This 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

This 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 long-term care and dental treatments. Health insurance policies are offered both to individuals and to groups.

3. General insurance

This segment comprises five sub-segments:

Motor property: includes the Group's activities in the sale of insurance policies in the motor vehicle insurance branch ("motor property"), which covers damage 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.

Compulsory motor: includes the Group's activities in the branch of insurance based on the requirements of the Motorized Vehicle Insurance Ordinance (New Version) - 1970 ("compulsory motor"), which covers corporal damage resulting from the use of a motor vehicle according to the Law for the Compensation of Road Accident Victims - 1975.

Other liability branches: includes the Group's activities in the sale of policies to cover the insured’s liability towards a third party (excluding cover for liabilities in the compulsory motor sector, as described above). This sub-segment also includes the following insurance branches: employers’ 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 sub-segment includes the Group's insurance activities in all property branches excluding motor property (e.g. guarantees, homeowners, etc.).

Mortgage insurance business: this sub-segment includes the Group's insurance activities in insuring credit given as mortgages for residential property (as a single branch - MONOLINE). This insurance is intended to provide indemnity for damage caused as a result of credit default on loans given against a first mortgage on a single real estate property for residential purposes only, and after realizing the property that serves as collateral for such loans.

5. 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, that are wholly owned by the Company.

6. Financial services segment

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

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

7. Not attributed to operating segments

Activities that were not attributed to operating segment include mainly the activities of insurance agencies as well as the equity activity of the consolidated insurance companies.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments

	For the six months ended June 30, 2014 (Unaudited)							
	Life assurance and Long-term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	1,891,456	1,723,465	1,576,868	101,491	-	-	(3,684)	5,289,596
Premiums earned by reinsurers	68,827	104,371	694,854	43,411	-	-	(3,684)	907,779
Premiums earned in retention	1,822,629	1,619,094	882,014	58,080	-	-	-	4,381,817
Net profit from investments and financing income	1,420,223	138,742	80,386	5,741	21,736	146,185	(1,425)	1,811,588
Income from management fees	439,645	4,464	-	-	121,520	8,859	(143)	574,345
Income from commissions	17,151	39,828	126,464	11,238	862	53,342	(35,590)	213,295
Total income	3,699,648	1,802,128	1,088,864	75,059	144,118	208,386	(37,158)	6,981,045
Payments and changes in liabilities for insurance and investment contracts, gross	3,138,256	1,395,941	1,152,752	40,788	-	-	(2,021)	5,725,716
Reinsurers' share in payments and changes for insurance contract liabilities	42,127	96,779	503,094	12,946	-	-	(2,021)	652,925
Payments and changes in liabilities for insurance and investment contracts, in retention	3,096,129	1,299,162	649,658	27,842	-	-	-	5,072,791
Commission, marketing expenses and other acquisition expenses	352,610	301,342	299,666	34,495	-	2,388	(35,590)	954,911
General and administrative expenses	218,204	110,171	16,264	6,202	110,209	72,361	(143)	533,268
Other expenses	19,885	-	479	287	6,702	2,287	-	29,640
Financing expenses (income), net	1,989	3,245	(829)	-	1,803	49,449	(104)	55,553
Total expenses	3,688,817	1,713,920	965,238	68,826	118,714	126,485	(35,837)	6,646,163
Company share of profit of investee companies accounted for by the equity method	15,904	5,020	29,647	-	64	1,162	-	51,797
Profit (loss) before taxes on income	26,735	93,228	153,273	6,233	25,468	83,063	(1,321)	386,679
Other comprehensive income (loss), before taxes on income	61,187	23,469	47,717	(1,273)	77	23,215	-	154,392
Total comprehensive income (loss) before taxes on income	87,922	116,697	200,990	4,960	25,545	106,278	(1,321)	541,071
Liabilities in respect of non-yield dependent insurance and investment contracts	11,198,984	3,213,034	10,242,466	236,880	-	-	(7,195)	24,884,169
Liabilities in respect of yield dependent insurance and investment contracts	30,494,968	3,217,694	-	-	-	-	-	33,712,662

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Cont'd)

	For the three months ended June 30, 2014 (Unaudited)							
	Life assurance and Long-term Savings	Health Insurance	Non-life 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	934,100	878,578	801,337	52,941	-	-	(1,837)	2,665,119
Premiums earned by reinsurers	34,361	53,500	357,434	23,144	-	-	(1,837)	466,602
Premiums earned in retention	899,739	825,078	443,903	29,797	-	-	-	2,198,517
Net profit from investments and financing income	563,663	65,950	53,716	4,781	12,101	91,206	673	792,090
Income from management fees	190,927	1,925	-	-	61,728	7,096	(36)	261,640
Income from commissions	6,574	20,927	66,618	5,920	555	29,835	(20,976)	109,453
Total income	1,660,903	913,880	564,237	40,498	74,384	128,137	(20,339)	3,361,700
Payments and changes in liabilities for insurance and investment contracts, gross	1,457,140	693,963	606,991	19,453	-	-	(1,024)	2,776,523
Reinsurers' share of payments and changes for insurance contract liabilities	29,260	44,782	271,591	5,047	-	-	(1,024)	349,656
Payments and changes in liabilities for insurance and investment contracts, in retention	1,427,880	649,181	335,400	14,406	-	-	-	2,426,867
Commissions, marketing expenses and other acquisition expenses	180,158	149,340	167,531	17,581	-	1,064	(20,976)	494,698
General and administrative expenses	107,893	56,448	9,331	2,951	55,883	38,290	(36)	270,760
Other expenses	10,033	-	241	213	3,052	1,127	-	14,666
Financing expenses (income), net	2,873	3,251	(2,727)	-	874	37,181	60	41,512
Total expenses	1,728,837	858,220	509,776	35,151	59,809	77,662	(20,952)	3,248,503
Company's share of profit (loss) of investee companies accounted for by the equity method	7,983	2,460	9,483	-	42	(4,459)	-	15,509
Profit (loss) before taxes on income	(59,951)	58,120	63,944	5,347	14,617	46,016	613	128,706
Other comprehensive income (loss), before taxes on income	4,464	(91)	(10,062)	(2,828)	77	(19,008)	-	(27,448)
Total comprehensive income (loss) before taxes on income	(55,487)	58,029	53,882	2,519	14,694	27,008	613	101,258
Liabilities in respect of non-yield dependent insurance and investment contracts	11,198,984	3,213,034	10,242,466	236,880	-	-	(7,195)	24,884,169
Liabilities in respect of yield dependent insurance and investment contracts	30,494,968	3,217,694	-	-	-	-	-	33,712,662

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Cont'd)

	For the six months ended June 30, 2013 (Unaudited)							
	Life assurance and Long-term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	1,909,174	1,528,142	1,543,507	87,150	-	-	(4,369)	5,063,604
Premiums earned by reinsurers	68,328	101,764	650,077	32,357	-	-	(4,369)	848,157
Premiums earned in retention	1,840,846	1,426,378	893,430	54,793	-	-	-	4,215,447
Net profit from investments and financing income	1,283,054	142,556	145,557	1,304	12,545	156,723	(2,731)	1,739,008
Income from management fees	368,970	5,469	-	-	96,132	4,033	(297)	474,307
Income from commissions	16,402	39,930	121,749	9,377	2,036	41,566	(23,161)	207,899
Total income	3,509,272	1,614,333	1,160,736	65,474	110,713	202,322	(26,189)	6,636,661
Payments and changes in liabilities for insurance and investment contracts, gross	2,765,014	1,226,336	1,576,485	40,557	-	-	(2,527)	5,605,865
Reinsurers' share of payments and changes for insurance contract liabilities	52,515	64,095	826,254	8,265	-	-	(2,527)	948,602
Payments and changes in liabilities for insurance and investment contracts, in retention	2,712,499	1,162,241	750,231	32,292	-	-	-	4,657,263
Commissions, marketing expenses and other acquisition expenses	314,740	250,376	293,828	32,633	-	2,394	(23,161)	870,810
General and administrative expenses	213,210	107,930	16,068	7,733	95,792	56,427	(297)	496,863
Other expenses	24,414	-	479	166	5,977	2,443	-	33,479
Financing (income) expenses	4,204	4,861	(4,604)	-	1,931	70,764	(1,069)	76,087
Total expenses	3,269,067	1,525,408	1,056,002	72,824	103,700	132,028	(24,527)	6,134,502
Company’s share of profit (loss) of investee companies accounted for by the equity method	(3,684)	1,459	9,488	-	75	15,089*	-	22,427
Profit (loss) before taxes on income	236,521	90,384	114,222	(7,350)	7,088	85,383	(1,662)	524,586
Other comprehensive loss, before taxes on income	(23,130)	(5,225)	(19,891)	(3,420)	(143)	(16,011)	-	(67,820)
Total comprehensive profit (loss) before taxes on income	213,391	85,159	94,331	(10,770)	6,945	69,372	(1,662)	456,766
Liabilities in respect of non-yield dependent insurance and investment contracts	10,557,978	2,767,585	10,167,463	218,298	-	-	(7,738)	23,703,586
Liabilities in respect of yield dependent insurance and investment contracts	25,368,579	2,642,579	-	-	-	-	-	28,011,158

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Cont'd)

	For the three months ended June 30, 2013 (Unaudited)							
	Life assurance and Long-term Savings	Health Insurance	Non-life Insurance	Insurance companies overseas	Financial Services	Not Allocated To Any Specific Segment	Adjustments and Offsets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Premiums earned, gross	975,004	769,311	776,700	44,291	-	-	(1,951)	2,563,355
Premiums earned by reinsurers	34,038	53,510	337,714	16,399	-	-	(1,951)	439,710
Premiums earned in retention	940,966	715,801	438,986	27,892	-	-	-	2,123,645
Net profit from investments and financing income	481,262	66,406	78,066	644	6,052	77,712	67	710,209
Income from management fees	161,471	3,123	-	-	61,727	2,511	(215)	228,617
Income from commissions	6,615	21,609	64,393	4,624	759	19,282	(10,250)	107,032
Total income	1,590,314	806,939	581,445	33,160	68,538	99,505	(10,398)	3,169,503
Payments and changes in liabilities for insurance and investment contracts, gross	1,275,414	635,664	922,087	21,134	-	-	(1,084)	2,853,215
Reinsurers' share of payments and changes for insurance contracts liabilities	32,385	37,444	552,705	4,889	-	-	(1,084)	626,339
Payments and changes in liabilities for insurance and investment contracts, in retention	1,243,029	598,220	369,382	16,245	-	-	-	2,226,876
Commissions, marketing expenses and other acquisition expenses	156,318	124,351	165,672	16,526	-	1,177	(10,249)	453,795
General and administrative expenses	110,292	54,860	8,319	3,367	54,417	25,530	(214)	256,571
Other expenses	12,167	-	241	88	5,199	1,143	-	18,838
Financing expenses (income)	3,184	3,118	158	-	971	43,786	(576)	50,641
Total expenses	1,524,990	780,549	543,772	36,226	60,587	71,636	(11,039)	3,006,721
Company's share of profit of investee companies accounted for by the equity method	1,972	769	3,355	-	75	4,101*	-	10,272
Profit (loss) before taxes on income	67,296	27,159	41,028	(3,066)	8,026	31,970	641	173,054
Other comprehensive loss, before taxes on income	(6,001)	(729)	(7,706)	(889)	(237)	(18,161)	-	(33,723)
Total comprehensive profit (loss) before taxes on income	61,295	26,430	33,322	(3,955)	7,789	13,809	641	139,331
Liabilities in respect of non-yield dependent insurance and investment contracts	10,557,978	2,767,585	10,167,463	218,298	-	-	(7,738)	23,703,586
Liabilities in respect of yield dependent insurance and investment contracts	25,368,579	2,642,579	-	-	-	-	-	28,011,158

* reclassification of comparative figures, see Note 2c.

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (Cont'd)

	For the year ended December 31, 2013 (Audited)							
	Life assurance and Long-term Savings	Health Insurance	Non-life 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 financing 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
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 of payments and changes for insurance contract 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
Commissions, marketing expenses and other acquisition expenses	623,493	521,684	617,277	66,284	-	4,697	(57,364)	1,776,071
General and administrative 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)	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's share of profit (loss) of investee companies accounted for 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 incomes (loss), before taxes on income	10,936	7,067	6,364	(5,849)	(803)	10,038	-	27,753
Total comprehensive income (loss) before taxes on income	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

* reclassification of comparative figures, see Note 2c.

Note 4 - Operating segments (Contd.)

A. Information regarding segment reporting (Contd.)

	For the six months ended June 30, 2014 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands
Gross premiums	296,465	633,585	450,026	417,937	(11,678)	1,786,335
Reinsurance premiums	60,248	134,934	323,685	233,309	-	752,176
Premiums in retention	236,217	498,651	126,341	184,628	(11,678)	1,034,159
Changes in unearned premium balances in retention	52,166	127,653	12,465	(4,848)	(35,291)	152,145
Premiums earned on retention	184,051	370,998	113,876	189,476	23,613	882,014
Profits from investments, net, and financing income	32,733	6,996	2,243	26,366	12,048	80,386
Income from commissions	10,000	25,279	63,632	27,553	-	126,464
Total income	226,784	403,273	179,751	243,395	35,661	1,088,864
Payments and changes in liabilities for insurance contracts and investment contracts, gross	167,039	355,744	220,976	405,848	3,145	1,152,752
Payments and changes in liabilities for insurance contracts and investment contracts, gross	38,680	67,630	170,367	226,417	-	503,094
Payments and changes in liabilities for insurance contracts and investment contractors, in retention	128,359	288,114	50,609	179,431	3,145	649,658
Commissions, marketing expenses and other acquisition costs	33,878	90,893	110,054	64,841	-	299,666
General and administrative expenses	3,717	5,325	2,418	2,374	2,430	16,264
Other expenses	-	-	-	-	479	479
Financing expenses (income), Net	(406)	(87)	(28)	(327)	19	(829)
Total expenses	165,548	384,245	163,053	246,319	6,073	965,238
Company's share of profits of investee companies accounted for by the equity method	13,863	2,963	950	11,166	705	29,647
Profit before taxes on income	75,099	21,991	17,648	8,242	30,293	153,273
Other comprehensive income, before taxes on income	19,835	4,239	1,354	15,975	6,314	47,717
Total comprehensive income before taxes on income	94,934	26,230	19,002	24,217	36,607	200,990
Liabilities for insurance policies, gross, as at June 30, 2014	2,669,907	761,698	935,122	5,285,838	589,901	10,242,466
Liabilities for insurance policies, in retention as at June 30, 2014	2,258,090	609,294	171,536	1,914,864	589,901	5,543,685

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 73% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability whose activities account for 78% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

b. Additional information about the non-life insurance segment (contd.)

	For the three months ended June 30 2013 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands
Gross premiums	92,118	170,906	201,679	162,985	(6,004)	621,684
Reinsurance premiums	19,028	37,153	144,046	112,002	-	312,229
Premiums in retention	73,090	133,753	57,633	50,983	(6,004)	309,455
Changes in unearned premium balances in retention	(20,745)	(52,030)	(4,984)	(40,731)	(15,958)	(134,448)
Premiums earned on retention	93,835	185,783	62,617	91,714	9,954	443,903
Profits from investments, net, and financing income	22,213	4,684	1,527	17,912	7,380	53,716
Income from commissions	5,861	13,944	31,424	15,389	-	66,618
Total income	121,909	204,411	95,568	125,015	17,334	564,237
Payments and changes in liabilities for insurance contracts and investment contracts, gross	89,082	172,212	118,486	222,636	4,575	606,991
Reinsurers share of payments and changes in liabilities for insurance contracts	22,944	33,440	87,092	128,115	-	271,591
Payments and changes in liabilities for insurance contracts and investment contractors, in retention	66,138	138,772	31,394	94,521	4,575	335,400
Commissions, marketing expenses and other acquisition costs	22,023	52,965	57,161	35,382	-	167,531
General and administrative expenses	2,027	2,982	1,645	1,505	1,172	9,331
Other expenses	-	-	-	-	241	241
Financing expenses (income), net	(1,320)	(288)	(90)	(1,062)	33	(2,727)
Total expenses	88,868	194,431	90,110	130,346	6,021	509,776
Company's share of profit of investee companies accounted for according by the equity method	4,383	880	305	3,547	368	9,483
Profit (loss) before taxes on income	37,424	10,860	5,763	(1,784)	11,681	63,944
Other comprehensive income (loss), before taxes on income	(3,954)	(989)	(270)	(3,138)	(1,711)	(10,062)
Total comprehensive income (loss) before taxes on income	33,470	9,871	5,493	(4,922)	9,970	53,882
Liabilities for insurance policies, gross, as at June 30, 2013	2,669,907	761,698	935,122	5,285,838	589,901	10,242,466
Liabilities for insurance policies, in retention as at June 30, 2013	2,258,090	609,294	171,536	1,914,864	589,901	5,543,685

* Property braches and others include mainly results from property loss insurance and comprehensive homeowners insurance, whose activities account for 72% of total premiums in these branches.

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

Note 4 - Operating segments (Contd.)

b. Additional information about the non-life insurance segment (Contd.)

	For the six months ended June 30, 2013 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands
Gross premiums	304,121	581,513	448,697	402,679	(6,436)	1,730,574
Reinsurance premiums	62,103	122,204	332,205	214,464	-	730,976
Premiums in retention	242,018	459,309	116,492	188,215	(6,436)	999,598
Changes in unearned premium balances in retention	36,816	88,578	13,509	(1,232)	(31,503)	106,168
Premiums earned on retention	205,202	370,731	102,983	189,447	25,067	893,430
Profits from investments, net, and financing income	69,479	13,878	3,485	47,863	10,852	145,557
Income from commissions	10,050	24,768	59,634	27,297	-	121,749
Total income	284,731	409,377	166,102	264,607	35,919	1,160,736
Payments and changes in liabilities for insurance contracts and investment contracts, gross	230,784	374,744	427,201	531,472	12,284	1,576,485
Reinsurers' share of payments and changes in liabilities for insurance contracts	47,347	72,148	373,685	333,074	-	826,254
Payments and changes in liabilities for insurance contracts and investment contractors, in retention	183,437	302,596	53,516	198,398	12,284	750,231
Commissions, marketing expenses and other acquisition costs	36,332	92,706	98,820	65,505	465	293,828
General and administrative expenses	3,129	4,293	1,973	2,147	4,526	16,068
Other expenses	-	-	-	-	479	479
Financing (expenses) income, Net	(2,499)	(499)	(125)	(1,721)	240	(4,604)
Total expenses	220,399	399,096	154,184	264,329	17,994	1,056,002
Company share of profit of investee companies accounted for by the equity method	4,429	885	222	3,051	901	9,488
Profit before taxes on income	68,761	11,166	12,140	3,329	18,826	114,222
Other comprehensive loss, before taxes on income	(9,186)	(1,835)	(461)	(6,328)	(2,081)	(19,891)
Total comprehensive income (loss) before taxes on income	59,575	9,331	11,679	(2,999)	16,745	94,331
Liabilities for insurance policies, gross, as at June 30, 2013	2,747,488	729,320	871,100	5,175,459	644,096	10,167,463
Liabilities for insurance policies, in retention as at June 30, 2013	2,357,371	583,335	141,022	1,721,897	644,096	5,447,721

* Property braches and others include mainly results from property loss insurance and comprehensive homeowners insurance, whose activities account for 74% of total premiums in these branches.

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

Note 4 - Operating segments (Contd.)

b. Additional information about the non-life insurance segment (Contd.)

	For the three months ended June 30 2013 (Unaudited)					
	Compulsory Motor	Motor Property	Property and Other Segments*	Other Liability Segments**	Mortgage insurance	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands
Gross premiums	97,377	174,973	225,798	153,908	(4,643)	647,413
Reinsurance premiums	20,114	38,203	172,332	106,631	-	337,280
Premiums in retention	77,263	136,770	53,466	47,277	(4,643)	310,133
Changes in unearned premium balances in retention	(23,717)	(46,202)	1,312	(44,937)	(15,309)	(128,853)
Premiums earned on retention	100,980	182,972	52,154	92,214	10,666	438,986
Profits from investments, net, and financing income	37,430	7,198	1,935	25,971	5,532	78,066
Income from commissions	6,095	13,808	29,843	14,647	-	64,393
Total income	144,505	203,978	83,932	132,832	16,198	581,445
Payments and changes in liabilities for insurance contracts and investment contracts, gross	112,094	178,652	258,968	366,184	6,189	922,087
Reinsurers share of payments and changes in liabilities for insurance contracts	24,542	34,821	231,008	262,334	-	552,705
Payments and changes in liabilities for insurance contracts and investment contractors, in retention	87,552	143,831	27,960	103,850	6,189	369,382
Commissions, marketing expenses and other acquisition costs	23,107	54,287	50,987	37,291	-	165,672
General and administrative expenses	1,804	2,527	1,294	1,337	1,357	8,319
Other expenses	-	-	-	-	241	241
Financing expenses (income), Net	(33)	15	(6)	(36)	218	158
Total expenses	112,430	200,660	80,235	142,442	8,005	543,772
Company's share of profit of investee companies accounted for by the equity method	1,719	320	91	1,200	25	3,355
Profit before taxes on income	33,794	3,638	3,788	(8,410)	8,218	41,028
Other comprehensive income (losses), before taxes on income	(3,117)	(570)	(167)	(2,182)	(1,670)	(7,706)
Total comprehensive income (loss) before taxes on income	30,677	3,068	3,621	(10,592)	6,548	33,322
Liabilities for insurance policies, gross, as at June 30, 2013	2,747,488	729,320	871,100	5,175,459	644,096	10,167,463
Liabilities for insurance policies, in retention as at June 30, 2013	2,357,371	583,335	141,022	1,721,897	644,096	5,447,721

* Property braches and others include mainly results from property loss insurance and comprehensive homeowners insurance, whose activities account for 72% of total premiums in these branches.

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

Note 4 - Operating segments (Contd.)

b. Additional information about the non-life insurance segment (Contd.)

	For the year ended December 31 2013 (Audited)					
	Compulsory Motor	Motor Property	Property and Other Segments**	Other Liability Segments***	Mortgage insurance	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS Thousands	NIS Thousands
Gross premiums	484,636	898,958	956,121	761,274	(17,396)	3,083,593
Reinsurance premiums	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 unearned premium balances in retention	(20,523)	(22,802)	11,340	3,357	(63,190)	(91,818)
Premiums earned on 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
Income from commissions	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 and investment contracts, gross	457,545	721,898	712,148	963,401	22,054	2,877,046
Reinsurers 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 and investment contractors, in retention	371,870	581,678	113,109	398,497	22,054	1,487,208
Commissions, marketing expenses and other acquisition costs	81,645	194,613	208,612	131,942	465	617,277
General and administrative 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's share of profit of investee companies accounted for by the equity method	12,185	2,216	691	8,723	1,723	25,538
Profit before taxes on income	108,943	23,853	24,499	2,495	52,352	212,142
Other comprehensive income before taxes on income	2,318	421	129	1,659	1,837	6,364
Total comprehensive income (loss) before taxes on income	111,261	24,274	24,628	4,154	54,189	218,506
Liabilities for insurance policies, gross, as at June 30, 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 June 30, 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 homeowners insurance, whose activities account for 78% of total premiums in these branches.

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

Note 4 - Operating segments (Contd.)

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

	For the six months ended June 30 2014 (Unaudited)				For the six months ended June 30 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	-	-	1,891,456	1,891,456	-	-	1,909,174	1,909,174
Premiums earned by reinsures	-	-	68,827	68,827	-	-	68,328	68,328
Premiums in retention	-	-	1,822,629	1,822,629	-	-	1,840,846	1,840,846
Profits from investments, net, and financing income	420	1,547	1,418,256	1,420,223	917	1,515	1,280,622	1,283,054
Revenues from management fees	106,110	116,127	217,408	439,645	99,382	105,585	164,003	368,970
Income from commissions	-	-	17,151	17,151	-	-	16,402	16,402
Total income	106,530	117,674	3,475,444	3,699,648	100,299	107,100	3,301,873	3,509,272
Payments and changes in liabilities for insurance contracts and investment contracts, gross	933	5,159	3,132,164	3,138,256	963	4,437	2,759,614	2,765,014
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	42,127	42,127	-	-	52,515	52,515
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	933	5,159	3,090,037	3,096,129	963	4,437	2,707,099	2,712,499
Commission, marketing expenses and other acquisition costs	36,177	51,157	265,276	352,610	33,053	45,686	236,001	314,740
General and administrative expenses	37,960	30,648	149,596	218,204	39,491	27,770	145,949	213,210
Other expenses	8,066	1,191	10,628	19,885	11,966	1,820	10,628	24,414
Financing expenses (income), net	54	(7)	1,942	1,989	28	(54)	4,230	4,204
Total expenses	83,190	88,148	3,517,479	3,688,817	85,501	79,659	3,103,907	3,269,067
Company's share of profit (loss) of investee companies accounted for by the equity method	-	-	15,904	15,904	-	-	(3,684)	(3,684)
Profit (loss) before taxes on income	23,340	29,526	(26,131)	26,735	14,798	27,441	194,282	236,521
Other comprehensive income (losses), before taxes on income	726	2,254	58,207	61,187	(270)	(879)	(21,981)	(23,130)
Total comprehensive income before taxes on income	24,066	31,780	32,076	87,922	14,528	26,562	172,301	213,391

Note 4 - Operating segments (Contd.)

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

	For the three months ended June 30 2014 (Unaudited)				For the three months ended June 30 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	-	-	934,100	934,100	-	-	975,004	975,004
Premiums earned by reinsures	-	-	34,361	34,361	-	-	34,038	34,038
Premiums in retention	-	-	899,739	899,739	-	-	940,966	940,966
Profits (losses) from investments, net, and financing income	382	1,076	562,205	563,663	635	1,131	479,496	481,262
Revenues from management fees	53,754	59,144	78,029	190,927	49,879	56,702	54,890	161,471
Income from commissions	-	-	6,574	6,574	-	-	6,615	6,615
Total income	54,136	60,220	1,546,547	1,660,903	50,514	57,833	1,481,967	1,590,314
Payments and changes in liabilities for insurance contracts and investment contracts, gross	467	2,608	1,454,065	1,457,140	489	2,194	1,272,731	1,275,414
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	29,260	29,260	-	-	32,385	32,385
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	467	2,608	1,424,805	1,427,880	489	2,194	1,240,346	1,243,029
Commission, marketing expenses and other acquisition costs	18,025	27,679	134,454	180,158	16,906	23,623	115,789	156,318
General and administrative expenses	19,121	15,469	73,303	107,893	20,016	14,248	76,028	110,292
Other expenses	4,036	683	5,314	10,033	5,986	867	5,314	12,167
Financing expenses (income), net	28	(6)	2,851	2,873	-	(18)	3,202	3,184
Total expenses	41,677	46,433	1,640,727	1,728,837	43,397	40,914	1,440,679	1,524,990
Company's share of profit of investee companies accounted for by the equity method	-	-	7,983	7,983	-	-	1,972	1,972
Profit (loss) before taxes on income	12,459	13,787	(86,197)	(59,951)	7,117	16,919	43,260	67,296
Other comprehensive income (losses), before taxes on income	111	833	3,520	4,464	(137)	(549)	(5,315)	(6,001)
Total comprehensive income before taxes on income	12,570	14,620	(82,677)	(55,487)	6,980	16,370	37,945	61,295

Note 4 - Operating segments (Contd.)

c. Additional information about the 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 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
Revenues from management fees	196,684	218,859	410,020	825,563
Income from commissions	-	-	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, in 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
General and administrative 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’s share of profit of investee companies accounted for by the equity method	-	-	23,087	23,087
Profit before taxes on income	29,785	57,962	333,086	420,833
Other comprehensive income (losses), before taxes on income	(573)	(953)	12,462	10,936
Total comprehensive income before taxes on income	29,212	57,009	345,548	431,769

Note 5 - Taxes on income

The tax rates which apply to income of the Group's companies

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

Year	Rate of companies tax	Profit tax rate	Tax rate in financial institutions
2013	25%	17.58%	36.22%
2014 and thereafter	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.

Non application of IFRS

Regarding Amendment 174 of the Income Tax Ordinance (New Version), 1981 ("the Ordinance"), on the non-application of Israeli Accounting Standard 29 and the adoption of International Financial Reporting Standards (IFRS) in determining the taxable income ("Temporary Order"), on July 31, 2014, Amendment 202 to the Ordinance was published in which context the validity of the Temporary Order was extended with respect to the 2012 and 2013 tax years, retroactively from January 1, 2012.

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.

C. Tax assessments in dispute

1. For details about income tax assessments issued to Harel Insurance in connection with real estate activity and from the dispute with Income Tax regarding certain revenues that Harel included in this activity, see Note 37E2 to the annual financial statements. On May 5, 2014, the tax assessment officer submitted notice in the Tel Aviv District Court explaining his reasons for the assessment. On July 8, 2014, Harel Insurance submitted notice explaining its own reasons for the appeal. The position of Harel Insurance as supported by its legal counsel is that there is no basis for Income Tax's position. Harel Insurance has made adequate provision in respect of the tax exposures.

Note 5 - Taxes on income (Contd.)

C. Tax assessments in dispute (contd.)

2. In August 2014, Dikla Insurance Company signed tax assessment agreements for the years 2010 - 2012. As part of the agreement, two issues arose that are in dispute with the tax authorities, for which a best judgment assessment will be issued for the company, as follows:

   a) As part of the assessment, the assessing officer argued that the indirect expenses component for claims settlement which is included as part of Dikla's insurance reserves, does not constitute recognized provision for tax purposes and these expenses can only be recognized on their actual date of payment. The position of Dikla Insurance Company as supported by its legal counsel is that the various components of the insurance reserves are recognized for tax purposes.

   b) Dikla Insurance Company included certain revenues as part of the real-estate segment. The assessment officer argues that these revenues should not be included in the real-estate segment, and that they should be liable for profit tax as noted in the Value Added Tax Law. This argument affects the Company's liability for profit tax by an insignificant amount. The Company's position, which is supported by its legal counsel, is that these revenues should be included in the real-estate segment, and that they should not be liable for profit tax.

   Dikla Insurance Company will file an objection to the assessments to be imposed on the company regarding these subjects.
   The results of this procedure are not expected to significantly affect the financial performance of Dikla Insurance or the Company.

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 policyholders and customers. The complexity of these arrangements conceal, inter alia, the potential for 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 a 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 which may arise, inter alia, through the litigation mechanism 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 policyholders, members and customers have rights that extend 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, which was revised on November 18, 2012. 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, member and employer 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 these actions according to schedule. The data optimization project is to be completed by June 30, 2016.

In addition, there is a general exposure due to complaints filed from time to time with the Superintendent of Capital Markets, Insurance and Savings in the Ministry of Finance against the Group’s financial institutions, regarding the rights of insureds relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division in the financial institutions. The Superintendent’s decisions with respect to 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 insureds. Sometimes, the complaining entities even threaten to take steps regarding their complaints in the form of a class action. At this time, it is not possible to evaluate whether there is any exposure due to such complaints and it is impossible to estimate whether the Superintendent will issue a cross—the board decision regarding these complaints and/or if class actions will be filed as a result of such processes; it is also impossible to assess 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’s office conducts 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 audit conducted by the Commissioner's office, during the Reporting Period an in-depth audit of the following areas was performed: general audit of various issues in Harel Pension as well as a corporate governance audit of Harel Pension and Manof; an audit of real-estate investments; an audit of Dikla mainly with respect to long-term care insurance; an actuarial audit of the health insurance lines of activity; a cross-company audit of customer service; an audit of the life assurance department on group life assurance, information systems, absorption of the Eliahu portfolio and uniform structure, and a review of the claim portfolios in property insurance.

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.
In applications to approve actions as class actions as detailed below, which, in management's view, and based on legal opinions that it received, where it is more likely than not that the Company's defense arguments will be accepted or the appeal argument submitted by the Company (or subsidiary), or a compromise that is proposed, will be accepted and certification of the action as a class action will be dismissed. No provision has therefore been made in the financial statements.
In applications to certify a legal action as class action regarding a claim, all or part thereof, where it is more reasonable that the Company's defense arguments will be rejected, provision has been made in the financial statements 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, adequate provision has been made in the financial statements, where such provision is 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 an insignificant amount.
Regarding applications to for certification as class actions filed under Sections 23,25, 26, 27, 28, 29, 30, 31 and 33 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 the subsidiary Harel Insurance and five insurance companies in the Tel Aviv-Jaffa District Court together with an application for its certification as a class action. The cause of claim is 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, based on an expert opinion, at NIS 47.61 million. The plaintiffs estimate their damage claimed from Harel Insurance at NIS 1.54 million. On February 3, 2009, the court certified the petition as a class action. Harel insurance submitted a request for the right to appeal this decision. On April 11, 2013, the court accepted the application for permission to appeal and returned hearing of the action to the District Court for a decision on the question of whether the action should be treated as a class action, whether payment during the last three months of the policy is consideration for service which the insureds will never be entitled to receive or whether it is a form of payments in installments which is the result of an actuarial calculation, whether the defendants were in violation of their proper disclosure obligations and whether prescription applies under the circumstances of the matter at hand.

2. In April 2007, an action and application for its 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 that ostensibly should have been charged from the claimants. According to the plaintiff, 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.

Note 6 - Contingent Liabilities and Commitments (Contd.)

A. Contingent Liabilities (contd.)

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 5,676,000.

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 impediment to charging sub-annual policy factors on the savings component of life insurance combined savings and other risk policies, including on long-term care, work disability and accidental disability policies.

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, 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.

5. In April 2008 an action and an application for its certification as a class action was filed in the Jerusalem District Court against the subsidiary Harel Insurance and against three other insurance companies (the defendants). The basis of the claim is that the defendants customarily credited insured women reaching retirement age, due to the old managers’ insurance policies sold until 2000, with a monthly pension lower than that of a man insured with identical data received, and this based on the argument that women have a longer life expectancy. The defendants collect from their female insured's 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 allegedly lower. The plaintiffs claim that the defendants' conduct creates discrimination against female insured's, and is in violation of the law. On August 17, 2014 the Jerusalem District Court approved conducting the claim as a class action. The group which was approved is working women insured by the defendants’ managers’ insurance policies, which made no distinction in calculation of the "risk" premium between men and women.

Note 6 - Contingent Liabilities and Commitments (Contd.)

A. Contingent Liabilities (contd.)

6. In July 2008, a claim and an application for its certification 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 District 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 in 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 the condition that allows 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.

9. In June 2011, a claim was filed in the Central District Court against the subsidiary Harel Insurance and nine other insurance companies, with an application for its 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 its certification as a class action. The subject of the action 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 Law for the Equal Rights of Persons with Disabilities, 1998 ("the Law"), thereby discriminating against them and abrogating their right to respect and equality. The plaintiffs estimate the amount of the claim for all group members they wish to represent against all Defendants at NIS 659 million. The parties are in a mediation process.

Note 6 - Contingent Liabilities and Commitments (Contd.)

A. Contingent Liabilities (contd.)

11. In May 2012, a claim was filed against the subsidiaries Harel Insurance and Dikla along with four other insurance companies and one insurance agency ("the Defendants") in the Jerusalem District Court, together with an application for its certification as a class action. The subject of the class action 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 Law for the Equal Rights of Persons with Disabilities, 1998 ("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. The parties are in a mediation process.

12. 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 subject of the class action 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 amount of the claim for all group members he wishes to represent is NIS 160 million. On October 16, 2013 an application was 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. The court appointed an examiner to the compromise settlement.

13. 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 subject of the class action 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. On June 5, 2014, the Tel Aviv District Court certified administration of the claim as a class action. The group which was approved is all the beneficiaries of the IDF Disabled Veterans Organization who died between 2006 and 2012, when the insureds were aged between 75 and 76, and who suffered an insured event during that year and did not receive insurance benefits from Harel Insurance. On July 6, 2014, Harel Insurance filed an application for permission to appeal this decision in the Supreme Court.

14. 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 its certification as a class action. The subject of the class action 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 the amount of the claim for all group members at a nominal sum of NIS 569 million.

Note 6 - Contingent Liabilities and Commitments (contd.)

A. Contingent Liabilities (contd.)

15. 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 its certification as a class action. The subject of the class action 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.

16. In December 2012, a claim was submitted against the subsidiary Harel in the Aviv District Court, together with an application for its certification as a class action. The subject 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 does not mention the total sum that it claims for the entire group.

17. 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, and alternatively, from 30 days after submission of the request to receive insurance benefits and up to the payment date of the insurance benefits. The total loss claimed for all members of the group amounts to sums varying from NIS 168 million to NIS 807 million.

18. 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 overall loss claimed for all members of the group amounts to NIS 35 million.

19. 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 overall loss claimed for all members of the group against all the Defendants amounts to NIS 399 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. 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 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.)

21. 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 overall loss claimed for all members of the group amounts to NIS 150 million.
22. 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.
23. 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 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).
24. 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 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.
25. 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 total loss claimed for all members of the Group that the Plaintiff wishes to represent amounts to NIS 381 million.
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 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 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.

Note 6 - Contingent Liabilities and Commitments (contd.)

A. Contingent Liabilities (contd.)

27. In April 2014, 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 that Harel Insurance does not provide the holders of critical illness health insurance policies (“the Policy”) with insurance cover if they are diagnosed with the specific illness from which the claimant suffered, despite the fact that according to the claimant, the proper interpretation of the policy should, ostensibly lead to the conclusion that insurance cover should be provided in such a case (even though the illness is excluded under the policy conditions). According to the action, the claimant does not estimate the loss claimed for all members of the Group that it wishes to represent.

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 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.

29. In June 2014, a claim was filed in the Jerusalem 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 also provides life assurance and disability insurance for state employees who have motor insurance through Harel Insurance, ostensibly under conditions that are different from the policy conditions defined in the tender published by the State of Israel through the Accountant General (“the Tender”). As a result, Harel Insurance allegedly computed the insurance benefits differently from the way in which it was supposed to calculate them under the conditions of the Tender. The total loss claimed for all members of the Group that the applicant wishes to represent amounts to NIS 15.75 million.

30. In June 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 Dikla. The subject of the action is the argument that under the provisions of the group long-term care insurance policy for members of Clalit Health Services Supplementary Long-term Care Plus (“the Policy”), Dikla fails to pay insureds who require long-term care insurance benefits for the days in which they were hospitalized in a general or rehabilitation hospital, and that these days are not included in the number of days for calculating the waiting period determined in the policy, and this ostensibly in contravention of the instructions of the Commissioner of Insurance and the provisions of the law. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 35 million.

31. In June 2014, an action was filed in the Jerusalem District Court against the subsidiary Harel Insurance and against six other insurance companies (“the Defendants”), together with an application for its certification it as a class action. The subject of the action is the allegation that the Defendants set sums assured in life assurance policies that are required for mortgage loans, on the basis of information that is not based on the mortgage and interest track as determined by the lending bank, and for policy periods during which the sums are not revised in line with the outstanding amount of the mortgage. As a result, the Defendants allegedly collect sums insured that are higher than the amounts that should have been calculated according to the outstanding amount of the mortgage provided by the lending banks, and the Defendants therefore ostensibly mislead their insureds and operate in contravention of the law. The Plaintiffs estimate that the total loss claimed for all members of the Group that they wish to represent against Harel Insurance amounts to NIS 88 million, and NIS 1,182 million against all the Defendants.

Note 6 - Contingent Liabilities and Commitments (contd.)

Actions which were filed after the Reporting Period

32. In July 2014, an application for certification of a claim as a class action against Harel Insurance was filed in the Central Region Lod District Court, together with an application to certify a compromise settlement in the action. The subject of the action is the allegation that in its health insurance policy, Harel Insurance conditions insurance cover for pregnancy tests and fertility treatment for insureds that are married on the insured's husband holding health insurance through Harel Insurance ("the Condition"). According to the Claimant, this condition is discriminatory and ostensibly in contravention of the prohibition prescribed in the Prohibition of Discrimination in Products, Services and Entry to Places of Entertainment and Public Places Law, 5761-2000. As part of the settlement, it was agreed that Harel Insurance would cancel, retroactively from January 1, 2006 and thereafter, any clause in its health insurance policies that includes the condition and that the condition will not be used as the basis for rejecting insureds' claims. Harel Insurance will inform all its health insurance policyholders (personal lines and group policies) of the retroactive cancellation of the condition. Furthermore, Harel Insurance will pay insurance benefits to members of the group with such insurance, whose claims for insurance benefits for fertility treatment were rejected exclusively on account of this condition.
33. In July 2014, an application for certification of a claim as a class action was filed in the Central Region Lod District Court against Harel Pension Fund Management Ltd. and against four other pension fund management companies ("the Defendants"). The subject of the action is the allegation that the Defendants raise the management fees paid by pension fund members from the cumulative savings (accrued balance) to the maximum rate permitted by law on the date on which the members become pensioners, receive their old-age pension and they are no longer able to move their pension savings. In this way, the Defendants ostensibly apply the contractual right to which they are entitled under the provisions of the pension fund articles, in an unacceptable manner, in bad faith and contrary to the provisions of the law. According to the Plaintiffs, the total loss claimed for all members of the group that the Plaintiffs wish to represent, amounts to NIS 48 million against all the Defendants.

Summary table

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
Actions certified a class action:		
Amount pertaining to the Company and/ or subsidiaries	2	117,731
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	0	0
Claim amount is not specified	1	
Pending requests for certification of class actions:		
Amount pertaining to the Company and/ or subsidiaries	20	2,737,329
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	6	2,835,890
Claim amount is not specified	4	
Other significant claims	1	18,782

The table does not include the claim and application for its certification as a derivative claim, as described in Section B(3) below (Other contingent liabilities), and it does not specify the specific amount of a claim against the Company.
The total provision for claims filed against the Company and / or consolidated companies, as described above amounts to about to NIS 34 million (at December 31, 2013 an amount of NIS 30 million).

Note 6 - Contingent Liabilities and Commitments (contd.)

B. Other contingent liabilities

1. In June 2004, a claim was filed in the Tel Aviv District Court and an application for its certification as a derivative claim against the subsidiary Yedidim Holdings & Management (1994) Ltd. ("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 in LeAtid Pension Fund Management Ltd., a subsidiary of Yedidim ("LeAtid") for an amount of NIS 15,605,000. The subject of the claim is compensation to Atidit Pension Fund Ltd. ("Atidit"), a pension fund managed by LeAtid, for the use of Atidit's various resources, such as: the use of the operating infrastructure and goodwill, the use of Adidit property, for taking a continuing pension fund and the loss of profits. In addition the plaintiffs claim commissions of NIS 3,177,000 in the framework of their personal claim. On July 29, 2010, after investigations had been conducted and written summaries had been submitted as part of the application to approve the derivative claim, the Court accepted the application and granted the claimants the option of suing the defendants in LeAtid's name in respect of rights which they claim LeAtid is entitled to.

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

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 is of the opinion, based on the opinion of its legal advisors that the action is more likely to be rejected than accepted and therefore no provision was made for this action in the financial statements.

Note 6 - Contingent Liabilities and Commitments (contd.)

C. Claims that have been settled

1. In February 2011, a claim was filed in the Tel Aviv District Court against the subsidiary Harel Insurance and five other insurance companies, together with an application for its certification as a class action. The subject of the action concerns allegations that when an insured event occurs, the respondents allegedly do not compensate their comprehensive motor insurance policyholders in respect of an impairment of value that reflects the damage caused to the vehicle in market terms, but compensate them in respect of a technical impairment of value that, allegedly, is not based on market conditions and is less than the real impairment. The claimants allege that the respondents do not clarify this to the policyholder before the insurance is purchased, and they therefore, inter alia, mislead the policyholder, allegedly violate the duty of disclosure, allegedly breach a statutory obligation, and ostensibly practice unjust enrichment. The claimants employ three methods to calculate the amount of the claim against Harel Insurance, according to which the claim ranges from NIS 190 million to NIS 253 million. On June 10, 2012, the District court approved the plaintiffs' request to abandon their claim. The plaintiffs have appealed to the Supreme Court claiming that the amount awarded for legal fees, expenses and remuneration was exorbitant. On May 26, 2014 the Supreme Court rejected the apple.

2. On March 13, 2012, an action was filed in the Tel Aviv District Court, against Harel Gemel and Study Fund (“Harel Gemel”) together with an application for its certification as a class action. The subject of the action is the allegation that in 2008 Harel Gemel increased the rate of management fees paid by the plaintiff, allegedly without giving prior notice, as required by law. On January 1, 2014, the Tel Aviv District Court dismissed the application for certification of the action as a class action. The court determined that Harel Gemel informed its members of the increase in management fees as required in the provisions of the law, including with respect to the content and form of the notification.

3. In July 2011, an action was filed in the Central Region District Court against the subsidiary Harel Insurance, with an application for recognition as a class action. The subject of the action is the allegation that Harel Insurance allegedly charges its non-life insurance policyholders credit fees at rates that exceed 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 such surcharge 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 fees 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 July 1, 2014 to June 30, 2015). Two - 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 fees 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 dismiss the personal claim. As part of the application for abandonment, Harel undertook to publish an announcement in two daily newspapers, enabling those insureds whose claim had been dismissed exclusively on the grounds of a lack of cooperation by the insured, to resubmit their case to Harel.

Note 6 - Contingent Liabilities and Commitments (contd.)

C. Claims that have been settled (contd.)

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.

6. In May 2012, an action was filed in the Haifa District Court against the subsidiary Harel Insurance together with an application for its recognition as a class action. The subject of the action is the allegation that in third-party claims for motor property loss, Harel Insurance indemnifies the third parties for impairment losses to the value of the vehicle, according to the date on which the claim is received and not the date of the accident, thus reducing the amount of the compensation. It is noted that Harel Insurance operates in accordance with a ruling by the Commissioner of Insurance from 2001, whereby in the event of a third party claim, the impairment loss may be calculated according to the date of filing the claim, and not the date of the accident. On June 26, 2014, the Haifa District Court validated a compromise settlement as a court ruling, terminating the action. Pursuant to the compromise settlement, in future third-party claims, where the claim is filed within a relatively short time, as defined in the settlement, Harel Insurance will compute the impairment according to the price list known at the time of the accident and not at the time of filing the claim, whereas for a claim that is filed for an accident after the specified period, Harel Insurance will continue to calculate the impairment according to the price list at the time of the claim and not at the time of the accident. For past claims, Harel Insurance undertook to pay third parties that contact it within 90 days, and who received compensation according to the price list at the time of filing the claim and not at the time of the accident, despite the fact that they filed their claim within a relatively short period, as defined in the compromise settlement, compensation for the difference in impairment arising from the difference in the value of the vehicle between the price list at the time of the accident and the price list when the claim was filed.

Note 7 - Capital requirements and management

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

	June 30 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 the Commissioner's regulations and instructions (a)	4,966,170	139,252	460,473	4,772,739	153,657	437,806
Existing amount calculated according to the Capital Regulations :						
Tier 1 capital						
Basic tier-1 capital	3,647,386	478,827	546,685	3,616,856	481,625	489,615
Hybrid tier-1 capital	50,000	-	-	-	-	-
Total tier-1 capital	3,697,386	478,827	546,685	3,616,856	481,625	489,615
Tier-2 capital						
Subordinated tier-2 capital	500,819	-	-	597,948	-	-
Hybrid tier-2 capital (b)	938,132	-	99,855	938,820	-	99,840
Total tier-2 capital	1,438,951	-	99,855	1,536,768	-	99,840
Hybrid tier-3 capital	754,124	-	-	566,685	-	-
	2,193,075	-	99,855	2,103,453	-	99,840
Total existing capital amount computed according to the Capital Regulations	5,890,461	478,827	646,540	5,720,309	481,625	589,455
Surplus at report date	924,291	339,575	186,067	947,570	327,968	151,649
Events after the balance sheet date						
Expansion of Series 6-8 used as hybrid tier-3 capital	-	-	-	107,065	-	-
Obsolescence of tier-2 capital	-	-	-	(71,325)	-	-
Dividend distribution	-	(27,500)	-	(85,000)	(30,000)	-
Total events after the report date	-	(27,500)	-	(49,260)	(30,000)	-
Surplus including the effect of events after the report date	924,291	312,075	186,067	898,310	297,968	151,649

Note 7 - Capital requirements and management (contd.)

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

	June 30 2014			December 31 2013		
	Harel Insurance	EMI	Dikla	Harel Insurance	EMI	Dikla
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Non-life insurance activity	**635,640**	**139,252**	**90,097**	626,890	150,923	90,273
Activities in long-term care insurance	**79,358**	**-**	**173,834**	74,776	-	165,010
Capital requirements for yield guaranteed programs	**48,883**	**-**	**-**	47,147	-	-
Investment assets and other assets (c)	**1,126,414**	**-**	**35,445**	1,054,611	-	34,756
Catastrophe risks in non-life insurance	**72,968**	**-**	**-**	77,617	-	-
Operating risks	**306,942**	**-**	**46,412**	301,555	-	45,666
Deferred acquisition costs in life assurance and insurance against illness and hospitalization	**1,142,462**	**-**	**108,200**	1,085,066	-	97,267
Investments in consolidated management companies and insurers	**1,182,883**	**-**	**-**	1,143,154	-	-
Extraordinary life assurance risks (d)	**324,136**	**-**	**4,477**	309,550	-	2,812
Unrecognized assets as defined in the Capital Regulations (e)	**46,484**	**-**	**2,008**	52,373	2,734	2,022
	4,966,170	**139,252**	**460,473**	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) *	**207,099**	**-**	**-**	210,323	-	-

* The supplement, which is included in the calculation of the capital required of Harel Insurance on account of the balance of the original difference attributed to the management companies and provident funds, for the purpose of a dividend distribution, amounts to NIS 133 million at June 30, 2014.

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

c. Capital requirements for assets with a total value of NIS 872 million in Harel Insurance and NIS 45 million in Dikla, which were rated in an internal rating, are 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.
An additional capital requirement for these assets aggregated a total amount of NIS 50 million in Harel Insurance and NIS 3 million in Dikla.

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

e. Including an unrecognized asset of a negligible amount for a passive deviation from the investment regulations.

2. For information about an undertaking by Harel Investments to supplement the shareholders' equity required of the subsidiaries that are financial institutions (Mivtachim, provident fund management companies ׀and pension fund management companies), see Note 9 to the annual financial statements. At the date of the financial statements, the Group’s financial institutions are in compliance with the relevant capital requirements.

Note 7 - Capital requirements and management (contd.)

3. In March 2012, the ISA published draft Joint Investments in Trust (Backing Account) Regulations, 2012 (“Backing Account Regulations”), which regulate the amount that an ETN manager is required to deposit as a cushion in a backing account to meet its obligations to the holders of the ETNs, according to the actual risk components of the ETN manager and based on the definitions prescribed in the Backing Account Regulations. The Backing Account Regulations are expected to be approved and enter into force together with the amendment to legislation initiated by the ISA to regulate the ETN market as part of the Joint Investments in Trust Law, 1994. At this stage, it is impossible to estimate when the legislative amendment and the Backing Account Regulations will be completed and enter into force.

   At the publication date of the financial statements, the issuing companies in Harel’s financial products group (Harel Sal Ltd. and Harel Sal Currencies Ltd.) are in compliance with the above-mentioned draft Backing Account Regulations.

   During the Reporting Period, Harel Sal issued Harel Products with a capital note in the total amount of NIS 7 million enabling Harel Sal to comply with the capital requirements deriving from the high increase in the volume of its operations.

4. 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 are working continuously to comply with this requirement. At June 30, 2014, the subsidiaries are in compliance with these requirements.

5. To enable the subsidiaries of Harel Insurance that are pension fund management companies to comply with the requirements for liquid assets as prescribed in the Supervision of Financial Services (Provident Funds) (Minimum Equity Required of the Management Company of a Provident Fund or Pension Fund) Regulations, 2012, on June 17, 2014, the Board of Directors of Harel Insurance approved the providing of a loan in the amount of NIS 10 million to Harel Pension. Additionally, a credit facility in the amount of NIS 20 million was approved which will remain in force until the end of 2014.

6. 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. The dividend was paid on May 27, 2014.

7. 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, 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 December 31, 2013, presenting the distributable surplus of Harel Insurance at December 31, 2013, and examining the capital surplus and capital requirements of Harel Insurance as consistent with its equity management policy. The dividend was paid on April 2, 2014.

8. 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.

9. 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.

Note 7 - Capital requirements and management (contd.)

10. 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. (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.

11. On July 15, 2014, Standard & Poor’s Maalot (“Maalot”) announced that it would no longer rate EMI Ezer Mortgage Company Ltd. (“EMI”), a wholly owned subsidiary of Harel Insurance, at EMI’s request.

Note 7 - Management and capital requirements (contd.)

12. On August 14, 2014, the Board of Directors of Harel Insurance resolved to distribute a cash dividend in the amount of NIS 27.5 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 June 30, 2014, the distributable surplus of EMI at that date was presented, and the capital surplus and capital requirements of EMI were examined, in line with the equity management policy of EMI.

13. 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 capital adequacy of the 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.

    In the circular on the deployment for Solvency II, which was published in July 2008, the Commissioner of Insurance announced his intention to implement the Proposed Directive with respect to the insurance companies in Israel on its date of implementation in the European Union. The circular is designed to ensure that the insurance companies in Israel make the necessary preparations to implement the Directive.

    In accordance with the requirement of the circular, a steering committee was 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 fears that 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 last study, which was carried out on data for the end of 2012, was submitted to the Commissioner of Insurance on February 16, 2014.

    The study also included a special report prepared by the external auditor as required.
    At this stage, this is a supervisory impact study and there is uncertainty as to the final principles for calculating the financial balance and capital requirements.

    On April 30, 2014, revised instructions were published in Europe for calculating the first pillar of Solvency II. These instructions revise the QIS5 guidelines published in July 2010, on which the three exercises submitted to the Commissioner in 2009-2012 were based, with adjustments for the Israeli market. The Commissioner’s office announced that it intends to adopt the revised guidelines from Europe with adjustments to the Israeli market. At this stage there is uncertainty as to the next date and the content of the submittal.

    Calculation of the risk-based capital requirements requires a broad range of data to be collected which are used for a variety of purposes. The Company performs the calculations by means of a special-purpose system which streamlines the work process for calculating the IQIS-based capital requirements.

Note 7 - Capital requirements and management (contd.)

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.

14. Concerning the raising of tier-3 capital by Harel Insurance during the Reporting Period, see Note 8.

15. Maalot Rating

In August 2014, S&P Maalot announced affirmation of the FSR (Financial Strength Rating) ‘ilAA+/Stable' for the subsidiary Harel Insurance. Furthermore, the ‘ilAA-' rating for tier-2 and tier-3 capital issued as part of the Series 2-8 bonds was affirmed, and the ‘ilAA’ rating of the Series 1 (non-marketable) bonds of Harel Insurance and of the Series 1 promissory notes of Harel Share Issues, a wholly owned subsidiary of Harel Insurance, was affirmed. The rating outlook remained stable.

Note 8 - Financial liabilities

A. Details of financial liabilities

	June 30 (Unaudited)		December 31 (Audited)	June 30 (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)	**341,725**	409,270	375,191	**341,725**	409,270	375,191
Loans from non-bank entities (1)	**98,013**	101,439	102,677	**100,141**	101,525	103,953
Loans from interested parties	**930**	-	911	**930**	-	911
Short term credits from banks and others	**27,436**	27,895	26,984	**27,436**	27,895	26,984
Subordinated promissory notes (2)	**2,478,207**	2,335,333	2,319,410	**2,775,075**	2,568,293	2,569,630
	2,946,311	2,873,937	2,825,173	**3,245,307**	3,106,983	3,076,669
Financial liabilities at fair value, through profit and loss						
Loans from banks (3)	**85,838**	52,317	90,121	**85,838**	52,317	90,121
Derivatives	**355,348**	297,637	289,966	**355,348**	297,637	289,966
Short sales	**73,655**	17,839	26,694	**73,655**	17,839	26,694
	514,841	367,793	406,781	**514,841**	367,793	406,781
Total financial liabilities	**3,461,152**	3,241,730	3,231,954	**3,760,148**	3,474,776	3,483,450
Subordinated promissory notes, which form tier-2 and tier-3 capital	**2,292,930**	2,147,308	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 June 30, 2014, June 30, 2013 and December 31, 2013: The annual linked average interest rates used to determine the fair value of the promissory notes which are not marketable is 1.5%, 2.1% and 1.9% at June 30, 2014 at June 30, 2013 and at December 31, 2013, respectively.

(3) Harel Financial Products has arbitrage activity that is performed as part of the ETN assets. 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. At June 30 2014, the balance of the financial liabilities for this activity is NIS 70 million.

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).

	June 30 2014 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks	-	85,838	85,838
Derivatives	13,613	341,735	355,348
Short sales	73,655	-	73,655
Total financial liabilities stated at fair value through profit or loss	87,268	427,573	514,841

	June 30 2013 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks	-	52,317	52,317
Derivatives	59,869	237,768	297,637
Short sales	17,839	-	17,839
Total financial liabilities stated at fair value through profit or loss	77,708	290,085	367,793

	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 value through profit or loss	69,433	337,348	406,781

Note 8 - Financial liabilities (contd.)

C. Additional Information

1. Private placement - expansion of Series 6-7 bonds

   On June 15, 2014, Harel Share Issues issued the following bonds to a classified investor ("the Recipient"): (a) NIS 30,523,000 par value bonds (Series 6) of Harel Share Issues, registered in name, NIS 1 par value each at a price of NIS 119.2 for every NIS 100 par value, and for total consideration of NIS 36,062,000, by way of an expansion of Series 6 bonds that are in circulation; (b) NIS 39,000,000 par value bonds (Series 7) of Harel Share Issues, registered in name, NIS 1 par value each at a price of NIS 119.1 for every NIS 100 par value, and for total consideration of NIS 47,339,000, by way of an expansion of Series 7 bonds that are in circulation.

   The issuance took place after confirmation was received from Standard & Poor's Maalot that the rating of the bonds subsequent to the issuance will remain unchanged, namely 'ilAA-', and after obtaining the Commissioner's approval that Harel Insurance will be able to use the consideration for the issuance as hybrid tier-3 capital.

   The effective interest rate, after costs of the issuance, of the Series 6 promissory notes is 2.01%.
   The effective interest rate, after costs of the issuance, of the Series 7 promissory notes is 2.18%.

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

   On January 29, 2014, Harel Share Issues to a classified investors ("the Recipients") 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 issuance took place after confirmation was received from Standard & Poor's Maalot that the rating of the bonds subsequent to the issuance will remain unchanged, namely 'ilAA-', and after obtaining the Commissioner's approval that Harel Insurance will be able to use the consideration for the issuance as hybrid tier-3 capital.

   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%.

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 June 30, 2014 the Company and its subsidiaries are in compliance with the financial covenants which were determined.

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

Note 9 - Assets 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 held against liabilities for yield-dependent insurance contracts, which are presented in accordance with the provisions of circular 2009-9-2 at amortized cost. The book value of these assets at June 30, 2014 is NIS 416,394, thousandswhereas the fair value of these assets at June 30, 2014 is NIS 461,698 thousands.

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.

	At June 30, 2014 (unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets	15,295,258	9,607	-	15,304,865
Non-negotiable debt assets	-	4,707,999	120,229	4,828,228
Shares	4,210,000	-	635,555	4,845,555
Other	4,289,769	151,445	1,711,871	6,153,085
Total	23,795,027	4,869,051	2,467,655	31,131,733

	At June 30, 2013 (unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets	12,406,392	2,784	-	12,409,176
Non-negotiable debt assets	-	4,366,556	118,851	4,485,407
Shares	3,578,001	-	551,119	4,129,120
Other	3,036,522	124,015	1,444,892	4,605,429
Total	19,020,915	4,493,355	2,114,862	25,629,132

	At December 31 2013 (audited)			
	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 - Assets for yield-dependent contracts (contd.)

C. Level 3 assets measured at fair value

For the six and three months ended June 30, 2014

	Fair Value Measurement on Reporting 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 profits (losses) that were recognized:				
In profit or loss	7,182	16,449	85,379	109,010
Interest and dividend receipts	(4,403)	(9,206)	(32,377)	(45,986)
Purchases	36,714	45,049	305,719	387,482
Sales	(67)	(6)	(74,065)	(74,138)
Redemptions	(6,530)	(13,196)	(6,229)	(25,955)
Transfers to level 3	42	-	-	42
Transfers from level 3*	(13,631)	(22,224)	-	(35,855)
Balance as at June 30, 2014	120,229	635,555	1,711,871	2,467,655
Total profits (losses) for the six-month period ended June 30, 2014, that were included in profit or loss for held assets	7,182	13,472	86,892	107,546

	Fair Value Measurement on Reporting Date			
	Financial Assets at Fair Value through Profit and Loss			
	Non-negotiable Debt Assets	Shares	Other financial Assets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Balance as at April 1, 2014	116,819	609,246	1,644,572	2,370,637
Total profits (losses) that were recognized:				
In profit or loss	(720)	1,397	9,725	10,402
Interest and dividend receipts	(2,877)	(5,477)	(16,237)	(24,591)
Purchases	27,009	42,530	113,475	183,014
Sales	(20)	-	(33,514)	(33,534)
Redemptions	(6,393)	(12,141)	(6,150)	(24,684)
Transfers to level 3	42	-	-	42
Transfers from level 3*	(13,631)	-	-	(13,631)
Balance as at June 30, 2014	120,229	635,555	1,711,871	2,467,655
Total profits (losses) for the three-month period ended June 30, 2014, that were included in profit or loss for held assets	2,141	1,397	11,398	14,936

* Mainly in respect of securities that were issued for trade on the stock exchange..

Note 9 - Assets for yield-dependent contracts (contd.)

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

For the six and three months ended June 30, 2013

	Fair Value Measurement on Reporting Date – Financial Assets at Fair Value through Profit and Loss			
	Non-negotiable Debt Assets	Shares	Other financial Assets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Balance as at January 1, 2013	61,948	490,302	1,198,764	1,751,014
Total profits (losses) that were recognized:				
In profit or loss	(562)	(4,994)	(586)	(6,142)
Interest and dividend receipts	(2,727)	(8,297)	(21,034)	(32,058)
Purchases	32,802	74,387	354,732	461,921
Sales	-	(279)	(86,984)	(87,263)
Redemptions	(6,073)	-	-	(6,073)
Transfers to level 3*	33,463	-	-	33,463
Balance as at June 30, 2013	118,851	551,119	1,444,892	2,114,862
Total profits (losses) for the six-month period ended June 30, 2013, included in profit or loss for held assets	(1,661)	(5,006)	19,048	12,381

	Fair Value Measurement on Reporting Date – Financial Assets at Fair Value through Profit and Loss			
	Non-negotiable Debt Assets	Shares	Other financial Assets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Balance as at April 1, 2013	90,293	476,493	1,256,239	1,823,025
Total profits (losses) that were recognized:				
In profit or loss	704	7,746	(2,108)	6,342
Interest and dividend receipts	(1,962)	(4,195)	(8,114)	(14,271)
Purchases	30,793	71,354	240,753	342,900
Sales	-	(279)	(41,878)	(42,157)
Redemptions	(6,073)	-	-	(6,073)
Transfers to level 3*	5,096	-	-	5,096
Balance as at June 30, 2013	118,851	551,119	1,444,892	2,114,862
Total profits (losses) for the three-month period ended June 30, 2013, included in profit or loss for held assets	(395)	7,734	17,042	24,381

* In respect of securities that changed their rating.

Note 9 - Assets for yield-dependent contracts (contd.)

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

For the year ended December 31, 2013

	Fair Value Measurement on Reporting Date			
	Financial Assets at Fair Value through Profit and Loss			
	Non-negotiable Debt Assets	Shares	Other financial Assets	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Balance as at January 1, 2013	61,948	490,302	1,198,764	1,751,014
Total profit (loss) that were recognized:				
In profit or loss	(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	100,924	618,689	1,433,444	2,153,057
Total profit (loss) for the period included in profit and loss for assets held for the year ended December 31, 2013	(6,097)	53,937	46,707	94,547

* In respect of securities that changed their rating.

D. Information about fair-value measurement at Level 2 and 3

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 a division 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 "Mirvah 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

	At June 30 2014 (Unaudited)				
	Presented at fair value through profit or 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)	1,115,773	7,240,406	360,885	-	8,717,064
Non-negotiable debt assets (2)	782	-	-	9,702,880	9,703,662
Shares (3)	3,642	677,777	-	-	681,419
Other (4)	298,978	1,804,703	-	-	2,103,681
Total	1,419,175	9,722,886	360,885	9,702,880	21,205,826

	At June 30 2013 (Unaudited)				
	Presented at fair value through profit or loss	Available for sale	Held to maturity*	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets (1)	1,157,224	6,720,274	387,876	-	8,265,374
Non-negotiable debt assets (2)	712	-	-	9,536,390	9,537,102
Shares (3)	14,986	513,288	-	-	528,274
Other (4)	300,815	1,326,775	-	-	1,627,590
Total	1,473,737	8,560,337	387,876	9,536,390	19,958,340

	At December 31 2013 (Audited)				
	Presented at fair value through profit or 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 amortized cost. The fair value of these assets at June 30, 2014, June 30, 2013 and December 31, 2013 are NIS 386,035 407,614 396,475 thousands respectively.

Note 10 - Other financial investments (contd.)

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

(1) Marketable debt assets

	Book Value as at June 30,		Book Value as at December 31,
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Government bonds			
Presented at fair value, through profit or loss, designated upon initial recognition	**489,118**	459,570	532,932
Available for sale	**3,247,024**	2,897,379	3,023,882
Total government bonds	**3,736,142**	3,356,949	3,556,814
Other debt assets			
Non-convertible			
Presented at fair value, through profit or loss, designated upon initial recognition	**614,380**	685,559	641,742
Held to maturity	**360,885**	387,876	370,923
Available for sale	**3,993,382**	3,822,895	3,776,437
Total other non-convertible debt assets	**4,968,647**	4,896,330	4,789,102
Convertible			
Presented at fair value, through profit or loss, designated upon initial recognition	**12,275**	12,095	10,665
Total other convertible debt assets-	**12,275**	12,095	10,665
Total marketable debt assets	**8,717,064**	8,265,374	8,356,581
Impairment balances - recognized in profit or loss in respect of available-for-sale debt assets	**1,836**	13,438	7,524

Note 10 - Other financial investments (contd.)

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

(2) Non-marketable debt assets

	June 30, (Unaudited)		December 31, (Audited)	June 30, (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
Government bonds						
Accounted for as loans and receivables:						
Designated bonds	**4,396,453**	4,372,359	4,339,783	**5,289,661**	5,192,414	5,122,751
Total government bonds	**4,396,453**	4,372,359	4,339,783	**5,289,661**	5,192,414	5,122,751
Other non-convertible debt assets						
Accounted for as loans and debts, including bank deposits	**5,306,427**	5,164,031	5,323,402	**6,045,646**	5,639,898	5,911,822
Total other non-convertible debt assets	**5,306,427**	5,164,031	5,323,402	**6,045,646**	5,639,898	5,911,822
Other convertible debt assets						
Presented at fair value, through profit or loss, designated upon initial recognition	**782**	712	788	**782**	712	788
Total convertible other debt assets	**782**	712	788	**782**	712	788
Total non-convertible debt assets	**9,703,662**	9,537,102	9,663,973	**11,336,089**	10,833,024	11,035,361
Impairment balances recognized in profit or loss	**59,134**	68,783	67,584			

Note 10 - Other financial investments (contd.)

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

(3) Shares

	Book Value as at June 30,		Book Value as at December 31,
	2014	2013	2013
	NIS Thousands	NIS Thousands	NIS Thousands
Marketable			
Presented at fair value, through profit or loss, upon initial recognition	**3,642**	14,986	14,792
Available for sale	**568,903**	414,650	473,323
Total marketable shares	**572,545**	429,636	488,115
Non-marketable shares			
Available for sale	**108,874**	98,638	107,212
Total non-marketable shares	**108,874**	98,638	107,212
Total	**681,419**	528,274	595,327
Impairment balances, recognized in profit or loss	**55,555**	75,552	63,775

(4) Other Financial Investments

	Book Value as at June 30,		Book Value as at December 31,
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS Thousands	NIS Thousands	NIS Thousands
Marketable			
Presented at fair value through profit or loss designated upon initial recognition	**153,131**	142,861	146,889
Available for sale	**1,059,007**	693,156	939,404
Derivative instruments	**3,819**	2,146	15,024
Total marketable financial investments	**1,215,957**	838,163	1,101,317
Non marketable			
Presented at fair value through profit or loss designated upon initial recognition	**70,560**	72,474	72,117
Available for sale	**745,696**	633,618	628,683
Derivative instruments	**71,468**	83,335	74,695
Total non-marketable financial investments	**887,724**	789,427	775,495
Total other financial investments	**2,103,681**	1,627,590	1,876,812
Impairment balances for other financial investments presented as available for sale	**79,578**	73,198	80,313
Derivative instruments, presented as financial liabilities	**267,255**	159,705	182,770

Note 10 - Other financial investments (contd.)

B. Fair value hierarchy of financial assets

The table below presents an analysis of financial assets that are measured at fair value on an occasional basis, while using an evaluation method based on the fair value hierarchy. For a definition of the different levels, see Note 9B.

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

	June 30, 2014 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets	8,352,681	3,498	-	8,356,179
Non-negotiable debt assets	-	-	782	782
Shares	572,545	-	108,874	681,419
Other	1,215,958	71,467	816,256	2,103,681
Total	10,141,184	74,965	925,912	11,142,061

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

	December 31, 2013 (Audited)			
	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

For the six and three months ended June 30, 2014

	Fair value measurement on the reporting date			
	Financial assets at fair value through profit or loss and available-for-sale assets			
	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 profits (losses) that were recognized:				
In profit or loss	-	5,052	11,998	17,050
In other comprehensive income	-	1,060	32,581	33,641
Interest and dividend receipts	-	(2,078)	(9,960)	(12,038)
Purchases	-	4,211	106,483	110,694
Sales	(6)	-	(22,306)	(22,312)
Redemptions	-	-	(3,340)	(3,340)
Transfers from level 3	-	(6,583)	-	(6,583)
Balance as at June 30, 2014	782	108,874	816,256	925,912
Total profits for six-month period ended June 30, 2014, included in profit or loss for held assets	-	1,723	12,668	14,391

* **For securities that were issued for trade on the stock exchange**

	Fair-value measurement on date of report			
	Financial assets at fair value through profit and loss and assets available for sale			
	Non-negotiable Debt Assets	Shares	Other financial Assets	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Balance as at April 1, 2014	782	103,674	805,214	909,670
Total profits (losses) that were recognized:				
In profit or loss	-	345	4,423	4,768
In other comprehensive income	-	1,593	(337)	1,256
Interest and dividend receipts	-	(710)	(5,039)	(5,749)
Purchases	-	3,972	25,903	29,875
Sales	-	-	(10,568)	(10,568)
Redemptions	-	-	(3,340)	(3,340)
Balance as at June 30, 2014	782	108,874	816,256	925,912
Total profits for three-month period ended June 30, 2014, included in profit or loss for held assets	-	345	4,978	5,323

Note 10 - Other financial investments (contd.)

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

For the six and three-month periods ended June 30, 2013

	Fair-value measurement on date of report Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-negotiable Debt Assets	Shares	Other financial Assets	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Balance as at January 1, 2013	25	100,544	585,721	686,290
Total profits (losses) that were recognized:				
In profit or loss	(524)	2,451	10,344	12,271
In other comprehensive income	-	(1,970)	(3,439)	(5,409)
Interest and dividend receipts	-	(2,493)	(6,792)	(9,285)
Purchases	-	243	162,140	162,383
Sales	-	(137)	(41,882)	(42,019)
Transfers to level 3*	1,211	-	-	1,211
Balance as at June 30, 2013	712	98,638	706,092	805,442
Total profits for six-month period ended June 30, 2014, included in profit or loss for held assets	(524)	2,435	15,309	17,220

	Fair-value measurement on date of report Financial assets at fair value through profit and loss and available-for-sale assets			
	Non-negotiable Debt Assets	Shares	Other financial Assets	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Balance as at April 1, 2013	25	97,859	585,186	683,070
Total profits (losses) that were recognized:				
In profit or loss	(524)	1,452	1,649	2,577
In other comprehensive income	-	767	4,462	5,229
Interest and dividend receipts	-	(1,404)	(229)	(1,633)
Purchases	-	100	135,796	135,896
Sales	-	(136)	(20,770)	(20,906)
Transfers to level 3*	1,211	-	-	1,211
Balance as at June 30, 2013	712	98,638	706,094	805,444
Total profits for three-month period ended June 30, 2014, included in profit or loss for held assets	(524)	1,436	6,653	7,565

Note 10 - Other financial investments (contd.)

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

For the year ended December 31, 2013

	Fair-value measurement on reporting date			
	Financial assets at fair value through profit or loss and available-for-sale assets			
	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 profits (losses) that were recognized:				
In profit or loss	(365)	4,329	24,118	28,082
In other comprehensive income	-	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 profits for the year ended December 31, that were included in profit or loss for the held assets	(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 - Significant 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 June 30, 2014, Harel Insurance included increase of the insurance liabilities 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. Updating of the discounting interest rates used to calculate the insurance liabilities

   Due to the ongoing decline in yields, the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities, the Group's insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities and this, in accordance with the characteristics of the liability, the relevant average duration, and the appropriate interest rate for each category of liability. The discounting interest rates were reduced at a real annual rate in the range of 0.25% to 1.25% depending on the characteristics of the liability. Following is the effect of of the revised discounting interest rates on the financial results in each of the operating segments: (a) in the life assurance and long-term savings segment - the Group's insurance companies revised the discounting interest rates used to calculate the reserves for annuity and the interest used to calculate the liabilities for work disability, also the impact of falling discounting interest rates used to calculate the adequacy of the reserves was included. Accordingly, an amount of NIS 126 million before tax and NIS 78 million after tax was included as an expense in the Financial Statements in the Reporting Period and reduced profit and comprehensive income by the said amount; (b) in the health insurance segment - the Group's insurance companies revised the discounting interest rates that are used to calculate the liabilities for long-term care claims already being paid. Accordingly, a total of NIS 31 million before tax and NIS 19 million after tax, was included as an expense in the Financial Statements in the Reporting Period and reduced profit and comprehensive income by the said amount; (c) in the non-life insurance segment - the Group's insurance companies revised the discounting interest rates that are used to calculate the insurance liabilities in the employers liability branch and third-party liability branch. Accordingly, a total of NIS 11 million before tax and NIS 7 million after tax, was included as an expense in the Financial Statements in the Reporting Period and reduced profit and comprehensive income by the said amount.

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

3. Bonus for Yair Hamburger, Gideon Hamburger and Yoav Manor for 2013

   On June 17, 2014, the Company's Board of Directors approved (in a resolution in which the senior officers who are the controlling shareholders did not participate) the results of the calculation of the bonus for 2013. According to the calculation, Yair Hamburger received a bonus in the amount of NIS 1,291,000; and Gideon Hamburger and Yoav Manor each received a bonus in the amount of NIS 768,000.

4. Dividend distribution

   On June 17, 2014, the Company's Board of Directors resolved to distribute a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors passed the decision after taking into account the Company's financial results for the first quarter of 2014. 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) of the Companies Law. Subsequent to this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on July 14.

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.

6. 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.

7. 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. Freidman will formally end his term of office in August 2014.

8. 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.).

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

The appointment of Adv. Mishan-Zakai was approved by the Commissioner, as required by law, and will take effect during the course of August 2014

9. 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.

10. 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.

11. 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.

12. 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.

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

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. On July 15, 2014, the loan was repaid in fully plus interest, as stipulated in the agreement.

13. 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.

14. 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

15. 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.

16. 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.

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

17. 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.

18. Reform of management fees in long-term savings products

    In the wake of the reform of management fees in 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.

19. Double management fees

    In February 2012, the Supervision of Financial Services (Provident Funds) (Direct Expenses on account of Transactions Performed) Regulations (Amendment), 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:

    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.

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

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.

20. Agreement with the Torus Syndicate

On December 24, 2013, the Board of Directors of the Company and of Harel Insurance approved the renewal of the agreement with Syndicate 1301 at Lloyd’s (Torus, formerly Broadgate), which operates in the Lloyd's market, with respect to the 2014 underwriting year. In the 2014 underwriting year, Harel Insurance will continue to participate at a rate of 10% of the insurance portfolio of Syndicate 1301. According to the Syndicate’s business plan which was presented to Harel Insurance, in the 2014 underwriting year premiums are expected to reach NIS 1,140 million. Accordingly the share of Harel Insurance is expected to be NIS 114 million. As part of the renewal of the agreement, Harel Insurance increased the bank guarantee provided to Lloyds by GBP 2.8 million and the total guarantee for this activity is GBP 12.1 million.

21. 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.

22. 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.

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

23. Issuance of new ETNs

    During the Reporting Period, Harel Sal issued 14 series of new ETNs, and after the Reporting Period and up to the publication date of this report, Harel Sal issued a further 3 new ETNs.

24. 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.

25. Regarding a dividend distribution by EMI, see Note 7.

26. Regarding a dividend distribution by Harel Insurance, see Note 7.

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

28. Regarding a shelf prospectus, see Note 8.

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

Note 12 - Significant events after the Reporting Period

1. Bonus for 2013 for other senior officers in 2013

   On July 17, 2014, the Board of Directors of the Company and the subsidiaries approved the final bonuses for officers of the Company and officers that were included in the compensation plan, as specified in Note 40 in the annual financial statements, based on the final figures published by the companies in the benchmark group. There were no significant changes between the amounts included in the estimate published as part of Regulation 21 and the final amounts that were approved.

2. See Note 7 on the discontinuation by Maalot of the rating of EMI - Ezer Mortgage Insurance Company Ltd. ("EMI").

3. Concerning a dividend distribution by EMI after the period of the report, see Note 7.

4. See Note 7 concerning affirmation of the Financial Strength Rating (FSR) of the Company in August 2014.

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 profit or loss:

	At June 30		At December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Investment property	**1,294,362**	840,778	1,140,536
Financial investments			
Marketable debt assets	**15,304,865**	12,409,176	14,057,930
Non-marketable debt assets	**4,828,228**	4,485,407	4,654,614
Shares	**4,845,555**	4,129,120	4,478,332
Other financial investments	**6,153,085**	4,605,429	5,300,289
Total financial investments	**31,131,733**	25,629,132	28,491,165
Cash and cash equivalents-	**879,359**	1,222,368	1,088,024
Accounted for as loans and receivables including bank deposits			
Non marketable debt assets*	**416,394**	444,127	418,002
Other	**418,467**	436,435	396,905
Total financial assets in respect of yield-dependent contracts	**34,140,315**	28,572,840	31,534,632
Other receivables	**6,844**	5,142	4,268
Financial liabilities**	**50,892**	100,330	51,948
Financial liabilities in respect of yield dependent contracts	**57,736**	105,472	56,216

* Assets held against liabilities for yield-dependent insurance contracts that are presented pursuant to the provisions of Circular 2009-9-2 at adjusted cost. The fair value of these assets as at June 30, 2014, is NIS 461,698,000 (as at June 30, 2013, and as at December 31, 2013, NIS 477,182,000 and NIS 454,856,000 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 (contd.)

b. Other financial investments

	At June 30, 2014 (Unaudited)				
	Reported at fair value, through profit or loss	Available for sale	Held to maturity*	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	1,113,606	7,196,622	360,885	-	8,671,113
Non-marketable debt assets	782	-	-	9,674,464	9,675,246
Shares	-	620,907	-	-	620,907
Other	286,083	1,313,385	-	-	1,599,468
Total	1,400,471	9,130,914	360,885	9,674,464	20,566,734

	At June 30 2013 (Unaudited)				
	Revalued at fair value, through profit or loss	Available for sale	Held to maturity*	Loans and Receivables	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Marketable debt assets	1,155,152	6,661,439	387,876	-	8,204,467
Non-marketable debt assets	712	-	-	9,507,866	9,508,578
Shares	-	513,281	-	-	513,281
Other	290,336	1,026,230	-	-	1,316,566
Total	1,446,200	8,200,950	387,876	9,507,866	19,542,892

	December 31 2013 (Audited)				
	Reported at fair value, through profit or 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
Other	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 386,035,000 at June 30, 2014 (at June 30, 2013 and at December 31, 2013 - NIS 407,614,000 and NIS 396,475,000 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. Marketable debt assets

	Book Value at			Amortized Cost (**) at		
	June 30		December 31	June 30		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	**3,714,287**	3,325,279	3,529,611	**3,531,848**	3,256,602	3,452,870
Other debt instruments						
Total other non-convertible debt assets	**4,944,551**	4,867,093	4,758,692	**4,653,005**	4,656,692	4,514,577
Other convertible debt assets (*)	**12,275**	12,095	10,665	**10,971**	14,332	13,986
Total marketable debt assets	**8,671,113**	8,204,467	8,298,968	**8,195,824**	7,927,626	7,981,433
Impairment balances that were recognized in profit or loss for debt assets presented as available-for-sale	**1,836**	13,438	7,524			

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

** Amortized cost - cost less principal payments plus (net of) accumulated amortization by the effective interest method of any difference between cost and the repayment amount less any reduction due to impairment in value recognized in 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-marketable debt assets

	Book Value at			Fair Value at		
	June 30		December 31	June 30		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	**4,396,453**	4,372,359	4,339,783	**5,289,661**	5,192,414	5,122,751
Other debt instruments						
Accounted for as loans and receivables including bank deposits	**5,278,011**	5,135,507	5,294,906	**6,015,130**	5,611,963	5,883,654
Presented at fair value, through profit or loss, designated upon initial recognition	**782**	712	788	**782**	712	788
Total non-marketable debt assets	**9,675,246**	9,508,578	9,635,477	**11,305,573**	10,805,089	11,007,193
Fixed impairments recognized in aggregate in profit and loss	**59,134**	68,783	67,584			

3. Shares

	Book Value			Cost		
	June 30		December 31	June 30		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	**512,040**	414,650	473,323	**410,290**	336,372	368,004
Non-marketable Shares	**108,867**	98,631	107,205	**82,320**	82,301	81,718
Total Shares	**620,907**	513,281	580,528	**492,610**	418,673	449,722
Impairment balances recognized in profit or loss for shares presented as available for sale	**55,555**	75,552	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 at			Cost at		
	June 30		December 31	June 30		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	**713,472**	544,124	697,830	**647,989**	519,031	638,087
Non-marketable financial investments	**885,996**	772,442	759,251	**712,676**	619,104	621,587
Total other financial investments	**1,599,468**	1,316,566	1,457,081	**1,360,665**	1,138,135	1,259,674
Fixed impairments recognized in aggregate in profit or loss	**79,578**	73,198	80,313			
Derivative instruments, presented in financial liabilities	**267,255**	159,693	182,770			

Other financial investments include mainly investments in ETNs, notes participating in mutual funds, investment funds, financial derivatives, forward contracts, options and structured products.

For your peace of mind | HAREL Insurance & Finance

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2014

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 6848000
Fax 972 3 684 8444
Internet www.kpmg.co.il

To:
The Shareholders of Harel Insurance Investments and Financial Services Ltd.

Subject: Special auditors' report on separate interim financial information according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) - 1970

Introduction

We have reviewed the separate interim financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Harel Insurance Investments and Financial Services Ltd. (hereinafter: "the Company") as of June 30, 2014 and for the six and three month periods then ended. The separate interim financial information is the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express a conclusion on the separate interim financial information for these interim periods based on our review.

We did not review the separate interim financial information out of the financial statements of investee companies the investments in which amounted to NIS 704,523 thousand as of June 30, 2014, and the profit from these investee companies amounted to about NIS 14,986 thousand and NIS 10,282 thousand for the six and three month periods then ended, respectively. The financial statements of those companies were reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information was not prepared, in all material respects, in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970.

SOMEKH CHAIKIN
Member of KPMG International
Certified Public Accountants (Isr.)

August 20, 2014

Condensed interim consolidated statements of financial position at

	June 30		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Unaudited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**-**	12	-
Deferred tax assets	**2,988**	-	2,860
Fixed assets	**2,562**	2,348	1,916
Investments in investee companies	**4,537,614**	4,354,784	4,490,167
Loans to investee companies	**50,246**	136,400	-
Real estate for investment	**18,215**	18,325	18,325
Other receivables	**17,851**	27,676	14,979
Other financial investments			
Marketable debt assets	**-**	-	6,553
Non marketable debt assets	**28,416**	28,524	28,496
Shares	**-**	-	14,792
Others	**448,518**	207,859	335,772
Total financial investments and others	**476,934**	236,383	385,613
Cash and cash equivalents	**60,563**	72,168	62,823
Total assets	**5,166,973**	4,848,096	4,976,683
Capital			
Share capital and premium on shares	**332,135**	315,103	316,595
Treasury stock	**(168,514)**	(153,271)	(163,458)
Capital reserves	**404,335**	268,870	316,139
Retained earnings	**4,070,731**	3,945,810	4,037,093
Total capital	**4,638,687**	4,376,512	4,506,369
Liabilities			
Liabilities for deferred taxes	**-**	129	-
Liabilities for benefits to employees, Net	**20,048**	17,759	19,838
Other payables	**132,919**	35,154	37,508
Liabilities for current taxes	**9,374**	7,539	6,703
Financial liabilities	**365,945**	411,003	406,265
Total liabilities	**528,285**	471,584	470,314
Total liabilities and capital	**5,166,973**	4,848,096	4,976,683

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

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

Condensed interim consolidated statements of income and loss

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Profits from investments, net, and financing revenues	**5,891**	11,338	**4,072**	6,513	15,308
Revenues from management fees	**42,666**	42,800	**18,606**	20,515	85,244
Total revenues	**48,557**	54,138	**22,678**	27,028	100,552
General and administrative expenses	**10,270**	16,878	**4,727**	9,216	31,633
Other expenses	**-**	-	**-**	-	24
Financing expenses	**5,969**	8,118	**3,487**	4,676	16,498
Total expenses	**16,239**	24,996	**8,214**	13,892	48,155
Company's shares in profits (losses) of investee companies	**227,698**	310,457	**74,800**	100,699	636,024
Income (loss) before taxes on income	**260,016**	339,599	**89,264**	113,835	688,421
Taxes on income	**8,534**	3,488	**3,745**	(37)	8,089
Income (loss) for period ended 30 June relating to the Company's shareholders	**251,482**	336,111	**85,519**	113,872	680,332

Condensed interim consolidated statements of income and loss

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Profit for the year	**251,482**	336,111	**85,519**	113,872	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	**468**	2,492	**565**	1,997	3,087
Net changes in fair value of financial assets available for sale transferred to statement of income	**(599)**	(7,333)	**(427)**	(4,781)	(7,090)
Foreign currency transaction's difference in respect of overseas operations	**(2,063)**	(3,221)	**(2,425)**	156	(5,384)
The Group share in the comprehensive income (loss) of investee companies	**97,091**	(39,821)	**(17,532)**	(22,567)	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	**35**	1,210	**(36)**	695	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	**94,932**	(46,673)	**(19,855)**	(24,500)	5,815
Other items of comprehensive income (loss) which will not be transferred to profit or loss					
Remeasurement of a defined benefit plan	**344**	(400)	**374**	(442)	(154)
Taxes on income for other items of comprehensive income which will not be transferred to profit or loss	**(97)**	100	**(105)**	110	38
Other comprehensive income (loss) for the period which will not be transferred to profit or loss, net of tax	**247**	(300)	**269**	(332)	(116)
Other comprehensive income (loss) for the year	**95,179**	(46,973)	**(19,586)**	(24,832)	5,699
Total income for the year Attributed to the company's owners	**346,661**	289,138	**65,933**	89,040	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 six months ended June 30, 2014 (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 for year									
Profit for year	-	-	-	-	-	-	-	251,481	251,481
Total other comprehensive income (loss)	-	103,568	-	(3,500)	-	-	-	(4,889)	95,179
Total comprehensive income (loss) for year	-	103,568	-	(3,500)	-	-	-	246,592	346,660
Transactions with owners credited directly to equity									
Dividends	-	-	-	-	-	-	-	(212,954)	(212,954)
Exercising of stock options	-	-	-	-	1,418	-	-	-	1,418
Share based payment	-	-	-	-	-	(9,607)	-	-	(9,607)
Purchase of treasury stock	2,250	-	-	-	-	4,551	-	-	6,801
Reissuing of treasury stock	13,290	-	-	-	(13,290)	-	-	-	-
Balance as at June 30, 2014	332,135	417,205	(48,908)	(25,575)	22,300	(168,514)	39,313	4,070,731	4,638,687

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 June 30, 2014 (Unaudited)									
Balance as at April 1, 2014	317,053	424,742	(48,908)	(18,035)	35,059	(167,618)	39,313	4,096,338	4,677,944
Comprehensive income for year									
Profit for year	-	-	-	-	-	-	-	85,518	85,518
Total other comprehensive income (loss)	-	(7,537)	-	(7,540)	-	-	-	(4,509)	(19,586)
Total comprehensive income (loss) for year	-	(7,537)	-	(7,540)	-	-	-	81,009	65,932
Transactions with owners credited directly to equity									
Dividends	-	-	-	-	-	-	-	(106,616)	(106,616)
Share based payment	-	-	-	-	531	-	-	-	531
Purchase of treasury stock	-	-	-	-	-	(2,687)	-	-	(2,687)
Reissuing of treasury stock	1,792	-	-	-	-	1,791	-	-	3,583
Exercising of stock options	13,290	-	-	-	(13,290)	-	-	-	-
Balance as at June 30, 2014	332,135	417,205	(48,908)	(25,575)	22,300	(168,514)	39,313	4,070,731	4,638,687

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 six months ended June 30, 2013 (Unaudited)									
Balance as at January 1, 2013	308,446	303,691	(48,908)	(6,881)	40,327	(142,300)	39,944	3,652,909	4,147,228
Comprehensive income for year									
Profit for year	-	-	-	-	-	-	-	336,111	336,111
Total other comprehensive income (loss)	-	(46,271)	-	(10,492)	-	-	-	9,790	(46,973)
Total comprehensive income (loss) for year	-	(46,271)	-	(10,492)	-	-	-	345,901	289,138
Transactions with owners credited directly to equity									
Dividends paid	-	-	-	-	-	-	-	(53,000)	(53,000)
Exercising of stock options	6,041	-	-	-	(6,041)	-	-	-	-
Share based payment	-	-	-	-	3,501	-	-	-	3,501
Reissuing of treasury stock	-	-	-	-	-	(13,406)	-	-	(13,406)
Purchase of treasury stock	616	-	-	-	-	2,435	-	-	3,051
Balance as at June 30, 2013	315,103	257,420	(48,908)	(17,373)	37,787	(153,271)	39,944	3,945,810	4,376,512

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

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 six months ended June 30		For the three months ended June 30		For the year ended December 31
		2014	2013	2014	2013	2013
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities						
Before taxes on income	A	**16,935**	36,082	**(848)**	16,664	74,886
Income tax paid		**(5,863)**	(20)	**(3,526)**	(1,912)	(9,657)
Net cash provided by operating activities		**11,072**	36,062	**(4,374)**	14,752	65,229
Cash flows from investing activities						
Investment in investee companies		**(17,281)**	(62,382)	**(17,281)**	(62,382)	(89,661)
investment in fixed assets		**(847)**	(654)	**(847)**	(654)	(810)
Proceeds from realizing fixed assets		**-**	-	**-**	-	651
Investment in intangible assets		**-**	(401)	**-**	(401)	-
Dividends from investee companies		**285,000**	103,842	**200,000**	103,842	409,264
Net Financial investments		**(102,804)**	37,240	**(49,287)**	99,250	(93,364)
Loans to investee companies		**(50,000)**	(155,000)	**-**	(155,000)	(158,064)
Repayment of loans given to investee companies		**4,772**	40,008	**-**	40,008	131,768
Net cash provided by (used for) investing activities		**118,840**	(37,347)	**132,585**	24,663	199,784
Cash flows from financing activities						
Dividends paid		**(106,616)**	(53,000)	**(106,616)**	(53,000)	(307,726)
Loans from banks and others		**-**	100,000	**-**	-	100,900
Repayment of loans to banks and others		**(25,556)**	(21,525)	**(22,177)**	(21,525)	(43,342)
Net cash provided by (used for) financing activities		**(132,172)**	25,475	**(128,793)**	(74,525)	(250,168)
Increase (decrease) in cash and cash equivalents		**(2,260)**	24,190	**(582)**	(35,110)	14,845
Cash and cash equivalents at beginning of year		**62,823**	47,978	**61,145**	107,278	47,978
Cash and cash equivalents at end of the period		**60,563**	72,168	**60,563**	72,168	62,823

Condensed interim consolidated statements of cash flows

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Appendix A - Cash flows from operating activities					
Profit for the periot	**251,482**	336,111	**85,519**	113,872	680,332
Items which are not connected with cash flows					
Company's shares in revenues of investee companies	**(227,698)**	(310,457)	**(74,800)**	(100,699)	(636,024)
Net profits from financing activities	**(3,393)**	(9,037)	**(2,600)**	(5,043)	(12,089)
Financing expenses (income), net	**1,790**	1,234	**(1,330)**	(3,699)	156
Taxes on income (tax benefit)	**8,534**	3,488	**3,745**	(37)	8,089
Depreciation and amortization	**201**	421	**82**	311	20
Gains from realizing fixed assets	**-**	-	**-**	-	(53)
Share-based payment	**1,418**	606	**531**	147	1,085
Changes in other balance sheet items					
Other receivables	**(2,872)**	50,858	**(2,435)**	67,962	63,555
Other payables	**(12,737)**	(39,154)	**(9,539)**	(56,392)	(34,276)
Liabilities for benefits to employees, net	**210**	2,012	**(21)**	242	4,091
Total adjustments required to present cash flows from operating activities	**(234,547)**	(300,029)	**(86,367)**	(97,208)	(605,446)
Total cash flows from operating activities, before taxes on income	**16,935**	36,082	**(848)**	16,664	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. On August 13, 2014, Harel Investments approved the provision of a credit facility to Harel Financial Products in the amount of NIS 25 million, with the purpose of supporting the capital requirements of Harel Sal. The need to increase the equity of Harel Sal stems from the increase in its scope of operations and instructions by the ISA concerning a backing account. This approval is further to a credit facility in the amount of NIS 40 million that Harel Financial Products provided to Harel Sal on August 13, 2014. At the publication date of the financial statements, Harel Sal is in compliance with the capital requirements and this without the need to utilize the credit facility.

2. 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 million (about NIS 24 million). On May 12, 2014, the Company transferred a total of TRY 10 million (about NIS 16 million) of the amount.

3. 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.

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

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.

4. EMI Management Fee Agreement

Pursuant to the agreement which was approved by the Board of Directors of the Company on March 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 June 17, 2014, the Company's Board of Directors resolved to distribute a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors passed the decision after taking into account the Company's financial results for the first quarter of 2014. 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) of the Companies Law. Subsequent to this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on July 14.

2. 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) 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. 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.

4. Concerning the conclusion of the term of office of the Company’s legal advisor and the appointment of a new legal adviser, see Note 11 to the consolidated financial statements.

5. Concerning the Transaction to provide credit to Azrieli Group, see Note 11 to the consolidated financial statements.

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

7. Concerning dividend distribution by Harel Insurance, see Note 7 to the consolidated financial statements.

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

9. Concerning the termination of the internal auditor of the Company, see Note 11 to the consolidated financial statement.

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

11. Concerning a bonus for Yair Hamburger, Gideon Hamburger and Yoav Manor for 2013, see Note 11 to the consolidated financial statements.

12. Concerning a bonus for 2013 for other senior officers for 2013, 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 Babekov - 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 Friedman, legal advisor to the Company 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 periodical report on the evaluation of effectiveness, which was attached to the periodical report for the period ended in March 31, 2014 ("last periodical report concerning the effectiveness of internal control over financial reporting and disclosure), the internal control found as effective.

Until the date of the report, there was no event, to the knowledge of the management, to change the evaluation of the effectiveness of internal control, as was reviewed in last the periodical report concerning the effectiveness of internal control.

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

Declaration

I, Michel Siboni, hereby attest that:

(1) I have reviewed the Periodic Report of Harel Insurance Investments & Financial Services Ltd. ("the Company") for the second quarter of 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 weaknesses 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, summaries or report financial information in a manner that may cast doubt on the credibility of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and -

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

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

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

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

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

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

August 20, 2014

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Michel Siboni

Co-CEO

Declaration

I, Shimon Elkabetz, hereby attest that:

(1) I have reviewed the Periodic Report of Harel Insurance Investments & Financial Services Ltd. ("the Company") for the second quarter of 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 weaknesses 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, summaries or report financial information in a manner that may cast doubt on the credibility of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and -

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

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

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

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

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

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

August 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 second 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 weaknesses 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, summaries or report financial information in a manner that may cast doubt on the credibility of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and -

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

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

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

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

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

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

August 20, 2014

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Ronen Agassi

CFO