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HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Interim Statement
At September 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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Board of Directors' Report

Harel Insurance Investments & Financial Services Ltd.

Board of Directors' Report

For the nine months ended September 30, 2014

The Board of Directors' Report for the nine months ended September 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. ("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 second 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 15.9%. 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 13.1%.

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

1.2. Company 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 - 50.27% of the Company's voting rights and 49.7% 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. Credited 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 7 to the consolidated interim Financial Statements attributed to the actual company.

2.1.2. 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.

2.1.3. 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.

2.1.4. Dividend distribution

Concerning a resolution to distribute a dividend in the amount of NIS 107 million, which was executed on July 14, 2014, see Note 11 to the Financial Statements. Concerning 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.

2.1.5. 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.

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

Concerning an expansion of Series F-G bonds, by way of a private placement in the amount of NIS 70 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.

2.1.7. 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 for a further term of office: Mr. Yair Hamburger (Chairman of the Board), Gideon Hamburger, Yoav Manor, Yosef Ciechanover and Doron Cohen; (3) discussion of the 2013 periodic report.

The general meeting approved all the items on the agenda.

2.1.8. Turk Nippon

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

2.1.9. Capital injection

Concerning the approval by 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.

2.1.10. 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.

2.1.11. Transaction to provide credit to the Azrieli Group

Concerning 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.

2.1.12. Shelf Prospectus - Harel Insurance, Financing and Share Issues Ltd. (“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.

2.1.13. 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. On November 17, 2014, a special general meeting of the Company was held and the following items were on the agenda: (1) Reappointment of Mr. David Granot for a further term of office as an external director in the Company; (2) reappointment of Mr. Israel Gilad for a further term of office as an external director in the Company; (3) the appointment of Ms. Hava Friedman Shapira as an external director in the Company; (4) approval of a renewed employment agreement and revision of the conditions in the employment agreement between the Company and Mr. Yair Hamburger, one of the Company's controlling shareholders who is Chairman of the Board of Directors and chairman of the board in subsidiaries of the Company; (5) approval of a renewed employment agreement and revision of the conditions in the employment agreement between the Company and Mr. Gideon Hamburger, one of the Company's controlling shareholders, who serves as a director in the Company and in Company subsidiaries; (6) approval of a renewed employment agreement and revision of the conditions of the employment agreement between the Company and Mr. Yoav Manor, one of the Company's controlling shareholders, who serves as a director in the Company and in Company subsidiaries.

The general meeting approved all the items on the agenda.

For additional information about the employment conditions of Mr. Yair Hamburger, Mr. Gideon Hamburger, and Mr. Yoav Manor - see Section 4.1.3 below..

2.2.2. Dividend distribution

Concerning a decision dated November 25, 2014 on a dividend distribution in the amount of NIS 107 million – see Note 12(1) to the Financial Statements.

2.2.3. Revised repayment schedule and interest base on a bank loan

Concerning a revised repayment schedule and interest base on a bank loan – see Note 12(4) to the Financial Statements.

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 third quarter of 2014 show that growth of the global economy was not distributed evenly, with further positive momentum in the US and the UK as against signs of a renewed slowdown in the Eurozone.

In the US, economic indicators in the third quarter continued to be positive, particularly from the direction of the employment market and company surveys that showed a slower rate of growth during the quarter. In view of the positive data, the Fed continued to taper its bond-purchasing plan (QE).

In contrast, most of the economic indicators in the Eurozone were disappointing and showed slower growth. The dispute between Russia and Ukraine continued in the third quarter, affecting growth and contributing to lower levels of confidence for consumers and businesses. The ECB lowered the interest rate again and introduced another round of quantitative easing.

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 rose 4.2% in the third quarter of 2014, and by 8.1% from the beginning of the year. Average daily turnover of shares and convertibles during the first three quarters of the year was NIS 1.2 billion, an increase of 4% over the corresponding period last year.

2.3.4. Bond market

The general bond index rose 1.8% in Q3 2014, and by 5.8% from the beginning of the year. During the first three quarters of the year, the government bond index rose 6.7% and the corporate bond index rose by 4.3%. The daily turnover of bonds during the first three quarters of the year was NIS 4.1 billion, a decrease of 8% compared with the corresponding period last year.

2.3.5. Mutual funds

Net amounts of NIS 6.2 billion were raised in the mutual funds market during the third quarter of 2014 and NIS 32.5 billion from the beginning of the year, a 23% decline compared with the average turnover recorded in the first nine months of 2013. Most of the amounts raised were by mutual funds specializing in bonds (NIS 31.3 billion from the beginning of the year) and the funds specializing in foreign monies raised NIS 4.3 billion, while the money-market funds recorded net redemptions of NIS 3.5 billion from the beginning 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 114.4 billion at the end of the third quarter of 2014, compared with NIS 101.3 billion at the end of 2013, a 13% increase. During 2014 the ETNs specializing in foreign shares were particularly strong and raised NIS 5.9 billion.

2.3.7. Foreign currency market

During the third quarter of 2014, the shekel weakened by 7.5% against the dollar (to NIS 3.695 / 1 USD) and strengthened by 1% against the euro (to NIS 4.6486 / 1 EUR). Since the beginning of the year, the shekel has weakened by 6.5% against the dollar, and strengthened 2.8% against the euro.

2.3.8. Inflation

According to the last known index, over the last 12 months up to the CPI for August, inflation was 0%. The known index for the third quarter rose 0.3% (June-August).

2.3.9. Bank of Israel interest rate

The Bank of Israel interest rate was lowered by 0.25% to 0.25% in the third quarter of 2014.

2.3.10. Significant events in the economy after the Reporting Period

The Consumer Price Index (CPI) for October rose by 0.3% and inflation for the last 12 months is -0.3%.

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 which provide 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. Law Memorandum

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), 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 September 30, 2014, a circular was published concerning insurance policy renewals, in which context binding provisions were prescribed which require obtaining the policyholder's agreement to renew the policy, documentation of such agreement, notice to be sent to the policyholder about the end of the policy period, and provisions concerning renewal of a policy without the consent of the policyholder, for a limited period. The provisions of the circular enter into force on March 31, 2015, in the following lines of insurance: personal accident insurance (for personal lines policies with a policy period of no more than one year); motor insurance - motor property (self and third-party); and comprehensive homeowners insurance. Additionally, the obligation to send notice, as mentioned above, will also apply to insurance under the requirements of the Insurance for Motorized Vehicles Ordinance [New

Version], 1970. The provisions of the circular will not apply to group insurance policies and policies that include a condition for automatically extending the insurance, and some of the provisions of the circular will not apply to policies where the policy period is less than three months.

2.4.1.3.2. On August 18, 2014, a circular was published concerning agreements to render services the purpose of which is to address concerns that extraneous motives may affect the discretion of banks that serves both as a pension advisor and as the operating entity of a financial institution, during the pension advice process. The circular prescribes that the Commissioner will consider any agreement for the rendering of management and operating services, or any similar agreement between a pension advisor and a financial institution as a prohibited relationship under the Pension Advice Law, unless it complies with the restrictions that are defined in the circular with respect to the content of the services that a pension advisor may provide to a financial institution as part of the operating agreement. The circular also limits the annual consideration for operating agreements, and it enters into force on its date of publication.

2.4.1.3.3. On June 10, 2014, a circular was published concerning an amendment to the provisions of the consolidated circular - Management of Investment Assets (Direct Expenses on Account of Performing Transactions). The Supervision of Financial Services (Provident Funds) (Direct Expenses on Account of Performing Transactions) (Amendment no. 2) Regulations, 2014, which entered into force on April 1, 2014, permit an expense for the investment of a provident fund in ETNs in Israel of up to 0.1% of the fair value of the note, according to those indices to be instructed by the Commissioner and under the conditions he prescribes, provided that the issuer of the note is not a related party of the provident fund management company. The provisions of the circular apply to all financial institutions, excluding insurers in relation to liabilities that are not yield dependent, from their date of publication. In 2014 financial institutions may collect expenses from provident fund assets or money held against yield-dependent liabilities, as applicable, also on account of investments in ETNs that track the indices listed in the circular, provided that the ETNs were purchased before April 1, 2014. The Company estimates that these regulations will not significantly affect the Company’s performance.

2.4.1.3.4. 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.

2.4.1.3.5. 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.

2.4.1.3.6. 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.

2.4.1.3.7. 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.

2.4.1.3.8. 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.

Chapter on 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.

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

Chapter on provisions 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.

Chapter on 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.

Chapter on internal audit - contains provisions concerning the appointment, term of office and termination of office of the internal auditor.

Chapter on risk management - contains provisions concerning the appointment, term of office and termination of office of the risk manager.

Chapter on external auditor - 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 November 13, 2014 a 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 circular prescribes provisions that when met, will allow financial institutions (financial institution, insurance agent as defined in the Supervision of Insurance Law, or license holder as defined in the Pension Advice Law, and any employee of the foregoing) to enter into agreement with external entities (non-supervised entities) to market or sell personal lines insurance products, that are not group insurance. The circular takes effect on its date of publication.

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

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, and religious festivals/ eve of religious festivals/ fast days as listed in the Commissioner's position paper. 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 August 4, 2014, the Israel Securities Authority and the Bank of Israel published a joint position paper relating to the holding of bank shares by ETN issuing companies. The document proposes a work outline to resolve the problem created by investments houses which are also ETN issuing companies, due to the holding of bank shares at a rate of more than 5% without a permit from the Bank of Israel. According to the proposed outline, the Company will be able to issue an ETN on the TA-Banks index which is a "transparent" note - a note which allows the transfer of ownership of the means of control in the ETN assets (the bank shares) from the ETN issuing company to the final holder of the ETN. Likewise, the Company will be able to convert an existing ETN that is a "sealed" note (a note in which the means of control in the note's assets are owned by the ETN issuer) into a transparent note, with the consent of the holders of the ETN. The aforementioned outline has not yet been approved by the relevant entities.

2.4.1.5.3. 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.

2.4.1.5.4. 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 conduct 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 September 23, 2014, the Commissioner published a position paper on the findings of an audit of business continuity which detailed the findings of the exercise and divided them into several areas. The position paper 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.

2.4.1.5.5. 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 11, 2014, Supervision of Financial Services (Provident Funds) (Transfer of Money between Provident Funds) Regulations (Amendment), 2014, were published. The regulations prescribe that the definition "date of receiving the application" will be the date on which a full, signed application and completed enrollment forms are received. The regulations also prescribe that money may only be transferred from a provident fund for retirement benefits to an annuity provident fund if the receiving fund is a provident fund that pays out the retirement benefits as an annuity. Additionally, the regulations prescribe that the limitations that apply to the transfer of money from the severance pay component will only apply to a member who is less than 60 years old. The regulations also prescribe that compensation for a delay in making the transfer will be paid within 15 days, instead of the current 10 days, and regulations were prescribed regarding compensation by the managing entity of a receiving fund should it fail to act in accordance with the Commissioner's instructions or in those instances where the managing company of the receiving entity is responsible for the delay. The regulations become applicable 30 days after their publication.

2.4.2.1.2. On August 11, 2014, Supervision of Financial Services (Provident Funds) (Payments to a Provident Fund) Regulations, 2014 were published which prescribe the measures that an employer may use to transfer payments to a provident fund, the details it must give to the management company when making the deposit, the payments dates, etc. The employer must transfer the reports by computer, on a standard interface. The regulations became applicable on January 1, 2016.

2.4.2.1.3. On August 6, 2014, the Bill for the Division of Pension Savings between Divorced Couples, 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.

2.4.2.1.4. On June 12, 2014 Supervision of Financial Services (Provident Funds) (Participation of Management Companies in General Meetings) Regulations (Amendment), 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, 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.

2.4.2.1.5. 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 the amount withdrawn is insignificant.

2.4.2.1.6. 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.

2.4.2.1.7. 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 September 16, 2014, a memorandum of the Supervision of Financial Services (Provident Funds) Law (Amendment no. 6), 2014, was published. The purpose of the amendment is to enhance transparency relating to the management fees collected from new members and the need to establish a management fee calculator which will make it possible to compare the management fees in the different funds, on the different pension savings tracks, by giving the Commissioner the power to obtain reports from the provident funds about the management fees set for new members, and to determine that management companies may only collect management fees from new members at the rates reported to the Commissioner.

2.4.2.2.2. On March 10, 2014, the Supervision of Financial Services (Advice, Marketing and Pension Settlement System) (Amendment no. 6) Bill, 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 November 16, 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 or personal lines life assurance policies, term assurance or work disability insurance that are sold or renewed after the commencement date of the circular. The circular takes effect on its date of publication.

2.4.2.3.2. On August 12, 2014, a circular was published concerning the withdrawal of money from the accounts of deceased members in which there is a small balance. The draft circular proposes provisions concerning payment of money belonging to a deceased member where the balance is no more than NIS 5,000, 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. The provisions of the circular apply to all the management companies of provident funds that are not insurance funds and are not pension funds, from its date of publication.

2.4.2.3.3. 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.

2.4.2.3.4. 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.

2.4.2.3.5. 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, 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.

2.4.2.3.6. On June 5, 2014, a circular was published concerning an amendment to the provisions of the consolidated circular relating to the regulation of the enrollment of members in provident funds that are not insurance funds or pension funds. The circular eliminates the obligation to obtain an application document signed by the employee and a photocopy of his identity card. Additionally, management companies may accept a document appointing beneficiaries which is not the original, subject to calling the member by phone, confirming the appointment instructions, and documenting the call. The regulations will become applicable 30 days after their publication.

2.4.2.4. Draft circular

On November 5, 2014, a draft circular on investment tracks in provident funds was published. The draft circular proposes to determine rules for the management of investment tracks in provident funds that are not study funds, that include an age-dependent investment model for new members who are not receiving an annuity, an investment track for annuities, and specialist investment tracks.

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, 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, 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). The Commissioner and the insurance companies are discussing the draft ruling in principle.

2.4.3. Health insurance

2.4.3.1. Draft regulations

2.4.3.1.1. On October 26, 2014, draft Supervision of Financial Services (Insurance) (Long-term care Insurance for Healthcare Providers) Regulations, 2014, were published which prescribe that an insurer shall only issue a group LTC policy for healthcare provider (HMO) members in accordance with the provisions of the regulations, and that it must include the provisions prescribed in the Schedule to the regulations. The draft also prescribes provisions concerning enrolling in a group LTC policy for HMO members, there will be no qualifying period and insureds may move from one plan to another when they move between healthcare providers. Provisions were also prescribed concerning the enrollment of an insured who is born in 1955 or earlier, who held group LTC insurance, without a review of a pre-existing medical condition, subject to the conditions prescribed in the regulations. The regulations become applicable on April 1, 2015 and they will apply to group LTC policies for HMO members that are drawn up or renewed from the commencement date.

Together with the regulations, a draft circular on long-term care insurance for HMO members was published which prescribes provisions for drawing up group LTC insurance for HMO members, the insurance company’s obligation to contact insureds who meet the conditions prescribed in the circular, and to offer enrollment in a group LTC policy to healthcare fund members, provisions concerning the transfer of information between insurance companies and insureds and among the insurance companies themselves following a move by an insured to a different HMO. The provisions of the circular will apply to group long-term care insurance policies for HMO members that are introduced or renewed from April 1, 2015.

2.4.3.1.2. On August 18, 2014, a draft amendment to the Supervision of Financial Services (Insurance) (Group Health Insurance) Regulations, 2014, was published. Among other things, the draft amendment proposes prescribing provisions concerning obtaining the insured's agreement when the policy is renewed if the premiums were raised beyond the limit stipulated in the draft regulations, or if one or more of the basic coverages was cancelled, as well as provisions concerning cancellation of the policy if the insured's agreement is not received. The draft amendment also proposes prescribing provisions about the notice that insurance companies must send insureds when the group policy ends and when the relationship between the insured and the policyholder terminates.

2.4.3.2. Draft circular

On November 13, 2014, a circular was published concerning group travel insurance for health fund members and customers of travel agencies. The circular sets out principles whereby the Commissioner will allow healthcare providers 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 Health Insurance) Regulations, 2009. The provisions of the circular apply to group overseas travel policies that are sold as of May 1, 2015, including policies that are by virtue of insurance policies that were drawn up or renewed prior to the commencement of the circular.

2.4.3.3. Instructions and clarifications

2.4.3.3.1. 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.

2.4.3.3.2. 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.

2.4.3.4. 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, 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), 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, 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

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, 2014, was published. These draft regulations propose amending the Supervision of Insurance Business (Conditions of a Contract to Insure Homes and their Contents) Regulations, 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 July 30, 2014, Amendment No. 23 (previously Amendment no. 15) to the Joint Investment Trusts Law was published in the Official Gazette. According to the new provisions, the Minister of Finance may prescribe conditions which, when met, entitle the Israel Securities Authority to allow units in a foreign fund to be offered to the public in Israel. In March 2014, the plenum of the ISA approved the text of regulations that will prescribe the conditions for the offering of units in a foreign fund in Israel. The provisions of Amendment no. 23 on this matter will enter into force when the regulations to be promulgated by the Minister of Finance enter into force. Several other topics were also revised as part of the Amendment, e.g.: investors to whom the rule of offering units in accordance with a prospectus will not apply, amendments concerning a limit to the holding of units by an associate entity, giving a discount on a supplement and participation in general meetings.

2.4.5.1.2. On January 27, 2014, the Law for Easements in the Capital Market and Encouragement of Activity Therein (Amendments to Legislation), 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. Draft regulations

As part of the publication of a revised version of Amendment no. 21 to the Funds Law was published, a proposal was included to amend Section 49 of the Funds Law (which will become Section 67A under the amendment). In accordance with the text of the amendment, a portfolio manager who is part of the group of companies to which the fund manager belongs ("associate portfolio manager"), which holds 25% or more of the net value of the fund's assets for its customers, will be considered an "associate entity" and various obligations and limitations will apply to the fund manager that belongs to the group of companies to which the associate portfolio manager belongs ("associate fund manager"), which manages such an "associate fund". These obligations and limitations include that the fee paid to the fund manager in that fund will not exceed the average rates paid to the fund manager for all the funds of that class that it manages, and the fund supplement will not exceed the average supplement rates in any of the funds that it manages ("the proposed amendment"). At this stage, it is impossible to estimate the impact on the Company's financial statements, given that the proposed amendment is still being discussed by the Association of Mutual Fund Managers and the ISA.

2.4.5.3. Circulars

2.4.5.3.1. 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.

2.4.5.4. Instructions and clarifications

2.4.5.4.1. 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 (NIS thousands):

	For the nine months ended September 30		% change	For the three months ended September 30		For year ended December 31
	2014	2013		2014	2013	2013
Life assurance and long-term savings segment						
Gross earned premiums	2,835,110	2,827,119	-	943,654	917,945	3,809,905
Income from management fees	661,040	568,566	16	221,395	199,596	825,563
Profit (loss) from life assurance business	(95,698)	244,223	-	(69,567)	49,941	333,086
Profit from provident fund management	41,137	19,924	-	17,797	5,126	29,785
Profit from pension fund management	50,405	42,825	18	20,879	15,384	57,962
Total profit (loss) from life assurance and long-term savings	(4,156)	306,972	-	(30,891)	70,451	420,833
Total comprehensive income from life assurance and long-term savings	88,410	312,184	(72)	488	98,793	431,769
Non-life insurance segment						
Gross earned premiums	2,391,255	2,321,952	3	814,387	778,445	3,111,095
Premiums earned on retention	1,331,771	1,333,085	-	449,757	439,655	1,775,688
Total profit from non-life insurance	177,260	147,132	20	23,987	32,910	212,142
Comprehensive income from non-life insurance	243,658	138,089	76	42,668	43,758	218,506
Health insurance segment						
Gross earned premiums	2,652,945	2,360,679	12	929,480	832,537	3,192,205
Premiums earned on retention	2,491,906	2,198,825	13	872,812	772,447	2,986,116
Total profit from health insurance	142,194	133,606	6	48,966	43,222	194,930
Comprehensive income from health insurance segment	173,586	136,139	28	56,889	50,980	201,997
Insurance companies overseas segment						
Gross earned premiums	155,733	132,319	18	54,242	45,169	176,651
Premiums earned on retention	89,753	83,525	7	31,673	28,732	112,320
Total profit (loss) from insurance companies overseas segment	6,966	(6,660)	-	733	690	(6,586)
Total comprehensive income (loss) from insurance companies overseas	5,895	(9,974)	-	935	796	(12,435)
Capital market and financial services segment						
Revenues from capital market and financial services	222,547	181,422	23	78,429	70,709	253,680
Total expenses from capital market and financial services	178,196	164,349	8	59,482	60,649	226,320
Total profit from capital market and financial services segment	44,373	17,130	-	18,905	10,042	27,403

	For the nine months ended September 30		% change	For the three months ended September 30		For year ended December 31
	2014	2013		2014	2013	2013
Total comprehensive income from capital market and financial services segment	44,520	16,965	-	18,975	10,020	26,600
Items not included in operating segments						
Net profit from investments and financing income	219,636	242,378	(9)	73,451	85,655	315,994
Income from commissions	89,684	69,735	29	36,342	28,169	96,672
General & administrative expenses not recognized in operating segment reports	109,873	86,113	28	42,107	29,686	117,293
Financing expenses	83,475	126,274	(34)	34,026	55,510	152,508
Pre-tax profit	490,463	715,484*	(31)	103,784	190,898*	1,059,400*
Net profit for the period	315,810	449,993	(30)	64,241	113,619	680,791
Other comprehensive income (loss) for the period, net of tax	146,125	(16,254)	-	50,843	30,752	5,653
Total comprehensive income for the period	461,935	433,739	7	115,084	144,371	686,444
Net profit for the period attributed to the Company's shareholders	315,560	449,604	(30)	64,079	113,493	680,332
Net profit attributed to non-controlling interests	250	389	(36)	162	126	459
Return on equity in annual terms in percent	13%	13%	-	10%	13%	16%

* For the 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 September 30			At December 31
	2014	2013	% change	2013
Total balance sheet	87,202	74,799*	16.6	78,734*
Assets for yield-dependent contracts	35,697	29,999	19.0	31,535
Other financial investments	21,509	20,069	7.2	20,493
Intangible assets	1,598	1,631	(2.0)	1,618
Reinsurance assets	5,440	5,319	2.3	5,423
Insurance liabilities (insurance reserves and outstanding claims) in life assurance				
For yield-dependent investment contracts and insurance contracts	31,694	26,666	18.9	28,040
For insurance contracts that are not yield dependent	11,255	10,727	4.9	10,910
In non-life insurance	10,110	10,106	-	10,115
In health insurance (yield dependent and non-yield dependent)	6,687	5,696	17.4	5,953
In insurance companies overseas (yield-dependent and non-yield-dependent)	237	216	10.0	225
Adjustments and Offsets between segments	(6)	(7)	(7.0)	(8)
Total insurance liabilities	59,977	53,402	12.3	55,235
Equity attributed to holders of the Company's equity	4,753	4,258	11.6	4,506

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

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

	September 30			December 31
	2014	2013	% change	2013
For yield dependent investment contracts and insurance contracts	35,697	29,999	19.0	31,535
For members of provident funds and pension funds *	59,145	49,618	19.2	52,562
For mutual fund customers *	35,496	31,240	13.6	32,915
For customers portfolios *	9,125	8,211	11.1	8,526
ETNs	14,769	10,566	39.8	12,054
Total assets under management for the Group's policyholders and members	154,232	129,633	19.0	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 information about the results of operations

The total amount of the premium earned from insurance business during the Reporting Period amounted to NIS 8.03 billion compared with NIS 7.64 billion during the corresponding period last year, an increase of 5% compared with the corresponding period last year.

The total earned premium from insurance business amounted to NIS 2.74 billion in the third quarter of 2014, compared with NIS 2.57 billion in the corresponding period last year, an increase of 7% compared with the same period last year.

Comprehensive income, which consists of profit after tax for the reporting period plus the net change in a capital fund in respect of available-for-sale financial assets and other changes in shareholders' equity, was NIS 462 million for the Reporting Period, compared with NIS 434 million for the corresponding period last year. The increase in comprehensive income relative to the corresponding period last year are mainly due to the effect of the capital market where yields during the Reporting Period were higher than those of the corresponding period last year, to the volume of variable management fees collected during the Reporting Period, which was higher than those collected in the corresponding period last year, and to inflation, which was lower during the Reporting Period than inflation in the corresponding period last year. These influences were largely offset by the corresponding period last year is mainly due to the increase in insurance obligations in the amount of NIS 217 million before tax and NIS 135 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 third quarter of 2014 amounted to NIS 115 million, compared with NIS 144 million for the corresponding quarter last year, a decline of 20%. The decline in comprehensive income in the third quarter of 2014, compared with the corresponding quarter last year, is mainly due to the increase in the insurance obligations in the amount of NIS 49 million before tax and NIS 30 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). These influences were partially offset by the effects of the capital market, where yields during the Reporting Period were higher than those of the corresponding period last year, and by the effect of inflation which was lower in the Reporting Period than during the corresponding period last year.

Net profit for the reporting period was NIS 316 million, compared with net profit of NIS 450 million for the corresponding period last year, a decline of 30%.

Net profit in the third quarter of 2014 amounted to NIS 64 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 490 million compared to pre-tax profit of NIS 715 million during the corresponding period last year, a decline of about 31%.

Pre-tax profit in the third quarter of 2014 was NIS 104 million, compared with pre-tax profit of NIS 191 million in the corresponding quarter last year.

During the Reporting Period net revenues from investments and financing income amounted to NIS 2,667 million, compared with NIS 3,096 million during the corresponding period last year.

The Company’s financing expenses that were not attributed to the operating segments, amounted to NIS 83 million in the Reporting Period, compared with NIS 126 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 0.1%, compared to 2% in the corresponding period last year.

The Company's financing expenses that were not attributed to the operating segments in the third quarter of 2014, amounted to NIS 34 million, compared with NIS 56 million for the corresponding quarter last year. The decline in financing expenses in the third quarter of 2014 compared to the corresponding quarter last year was due to the effect of inflation during the Reporting Period, which was lower than inflation in the corresponding quarter last year.

The Company's equity at September 30, 2014, relating to the Company's shareholders, amounts to NIS 4,753 million, compared to equity of NIS 4,258 million at September 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 462 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 for 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, 5772-2012, 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 312 million in the corresponding period last year. The decline in comprehensive income can be attributed mainly to the increase in insurance obligations in the amount of NIS 175 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 138 million, compared with management fees of NIS 115 million collected during the corresponding period last year; and by the effect of inflation which was a negative 0.1% during the Reporting Period, compared to positive inflation of 2% in the corresponding period last year.

In the third quarter of 2014, comprehensive income in the life assurance and long-term savings segment amounted to NIS 0.5 million, compared with comprehensive income of NIS 99 million in the corresponding quarter last year. The decline in comprehensive income can be attributed mainly to the decline in the volume of variable management fees collected in the third quarter of 2014 in the amount of NIS 36.5 million, compared with NIS 46.5 million in the corresponding quarter last year, and to an increase in the insurance obligations in the amount of NIS 49 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) .

The pre-tax loss in the life assurance and long-term savings segment was NIS 4 million in the Reporting Period, compared with pre-tax profit of NIS 307 million for the corresponding period last year.

The pre-tax loss in the life assurance and long-term savings segment in the third quarter of 2014 was NIS 31 million, compared with pre-tax profit of NIS 70 million in the corresponding quarter last year.

Life assurance

2.7.1. Total premiums earned during the Reporting Period amounted to NIS 2,835 million, compared with NIS 2,827 million for the corresponding period last year. Premiums earned during the

Reporting Period accounted for 35% of all premiums earned by the Group during the Reporting Period.

Total premiums earned on life assurance amounted to NIS 944 million in the third quarter of 2014, compared with NIS 918 million in the corresponding quarter last year, a 3% increase relative to the corresponding quarter last year.

The comprehensive loss in the Reporting Period was NIS 5 million, compared with comprehensive income of NIS 251 million for the corresponding period last year. The shift from profit to loss is mainly due to the increase in the insurance obligations in the amount of NIS 175 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 volume of variable management fees collected during the Reporting Period, amounting to NIS 138 million, compared with management fees of NIS 115 million collected during the corresponding period last year.

The comprehensive loss on life assurance in the third quarter of 2014 was NIS 37 million, compared with comprehensive income of NIS 79 million for the corresponding quarter last year. The shift from profit to loss is mainly due to the increase in insurance obligations in the amount of NIS 49 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), as well as the variable management fees collected in the third quarter of 2014 amounting to NIS 36.5 million, compared with NIS 46.5 million in the corresponding quarter last year.

Pre-tax loss in life assurance during the Reporting Period amounted to NIS 96 million compared with pre-tax profit of NIS 244 million during the corresponding period last year.

Pre-tax loss in life assurance during the third quarter of 2014 amounted to NIS 70 million compared with pre-tax profit of NIS 50 million during the corresponding quarter last year.

Revenues from investments held against insurance obligations in life assurance totaled NIS 2,057 million for the reporting year, compared with investment revenues of NIS 2,347 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 Period, the variable management fees that were collected were higher than those collected in the corresponding period last year, due to the low level of inflation in the Reporting Period – 0.1% - compared with 2% inflation in the corresponding period last year.

Income from investments that are held against insurance obligations in life assurance amounted to NIS 639 million in the third quarter of 2014, compared with NIS 1,067 million in the corresponding quarter last year.

During the Reporting Period redemptions amounted to NIS 651 million and accounted for approximately 2.4% of the average reserve in life assurance, compared to redemptions of about NIS 664 million during the corresponding period last year that accounted for about 2.7% of the average reserve last year.

Total life assurance reserves at September 30, 2014, amounted to NIS 43 billion.

Yield-dependent policies:

	Policies issued from 1991-2003			
	1-9.2014 (in percent)	1-9.2013 (in percent)	7-9.2014 (in percent)	7-9.2013 (in percent)
Real yield before payment of management fees	5.97	5.52	1.54	2.11
Real yield after payment of management fees	4.72	4.34	1.20	1.69
Nominal yield before payment of management fees	6.08	7.64	1.84	3.43
Nominal yield after payment of management fees	4.82	6.43	1.50	3.00

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

	Policies issued from 2004			
	1-9.2014 (in percent)	1-9.2013 (in percent)	7-9.2014 (in percent)	7-9.2013 (in percent)
Real yield before payment of management fees	5.73	5.55	1.37	2.21
Real yield after payment of management fees	4.82	4.62	1.07	1.91
Nominal yield before payment of management fees	5.83	7.67	1.67	3.53
Nominal yield after payment of management fees	4.92	6.72	1.37	3.22

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):

	1-9.2014	1-9.2013	7-9.2014	7-9.2013
Profits after management fees	1,347	1,495	427	741
Total management fees	316	262	99	98

Pension funds

2.7.2. The number of members in the pension funds managed by the Group at September 30, 2014, is 863,000, of which 442,000 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 September 30, 2014, amounted to NIS 30.1 billion compared with NIS 23.5 billion on September 30, 2013, a 28% increase, and compared with NIS 25.4 billion at December 31, 2013, a 19% increase. The increase compared to the previous year can be attributed to the growth of activity and to 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 3,552 million, compared with NIS 2,973 million in the corresponding period last year, a 19% increase. Most of the increase is due to the growth of activity.

The assets of the pension funds and the contribution fees deposited in them 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 180 million, compared with NIS 161 million in the corresponding period last year, a 12% increase.

Total revenues from management fees which were collected from the pension funds managed by the Group amounted to NIS 64 million in the third quarter of 2014, compared with NIS 55 million for the corresponding quarter last year, an increase of 16%.

Expenses in connection with management of the pension funds amounted to NIS 134 million in the Reporting Period, compared with NIS 121 million in the corresponding period last year.

Expenses in connection with management of the pension funds amounted to NIS 46 million for the third 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 52 million, compared with NIS 42 million during the corresponding period last year.

Total pre-tax comprehensive income from the management of pension funds and the operation of an old pension fund amounted to NIS 20 million in the third quarter of 2014, compared with NIS 15 million for the corresponding quarter last year.

Total pre-tax profit from the management of pension funds and operation of an old pension fund during the Reporting Period amounted to NIS 50 million, compared with NIS 43 million for the corresponding period last year. The increase in pre-tax profit is due to an increase in the volume of activity.

Pre-tax profit from the management of pension funds and the operation of an old pension fund amounted to NIS 21 million in the third quarter of 2014, compared with pre-tax profit of NIS 15 million for the corresponding quarter last year. The increase in pre-tax profit is due to an increase in the volume of activity.

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 nine months ended September 30, 2014

Fund name	Investment yield (in percent)
Harel Gilad Pension	6.04
Harel - Manof	5.98

For the three months ended September 30, 2014

Fund name	Investment yield (in percent)
Harel Gilad Pension	1.92
Harel - Manof	1.86

Provident funds

2.7.3. At the Reporting Date the Group manages 11 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 September 30, 2014, the Group operates 35 tracks in its provident funds.

The volume of assets under management in the provident funds managed by the Group at September 30, 2014, amounted to NIS 29 billion compared with NIS 26.1 billion at September 30, 2013, and compared with NIS 27.2 billion at December 31, 2013, an 11.2% increase relative to September 30, 2013, and an increase of 6.8% 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 165 million, compared with NIS 146 million for the corresponding period last year, a 13% increase. The increase is mainly due to the increase in the volume of assets under management during the Reporting Period compared with the corresponding period last year.

Total revenues from management fees collected by the provident funds managed by the Group amounted to NIS 59 million in the third quarter of 2014, compared with NIS 46 million in the corresponding quarter last year. The increase in revenues from management fees is due to a reduction in the management fees returned to members.

Provident fund expenses during the Reporting Period amounted to NIS 125 million, compared with NIS 127 million for the corresponding quarter last year.

Provident fund expenses during the third quarter of 2014 amounted to NIS 41 million, compared with NIS 42 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 amounted to NIS 42 million for the Reporting Period, compared with NIS 20 million for the corresponding period last year. The increase in profit is due to an increase in the management fees collected in the Reporting Period, compared to the corresponding period last year, and this on account of the increase in the volume of assets under management and the decline in the volume of management fees returned to members.

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 18 million in the third quarter of 2014, compared with NIS 5 million in the corresponding quarter last year. The increase in profit can be attributed to an increase in the management fees collected in the Reporting Period, compared to the corresponding period last year, and this on account of the increase in the volume of assets under management and the decline in the volume of management fees returned to members.

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 41 million, compared with NIS 20 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 third quarter of 2014, was NIS 18 million, compared with NIS 5 million in the corresponding quarter last year.

Net accrual by the provident funds (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 602 million compared with positive accrual of NIS 472 million for the corresponding period last year.

2.8. Health Insurance

Total premiums earned in the health insurance segment were NIS 2,653 million for the Reporting Period, compared with NIS 2,361 million for the corresponding period last year, a 12% increase. Total premiums earned in the health insurance segment during the Reporting Period, accounted for 33% of all premiums earned by the Group.

Total premiums earned in the health insurance segment during the third quarter of 2014 amounted to NIS 929 million, compared with NIS 833 million in the corresponding quarter last year, an increase of 12%.

During the Reporting Period the health insurance segment posted comprehensive income of NIS 174 million compared with comprehensive income of NIS 136 million in the corresponding period last year. This increase is due mainly to the effect of the capital market, where yields were higher than those in the corresponding period last year, and to the effect of inflation which during the Reporting Period was 0.1%, compared with 2% inflation in the corresponding period last year. These effects were 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 third quarter of 2014 was NIS 57 million, compared with NIS 51 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. These effects were partially offset by 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 142 million for the Reporting Period, compared with NIS 134 million in the corresponding period last year, a 6% increase.

Pre-tax profit in the health insurance segment totaled NIS 49 million in the third quarter of 2014, compared with NIS 43 million in the corresponding quarter last year.

Total payments and the change in gross liabilities in respect of insurance contracts in the health insurance segment during the Reporting Period amounted to NIS 2,151 million, compared with NIS 1,929 million in the corresponding period last year, a 12% increase. Most of the change is due to an increase in claims under group insurance and to an increase in the volume of the portfolio.

Investment profits that were recognized in a group long-term care policy in which most of the insurance risk is imposed on the program itself amounted to NIS 109 million, similar to the investment profits 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 (NIS thousands):

	Gross premiums					
	1-9.2014	1-9.2013	% change	7-9.2014	7-9.2013	2013
Compulsory motor	387,192	405,599	(4.5)	90,727	101,478	484,636
Motor property	796,628	759,025	5.0	163,043	177,512	898,958
Property & other branches	700,757	663,757	5.6	250,731	215,060	956,121
Other liabilities branches	551,250	523,112	5.4	133,313	120,433	761,274
Credit & mortgage insurance*	(18,177)	(12,014)	51.3	(6,499)	(5,578)	(17,396)
Total	2,417,650	2,339,479	3.3	631,315	608,905	3,083,593

*Net of settlements

	Comprehensive income (loss) before taxes					
	1-9.2014	1-9.2013	% change	7-9.2014	7-9.2013	2013
Compulsory motor	108,977	69,347	57.1	14,043	9,772	111,261
Motor property	30,496	18,743	62.7	4,266	9,412	24,274
Property & other branches	32,881	19,529	68.4	13,879	7,850	24,628
Other liabilities branches	20,614	(2,036)	-	(3,603)	963	4,154
Credit & mortgage insurance*	50,690	32,506	55.9	14,083	15,761	54,189
Total	243,658	138,089	76.4	42,668	43,758	218,506

Gross premiums during the Reporting Period totaled to approx. NIS 2,418 million, compared with NIS 2,339 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 third quarter of 2014 totaled approximately NIS 631 million, compared with NIS 609 million in the corresponding quarter last year, a 4% increase.

Premiums in retention during the Reporting Period totaled approximately NIS 1,338 million, compared with NIS 1,315 million in the corresponding period last year, a 2% increase.

Premiums in retention during the third quarter of 2014 totaled approximately NIS 304 million, compared with NIS 315 million in the corresponding quarter last year.

Comprehensive income in general (non-life) insurance during the Reporting Period, amounted to NIS 244 million, compared with NIS 138 million in the corresponding period last year. The increase in comprehensive income in the Reporting Period is mostly due to the influence of the capital market where yields were higher than those in the corresponding period last year due to the effect of the low inflation in the Reporting Period compared to the corresponding period last year, and to improved underwriting results.

Comprehensive income in non-life insurance in the third quarter of 2014 was NIS 43 million, compared with NIS 44 million for the corresponding quarter last year.

Pre-tax profit in non-life insurance during the Reporting Period amounted to NIS 177 million compared with pre-tax profit of NIS 147 million in the corresponding period last year, a 20% increase.

Pre-tax profit in non-life insurance in was NIS 24 million in the third quarter of 2014, compared with pre-tax profit of NIS 33 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 797 million, compared with gross premiums of NIS 759 million during the corresponding period last year, an increase of 5%. 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, gross, from motor property insurance amounted to NIS 163 million in the third quarter of 2014, compared with NIS 178 million in the corresponding quarter last year, a decline of 8%.

During the Reporting Period, premiums in retention amounted to NIS 626 million compared with NIS 598 million in the corresponding period last year, an increase of 5%.

Total premiums in retention during the third quarter of 2014 were approximately NIS 127 million, compared with NIS 139 million in the corresponding quarter last year, an 8% decrease.

Comprehensive income in motor property insurance in the Reporting Period amounted to NIS 30 million, compared with comprehensive income of NIS 19 million in the corresponding period last year. This increase stems mostly from improved underwriting performance in this line of activity, inflation that was lower than inflation during the corresponding period last year, and 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 third quarter of 2014 amounted to NIS 4 million compared with comprehensive income of about NIS 9 million in the corresponding period last year.

Pre-tax profit in motor property insurance in the Reporting Period amounted to NIS 24 million compared with pre-tax profit of about NIS 20 million in the corresponding period last year.

Pre-tax profit in motor property insurance during the third quarter of 2014 amounted to about NIS 2 million compared with pre-tax profit of about NIS 9 million in the corresponding period last year.

On September 30, 2014, Harel Insurance was informed that it had won 52% of the tender for the compulsory motor and motor property insurance of state employees for 2015 as part of the tender published by the Accountant General.

Harel Insurance has been insuring the vehicles of state employees for more than 35 years.

In 2014, Harel Insurance was awarded 95% of all the vehicles included in the Accountant General's tender, compared with 80% in 2013, and 10% in 2012

The winning of the tender and the anticipated increase in the number of state employees' vehicles that Harel Insurance will insure in 2015 is not expected affect its performance significantly.

2.9.2. Compulsory motor

Gross premiums in compulsory motor insurance sector during the Reporting Period amounted to NIS 387 million, compared with gross premiums of NIS 406 million during the corresponding period last year, a decline of 5%.

Total premiums from compulsory motor insurance amounted to NIS 91 million in the third quarter of 2014, compared with NIS 101 million in the corresponding quarter last year, a decline of 11%.

On compulsory motor insurance for vehicles owned by state employees - Section 2.9.12.9.1 above on motor property insurance.

During the Reporting Period, premiums in retention amounted to NIS 307 million compared with NIS 322 million in the corresponding period last year.

Premiums in retention during the third quarter of 2014 totaled approx. NIS 71 million, compared with NIS 80 million in the corresponding quarter last year, an 11% decrease.

Comprehensive income in compulsory motor insurance in the Reporting Period amounted to NIS 109 million compared with NIS 69 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 lower than inflation during the corresponding period last year, and improved underwriting performance.

Comprehensive income in compulsory motor insurance during the third quarter of 2014 amounted to NIS 14 million, compared with NIS 10 million during the corresponding quarter last year.

Pre-tax profit from compulsory motor insurance during the Reporting Period amounted to NIS 78 million, compared with NIS 74 million in the corresponding period last year.

Pre-tax profit from compulsory motor insurance was NIS 3 million in the third quarter of 2014, compared with NIS 5 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 the results of Harel Insurance.

2.9.3. Liabilities and other insurance

During the Reporting Period gross premiums in liabilities and other lines of insurance activity amounted to NIS 551 million, compared with NIS 523 million during the corresponding period last year, a 5% increase.

Gross premiums during the third quarter of 2014 totaled approximately NIS 133 million, compared with NIS 120 million in the corresponding period last year.

Premiums in retention in the Reporting Period amounted to NIS 241 million compared with NIS 238 million during the corresponding period last year, a 1% increase.

Total premiums in retention in liabilities insurance and other lines of activity in the third quarter of 2014 totaled approximately NIS 56 million, compared with NIS 49 million in the corresponding quarter last year, a 14% increase.

Comprehensive income in the other liabilities insurance in the Reporting Period amounted to NIS 21 million compared with a comprehensive loss of about NIS 2 million in the corresponding period last year. The shift from loss to profit stems mostly from the effect of the capital market in which yields were high than those in the corresponding period last year, from inflation in the Reporting Period which was lower than inflation in the corresponding period last year, and from 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, which were included in the results in the Reporting Period, in the amount of NIS 11 million before tax.

The comprehensive loss in other liabilities insurance amounted to NIS 4 million in the third quarter of 2014, compared with NIS 1 million for the corresponding quarter last year. The shift from profit to loss was due to capital market yields that were lower than those of the corresponding quarter last year.

The pre-tax loss in other liabilities insurance in the Reporting Period amounted to NIS 4 million, compared with pre-tax profit of NIS 1 million in the corresponding period last year.

The pre-tax loss in other liabilities insurance during the third quarter of 2014 amounted to NIS 12 million, compared with a loss of about NIS 2 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 701 million compared with NIS 664 million during the corresponding period last year.

Gross premiums in property and other branches in the third quarter of 2014 amounted to NIS 251 million compared with NIS 215 million in the corresponding quarter last year, an increase of 17%.

Premiums in retention during the Reporting Period amounted to NIS 182 million compared with NIS 169 million during the corresponding period last year, an 8% increase.

Premiums in retention during the third quarter of 2014 amounted to NIS 56 million compared with NIS 53 million during the corresponding quarter last year, a 6% increase.

Comprehensive income in property and other branches in the Reporting Period amounted to NIS 33 million, compared with NIS 20 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 third quarter of 2014 amounted to NIS 14 million, compared with NIS 8 million in the corresponding quarter last year.

Pre-tax profit in property insurance and other branches during the Reporting Period amounted to NIS 31 million, compared with NIS 20 million in the corresponding period last year.

Pre-tax profit in property insurance and other branches during the third quarter of 2014 amounted to NIS 13 million, compared with NIS 8 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 34 million, compared with NIS 33 million for the corresponding period last year, an increase of 1%. The premiums earned on mortgage-related credit insurance are not for new sales, but for premiums that were recorded based on the mechanism for recording premiums, according to the conditions prescribed in EMI’s license.

Total premiums earned on retention in mortgage-related credit risks in the third quarter of 2014 amounted to NIS 10 million compared with NIS 8 million in the corresponding period last year.

EMI does not have reinsurance agreements in this line of activity.

Comprehensive income in mortgage-related credit insurance during the Reporting Period amounted to NIS 51 million compared with NIS 33 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, from the effect of inflation which was lower than inflation in the corresponding period last year, and from 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 third quarter of 2014 amounted to NIS 14 million compared with NIS 16 million in the corresponding quarter last year.

Pre-tax profit in mortgage-related credit insurance during the Reporting Period amounted to NIS 48 million compared with NIS 32 million in the corresponding period last year.

Pre-tax profit in mortgage-related credit insurance during the third quarter of 2014 amounted to NIS 18 million compared with pre-tax profit of NIS 13 million in the corresponding quarter last year.

2.10. Insurance companies overseas

The Company is the controlling shareholder 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 (previously the Company held a 99.98% stake).

During the Reporting Period, the operating segment for insurance companies overseas earned premiums of NIS 156 million, compared with NIS 132 million for the corresponding period last year, an increase of 18%. 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 third quarter of 2014 amounted to NIS 54 million, compared with NIS 45 million in the corresponding quarter last year. Total premiums earned by the insurance companies operating overseas segment in the third 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 6 million, compared with a comprehensive loss of NIS 10 million for the corresponding quarter last year. The shift from loss to profit in the results of the insurance companies overseas segment is due to improved underwriting results and the effect of the capital market.

The insurance companies in the overseas operating segment posted comprehensive income of NIS 1 million in the third quarter of 2014, similar to the comprehensive income in the corresponding quarter last year.

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

During the third quarter of 2014, the insurance companies overseas posted pre-tax profit of NIS 1 million, similar to the pre-tax profit in 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 223 million, compared with NIS 181 million for the corresponding period last year, a 23% 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 and is also the result of further expansion of activity in ETNs and deposit certificates.

Revenues in the capital market and financial services segment in the third quarter were NIS 78 million, compared with NIS 71 million for the corresponding quarter last year, an 11% increase over the corresponding quarter last year. The increase in revenues in the third quarter compared to the corresponding quarter last year can be attributed mainly to the acquisition of the portfolio management activity and mutual fund company of Clal Finance, as well as to further profitable growth of ETN and deposit certificate activity.

The volume of assets under management in the capital market and financial services segment at September 30, 2014, was NIS 59 billion, compared with NIS 50 billion at September 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 35.5 billion at September 30, 2014, compared with NIS 31.2 billion at September 30, 2013 and NIS 32.9 million at December 31, 2013, as well as ETN and deposit certificate assets, which at September 30, 2014 amounted to NIS 14.8 billion as against NIS 10.6 billion at September 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 44 million, as against pre-tax profit and comprehensive income of NIS 17 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 third quarter of 2014, the capital market and financial services sector recorded pre-tax profit and comprehensive income of NIS 19 million, as against NIS 10 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 175 million, compared with expenses for taxes on income tax in the amount of NIS 265 million during the corresponding period last year.

Taxes on income in the third quarter of 2014 amounted to an expense of NIS 40 million, compared with NIS 77 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 2,347 million. Net cash flows used for investment activity amounted to NIS 166 million. Net cash flows from financing activity and fluctuations in the exchange rate amounted to NIS 2,203 million. The result of all the foregoing activity is reflected in a decline in cash balances in the amount of NIS 310 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.

2.13.3. Revised repayment schedule and interest base for a bank loan

Concerning a revised repayment schedule and interest base for a bank loan – see Note 12(4) to the Financial Statements.

2.13.3.1. 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 70 million par value, so that Harel Insurance can use the consideration as hybrid tier-3 capital - see Note 8 to the Financial Statements.

2.13.3.2. 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.

2.13.3.3. 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.

2.13.3.4. 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.

2.13.3.5. 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.

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

3. Exposure to market risks and ways of managing them

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 November 17. 2014, Ms. Hava Friedman Shapira was appointed as an external director in the Company. Ms. Friedman Shapira will also serve on the Audit Committee, the Compensation Committee, and the Committee for the Review of the Company's Financial Statements.

4.1.1.2. On November 17, 2014, the general meeting of the Company approved the appointment of Mssrs. David Granot and Prof. Israel Gilad for an additional term of office of three years as external directors in the Company (commencing January 19, 2015).

4.1.1.3. On October 21, 2014, Ms. Esther Dominissini stepped down as an external director in the Company following her appointment as Director General of the Government Medical Centers Authority.

4.1.1.4. On August 20, 2014, Adv. Hanan Friedman stepped down as legal advisor (general counsel) to the Company and other companies in the Group, including Harel Insurance, in accordance with his announcement dated April 27. The circumstances of this announcement do not require that they be brought to the attention of the public or the Commissioner.

4.1.1.5. 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.

4.1.1.6. 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.

4.1.1.7. 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 continues 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, of 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, 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; (j) The policy stipulates that it is not intended to infringe on rights that have already been accrued; (k) 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 by the Financial Institutions 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, 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.

4.1.3. Employment conditions of the controlling shareholders

On November 17, 2014, the Company's general meeting approved the employment conditions of the controlling shareholders (after they had been approved by the Compensation Committee on October 2, 2014, and by the Board of Directors on October 6, 2014).

The present employment conditions of the controlling shareholders are in accordance with the employment agreements of each of the controlling shareholders which are in force from December 1, 2011 until November 30, 2014. As part of the re-approval of the agreements with the controlling shareholders, the employment conditions were also revised. The main points of the revisions are a reduction of the annual bonuses and adjustment of the parameters of the annual bonuses to those listed in the Company's compensation policy and in the revised compensation policy of the Group's financial institutions.

Based on the existing law at the date of this report, the agreement with the controlling shareholders must be re-approved three years after the commencement of the agreement (on November 30, 2017), due to the fact that they are the Company's controlling shareholders.

Employment conditions of Mr. Yair Hamburger:

Mr. Yair Hamburger has been head of Harel Insurance and Finance Group since its establishment, and he serves as Chairman of the Board of Directors of the Company and Chairman of the Board of Directors of Harel Insurance. Additionally, Mr. Yair Hamburger holds the following key positions in Harel Group: member of the boards of directors of the following Group companies: Dikla, Interasco, Turk Nippon, Harel Finance, Harel Pia, Chairman of the Board of Directors of Harel Share Issues, member of the non-yield dependent (Nostro) investment committee of the Group's financial institutions.

Mr. Yair Hamburger's monthly salary will be NIS 160,000 (in this section: "the Salary") and it includes CPI linkage and conversion of the thirteenth annual salary, in accordance with the employment conditions approved by the general meeting on March 5, 2012. The Salary will be linked to the CPI and will be revised in accordance with the increase in the CPI once a year, for the January salary every year. The Company will make provision for social benefits according to generally accepted standards. Yair Hamburger is entitled to 22 days annual vacation. Unutilized vacation days, including in respect of the period of Mr. Yair Hamburger's employment from the commencement date of his employment for the Company will be accumulated and may be redeemed when his employment terminates. Mr. Yair Hamburger is entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates.

Mr. Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 672,625 at September 30, 2014). Should Mr. Hamburger choose to buy a more expensive car, he will pay the difference in cost. The cost of car maintenance, including the tax charged for use of the vehicle, is paid by the Company.

Yair Hamburger will not be entitled to participate in the Company's stock options plan. Additionally, it is stipulated that Mr. Yair Hamburger will not be entitled to any additional remuneration for serving as a director in Group companies.

Mr. Yair Hamburger was given a letter of indemnity, as part of the resolutions passed by the Company and approved by the general meeting in July 2006.

Mr. Yair Hamburger is entitled to an annual bonus of no more than 4 salaries (if he earns a maximum score of 120% - 4.8 salaries), where the parameters for determining the annual bonus are: (a) the comprehensive income return on equity relative to the large insurance groups; (b) the Company's rating relative to the large insurance groups in obtaining a VNB/VIF ratio (a figure which is included in the EV report); and (c) the Company's rating relative to the large insurance groups with respect to the rate of increase of VIF.

Mr. Yair Hamburger is not entitled to a minimum bonus. For the avoidance of doubt, the compensation mechanism that was determined does not include a discretionary component in evaluating the performance of the controlling shareholders. For additional information about the parameters which serve as the basis for determining the annual bonus and the manner of determining the bonus, see the Company's Immediate Report dated October 7, 2014 (ref.: 2014-01-172221).

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

Should any of the following events take place, the annual bonus will not be paid at all for that year: (a) the comprehensive income return on equity of the Company is 4% or lower; (b) after payment of all the annual bonuses to the senior employees of the Company and Harel Insurance, Harel Insurance fails to meet the regulatory capital requirements that apply to Harel Insurance, plus NIS 150 million; (c) when the bonus is approved, "delaying circumstances" were present with respect to subordinated promissory notes issued by Harel Financing & Issues, as a result of which payment of the principal and/or interest payments defined in the aforementioned subordinated promissory notes was postponed, and this on account of the Commissioner's instructions or decision of the Board of Directors of Harel Insurance.

When any of the following events occurs, the amount of the annual bonus will be reduced: (a) if the comprehensive income return on equity achieved by the Company is less than 7% but more than or equal to 4%, in the year for which the bonus is paid, a relative share of the annual bonus will be paid, on a linear basis, where for 4% yield 4/7 of the bonus will be paid, for 5% 5/7 of the bonus will be paid, and so on; (b) limitations apply to all the Group's bonuses: (1) the total amount of the annual performance-linked bonuses payable to all the Group's key functionaries to whom the compensation policy for the Group's financial institutions applies, does not exceed 6.5% of comprehensive income before tax for Harel Insurance (consolidated); (2) the total amount of the annual performance-linked bonuses for the senior officers of Harel Investments does not exceed 5.5% of the pre-tax comprehensive income posted by the Company (consolidated); (3) if the FSR of Harel Insurance is downgraded by a rate which is higher than the average rating of the four largest insurance companies in Israel (Migdal, Clal, The Phoenix, and Menorah), the following provisions will apply: in the event of a difference of one notch - the bonus will be reduced by 5%; in the event of a difference of two notches - the bonus will be reduced by 10%; in the event of a difference of three or more notches - the bonus will be reduced by 15%.

Of the annual bonus to which Mr. Yair Hamburger is entitled for any particular year, insofar as he is entitled to a bonus, 55% will be paid in installments, as follows: one third of the deferred amount will be paid 12 months after the end of the year for which the bonus is paid; one third of the deferred amount will be paid 24 months after the end of the year for which the bonus is paid; one third of the amount will be paid 42 months after the end of the year for which the bonus is paid. Deferred amounts will be paid plus linkage differences to the CPI, on the above-mentioned dates, subject to meeting the following conditions: (1) no errors were found in the calculation of the amount of the bonus; (2) Harel Insurance is in compliance with the capital requirements that apply to it, based on the last financial statements published prior to the date of payment. If the aforementioned conditions are not met, the payment will be postponed to such time as the conditions are met.

The method of computing the annual bonus must be approved by the Company's Board of Directors each year, after the date of approval of the financial statements for the year ended, and no later than the end of June. Should Mr. Yair Hamburger terminate his employment during the course of the calendar year, the annual bonus will be calculated pro rata to the period in which he worked for the Company in that year.

Mr. Yair Hamburger voluntarily accepted upon himself the revised conditions of the annual bonus which reflect a reduction compared with the existing bonus conditions, commencing with the annual bonus for 2014, and this by way of waiving the rights he accumulated to receive the bonus under the existing agreement.

Upon termination of the employment relationship for any reason whatsoever, Yair Hamburger will be entitled to compensation in the amount to which he is entitled by law in the event of severance, less any amounts accrued on his behalf for severance pay in the provident fund/managers' insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger ("Severance Pay").

Notwithstanding the foregoing, subject to completing a minimum period of 5 years employment from December 1, 2011 (namely - from December 1, 2016), upon terminating his employment for the Company, Mr. Yair Hamburger will be entitled to double severance pay, i.e. an additional 100% compensation (over and above the compensation stipulated by law). Notwithstanding the foregoing, if his employment terminates, unfortunately, as a result of death or work disability, the entitlement to double severance pay will also apply before the end of the minimum period of employment ("additional compensation").

Pursuant to the provisions of the revised compensation policy for the Group's financial institutions, part of the additional compensation (over and above the 100%) ("retirement bonus") that is accrued for the period of employment after December 31, 2016, will be paid in installments, as follows: 1/3 of the deferred amount will be paid 12 months from the end of the year in which Mr. Yair Hamburger retires; 1/3 of the deferred amount will be paid 24 months from the end of the year in which Mr. Yair Hamburger retires; 1/3 of the deferred amount will be paid 42 months from the end of the year in which Mr. Yair Hamburger retires. Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that in retrospect was found did not materially reflect the actual exposure of the financial institution or the members' monies; based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements that apply to it; in the last financial statements (quarterly or annual) published prior to the date of payment, Harel Insurance presents a comprehensive income If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met.

Based on all the foregoing, the cost of employment of Mr. Yair Hamburger is expected to be NIS 3.5 million. This cost was computed on the basis of the entitlement to a normative bonus of 4 salaries. This cost may be NIS 128,000 higher than the above amount if Mr. Hamburger is entitled to a maximum bonus or it may be NIS 640,000 less if Mr. Hamburger is not entitled to a bonus for that year.

As part of the new employment agreement, which will enter into force on December 1, 2014, Yair Hamburger will continue to undertake not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment by the Company. Mr. Yair Hamburger’s commitment to a minimum period of employment of 5 years as full-time chairman, commencing December 1, 2011, remains in force so that the commitment period will end on November 30, 2016.

It is clarified that the period of advance notice is 30 days. Mr. Yair Hamburger will not be entitled to an adjustment period or adjustment fee.

Following are the reasons given by the Compensation Committee and the Board of Directors for approving the terms of employment detailed above:

Mr. Yair Hamburger is a strategic asset to the Company. As Chairman of the Board of Directors, Yair Hamburger is involved in and directs most of the Group's significant business decisions, its business development, involvement in new areas of activity, its business relations with customers and agents, and he is involved in all the Group’s operations. Thanks to Yair Hamburger's connections and central role in Israel's capital market, the Group is able to take advantage of numerous business opportunities. His long-standing experience in this field and his familiarity with the Company, its business and its customers are extremely valuable for the Company and its business success. The terms of Yair Hamburger’s employment were approved by the Audit Committee, the Compensation Committee and Board of Directors of the Company two and a half years ago, as being appropriate and proper. It is now suggested that the compensation paid to Yair Hamburger will be reduced substantially, without any change in his activity in and on behalf of the Company. The total cost of Yair Hamburger’s employment, based on the proposed conditions of the agreement, are within the accepted range, taking into account his position in the Group and accepted standards among office holders in comparable positions.

During the course of the discussions on this subject, and based on the desire to compensate Mr. Yair Hamburger and provide him with an incentive to continue to work for the Group’s development and dominance, to improve its profits and meet targets, the following information and parameters were taken into account: (a) comparison of the proposed terms of the agreement with Mr. Hamburger’s present conditions; (b) comparison data regarding the salary, terms of office and employment of the Chairman and CEOs in the benchmark group of the largest insurance and finance groups and the five largest banks; in accordance with that stated in the Company’s compensation policy; and (c) information about the scope of the proposed compensation for the chairman and the financial ramifications, including provisions in respect of the compensation. As part of these comparative data, the bonus components and other salary components were taken into account.

As part of these discussions, the fact that the proposed terms of employment do not include a capital component, do not include advance notice, beyond that required by law and do not include an adjustment period, as generally accepted for senior executives, was taken into account. Likewise, the approval took into account the fact that the parameters for payment of the bonus are based on the compensation policy determined for the Company's senior officers, although without the discretionary component, thus reducing the possibility of receiving the fullest possible bonus. As a rule, except for adjustment of the bonus to the Company’s compensation policy and reducing the amount of the bonus that can be paid to Mr. Yair Hamburger, the contract will be renewed (if and insofar as it is approved by the general meeting) under the same conditions as were approved by the Compensation Committee, the

Audit Committee and the Board of Directors two and a half years ago, and the Compensation Committee and Board of Directors believe that the incentives that were considered when the agreement was adopted two and a half years ago, remain relevant and correct.

The Compensation Committee and Board of Directors reviewed the proposed conditions of the agreement and found that they are within the framework of the conditions prescribed in the compensation policy, and that they are consistent with the compensation policy adopted by the Group's financial institutions. Based on all the foregoing, and in view of Mr. Yair Hamburger's importance and centrality to the Company, the Compensation Committee formulated the compensation proposal for Mr. Yair Hamburger and the Board of Directors adopted the recommendations of the compensation committee. The Compensation Committee and the Board of Directors determined that the compensation is reasonable and fair, taking note of Mr. Hamburger's position in the Company and that it meets market conditions when compared with the relevant benchmark group. Similarly, it was determined that the compensation is consistent with the compensation plan, it is for the benefit of and advances the Company's goals. The compensation is therefore reasonable, adequate and consistent with Mr. Yair Hamburger's contribution to the Company's performance, both in the short and longer term, and it offers Mr. Hamburger the appropriate incentive to continue to realize the ambitious goals set by the Company in its work plan in forthcoming years as well. In light of the review of the compensation paid to the chairmen and CEOs of corresponding companies, the Audit Committee and the Board of Directors determined that the proposed compensation is consistent with market conditions, as applied by prominent insurance and finance companies.

The Compensation Committee was presented with data on the ratio of the overall cost of the employment conditions of Yair Hamburger and his on-going wage, and the on-going salary and average and median costs of employment of all Group employees The Compensation Committee and Board of Directors concluded, taking note of Mr. Yair Hamburger's considerable contribution to the Group's achievements and performance, and taking note of the excellent work relationships in the Group, that the present ratio is reasonable.

The Compensation Committee and Board of Directors made positive mention of Mr. Yair Hamburger's announcement that he would significantly reduce the bonuses to which he is entitled, so as to adjust the level of compensation in the future to the norms reflected in the Ministry of Finance bill and the position of the Superintendent of the Capital Market, Insurance and Savings in that ministry. A positive view was also taken of Yair Hamburger's announcement to the Company that subject to approval of the terms of his employment, the amended employment conditions would apply to the bonus for 2014, by way of waiving the bonus to which he is entitled in 2014 under the present employment conditions and instead applying the new employment conditions. This move is expected to save the Company up to NIS 750,000.

<u>Employment conditions of Mr. Gideon Hamburger</u>:

Mr. Gideon Hamburger serves as a director of the Company, is president of Harel and a director of subsidiaries of the Company. Additionally, Mr. Gideon Hamburger deals with reinsurance matters both for Harel Insurance and the Group's other insurance companies. Mr. Gideon Hamburger has held senior positions in the Harel Group since its establishment and currently holds the following key positions: member of the Company's Board of Directors and Company president, member of the Board of Interasco, Harel Finance and Harel Financing and Share Issues

Mr. Gideon Hamburger's monthly salary will be NIS 127,000 (in this section: "the Salary") and it includes CPI linkage and conversion of the thirteenth annual salary, in accordance with the employment conditions approved by the general meeting on March 2, 2012. The Salary will be linked to the CPI and will be revised in accordance with the increase in the CPI once a year, for the January salary every year.

The Company will make provision for social benefits according to generally accepted standards. Mr. Gideon Hamburger is entitled to 22 days annual vacation. Unutilized vacation days, including in respect of the period of Mr. Gideon Hamburger's employment from the date his employment for the Company commenced, will be accumulated and may be redeemed when his employment terminates. Mr. Gideon Hamburger will be entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates.

Gideon Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 672,625 at September 30, 2014). Should Gideon Hamburger choose to buy a more expensive car, he will pay the difference in cost. The cost of car maintenance, including the tax charged for use of the vehicle, is paid by the Company.

Gideon Hamburger will not be entitled to participate in the Company’s stock options plan. Additionally, it is stipulated that Gideon Hamburger will not be entitled to any additional remuneration for serving as a director in Group companies. Mr. Gideon Hamburger received a letter of indemnity, as part of the Company's decisions as approved by the general meeting in July 2006.

Gideon Hamburger is entitled to an annual bonus of no more than 3 salaries (if he earns a maximum score of 120% - 3.6 salaries), where the parameters for determining the annual bonus are: (a) the comprehensive income return on equity relative to the large insurance groups; (b) the Company’s rating relative to the large insurance groups in obtaining a VNB/VIF ratio (a figure which is included in the EV report); (c) the Company’s rating relative to the large insurance groups with respect to the rate of increase of VIF. Mr. Gideon Hamburger is not entitled to a minimum bonus. For the avoidance of doubt, the compensation mechanism that was determined does not include a discretionary component in evaluating the performance of the controlling shareholders. For additional information about the parameters which serve as the basis for determining the annual bonus and the manner of determining the bonus, see the Company’s Immediate Report dated October 7, 2014 (ref.: 2014-01-172221).

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

Should any of the following events take place, the annual bonus will not be paid at all for that year: (a) the comprehensive income return on equity of the Company is 4% or lower; (b) after payment of all the annual bonuses to the senior employees of the Company and Harel Insurance, Harel Insurance fails to meet the regulatory capital requirements that apply to Harel Insurance, plus NIS 150 million; (c) when the bonus is approved, “delaying circumstances” were present with respect to subordinated promissory notes issued by Harel Financing & Issues, as a result of which payment of the principal and/or interest payments defined in the aforementioned subordinated promissory notes was postponed, and this on account of the Commissioner’s instructions or decision of the Board of Directors of Harel Insurance.

When any of the following events occurs, the amount of the annual bonus will be reduced: (a) if the comprehensive income return on equity achieved by the Company is less than 7% but more than or equal to 4%, in the year for which the bonus is paid, a relative share of the annual bonus will be paid, on a linear basis, where for 4% yield 4/7 of the bonus will be paid, for 5% 5/7 of the bonus will be paid, and so on; (b) limitations on all the Group’s bonuses: (1) the total amount of the annual performance-linked bonuses payable to all the Group’s key functionaries to whom the compensation policy for the Group’s financial institutions applies, does not exceed

6.5% of comprehensive income before tax for Harel Insurance (consolidated); (2) the total amount of the annual performance-linked bonuses for the senior officers of Harel Investments does not exceed 5.5% of the pre-tax comprehensive income posted by the Company (consolidated); (3) if the FSR of Harel Insurance is downgraded by a rate which is higher than the average rating of the four largest insurance companies in Israel (Migdal, Clal, The Phoenix, and Menorah), the following provisions will apply: in the event of a difference of one notch - the bonus will be reduced by 5%; in the event of a difference of two notches - the bonus will be reduced by 10%; in the event of a difference of three or more notches - the bonus will be reduced by 15%.

Of the annual bonus to which Mr. Gideon Hamburger is entitled for any particular year, insofar as he is entitled to a bonus, 55% will be paid in installments, as follows: one third of the deferred amount will be paid 12 months after the end of the year for which the bonus is paid; one third of the deferred amount will be paid 24 months after the end of the year for which the bonus is paid; one third of the amount will be paid 42 months after the end of the year for which the bonus is paid. Deferred amounts will be paid plus linkage differences to the CPI, on the above-mentioned dates, subject to meeting the following conditions: (1) no errors are found in the calculation of the amount of the bonus; (2) Harel Insurance is in compliance with the capital requirements that apply to it, based on the last financial statements published prior to the date of payment. If the aforementioned conditions are not met, the payment will be postponed to such time as the conditions are met. The method of computing the annual bonus must be approved by the Company's Board of Directors each year, after the date of approval of the financial statements for the year ended, and no later than the end of June. Should Mr. Gideon Hamburger terminate his employment during the course of the calendar year, the annual bonus will be calculated pro rata to the period in which he worked for the Company in that year. Gideon Hamburger voluntarily accepted upon himself the revised conditions of the annual bonus which reflect a reduction compared with the existing bonus conditions, from the annual bonus for 2014, and this by way of waiving the rights he accumulated to receive the bonus under the existing agreement.

When the employment relationship ends for any reason whatsoever, Gideon Hamburger will be entitled to compensation of the amount to which he is entitled by law in the event of severance, less the amounts accrued on his behalf for severance pay in the provident fund/managers' insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger ("Severance Pay").

Notwithstanding the foregoing, subject to completing a minimum period of 3 years employment from December 1, 2011 (namely - from December 1, 2014), upon terminating his employment for the Company, Mr. Gideon Hamburger will be entitled to double severance pay, i.e. an additional 100% compensation (over and above the compensation stipulated by law). Notwithstanding the foregoing, if his employment terminates, unfortunately, as a result of death or work disability, the entitlement to double severance pay will also apply before the end of the minimum period of employment ("additional compensation"). Namely, Gideon Hamburger's right to additional compensation vests on November 30, 2014.

Pursuant to the provisions of the revised compensation policy for the Group's financial institutions, part of the additional compensation (over and above the 100%) ("retirement bonus") that is accrued for the period of employment after December 31, 2016, will be paid in installments, as follows: 1/3 of the deferred amount will be paid 12 months from the end of the year in which Mr. Gideon Hamburger retires; 1/3 of the deferred amount will be paid 24 months from the end of the year in which Gideon Hamburger retires; 1/3 of the deferred amount will be paid 42 months from the end of the year in which Gideon Hamburger retires. Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that in retrospect was found did not materially reflect the actual exposure of the financial institution or the members' monies; based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements that apply to it; in the last financial statements (quarterly or annual) published prior to the date of payment, Harel Insurance presents a comprehensive income If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met.

Based on all the foregoing, the cost of employment of Mr. Gideon Hamburger is expected to be NIS 2.7 million. This cost was computed on the basis of the entitlement to a normative bonus of 3 salaries. This cost may be NIS 76,000 higher than the above amount if Mr. Hamburger is entitled to a maximum bonus or it may be NIS 381,000 less if Mr. Hamburger is not entitled to a bonus for that year.

As part of the new employment agreement, which will enter into force on December 1, 2014, Gideon Hamburger will continue to undertake not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment by the Company. Gideon Hamburger's commitment to a minimum period of employment of 3 years, commencing December 1, 2011, will end on November 30, 2014.

It is clarified that the period of advance notice is 30 days. Gideon Hamburger will not be entitled to an adjustment period or an adjustment fee.

Following are the reasons given by the Compensation Committee and the Board of Directors for approving the terms of employment detailed above:

Mr. Gideon Hamburger has knowledge, experience and unique business relationships in the reinsurance, industry and thanks to his experience and connections the Harel Group has entered into unique reinsurance arrangements and collaborates with reinsurers and multi-national insurance companies. Thanks to these ties, Harel is able to offer its business customers policies with special categories of cover and it therefore benefits from significant competitive advantages. In addition to support in forging relationships for the reinsurance sector, Gideon Hamburger has business ties with most of the Harel Group's business customers which are a key factor in the Group's reputation and growth. It is these ties that form the basis for customers maintaining long-term business relationships with Harel.

During the discussions on this subject, based on the desire to compensate Mr. Gideon Hamburger and provide him with the incentive to continue to work for and develop the Group's success, to increase the Group's profits and achieve its targets during this period of challenges in the insurance and finance markets in general, and confront a highly competitive market in which obtaining reasonable insurance cover from reinsurers directly affects the range of products, their price, and the ability to enter into significant insurance transactions, as well as to meet the Company's capital requirements and manage its risks, the following data and parameters were taken into account: (a) comparison of the proposed compensation conditions with Gideon Hamburger's present employment conditions; (b) comparison data for the senior officers ranked third and fourth among the five highest wage earners in the corporation in the benchmark group, which includes the largest insurance and finance groups and the five largest banks; in accordance with that stated in the Company's compensation policy; and (c) information about the scope of the proposed compensation for Gideon Hamburger and the financial ramifications, including provisions in respect of the compensation. As part of these comparative data, the bonus components and other salary components were taken into account.

As part of these discussions, the fact that the proposed terms of employment do not include a capital component, do not include advance notice, beyond that required by law and do not include an adjustment period, as generally accepted for senior executives, was taken into account. Likewise, the approval took into account the fact that the parameters for payment of the bonus are based on the compensation policy determined for the Company's senior officers, although without the discretionary component, thus reducing the possibility of receiving the fullest possible bonus.

Based on all the above, and in view of his importance and centrality to the Company, and the importance of maintaining the special business relationships and ties with the reinsurers, which are a material asset of the Group, the Compensation Committee formulated the proposed compensation for Mr. Gideon Hamburger and determined that it is reasonable and fair, and that it is consistent with market conditions, when compared with the relevant benchmark group. Similarly, it was determined that the compensation is consistent with the compensation plan, it is for the benefit of and advances the Company's goals, and it is reasonable, adequate and consistent with Gideon Hamburger's contribution to the Company's performance.

The Compensation Committee was presented with data comparing the total cost of Gideon Hamburger's employment conditions and his on-going salary, with the current median and average salary and the median and average cost of employment of all the Group's employees. The Compensation Committee and Board of Directors concluded, taking note of Mr. Gideon Hamburger's considerable contribution to the Group's achievements and performance, and taking note of the excellent work relationships in the Group, that the present ratio is reasonable.

The Compensation Committee and Board of Directors took a favorable view of Mr. Gideon Hamburger’s announcement that he would significantly reduce the bonuses to which he is entitled, so as to adjust the level of compensation in the future to the norms reflected in the Ministry of Finance bill and the position of the Ministry’s Superintendent of the Capital Market, Insurance and Savings. A positive view was also taken of Gideon Hamburger’s announcement to the Company that subject to approval of the terms of his employment, as outlined in this report, the amended employment conditions would apply to the bonus for 2014, by way of waiving the bonus to which he is entitled in 2014 under the present employment conditions and instead applying the new employment conditions. This move is expected to save the Company up to NIS 390,000.

<u>Employment conditions of Mr. Yoav Manor</u>:

Mr. Yoav Manor is a Company director, Chairman of the Board of Directors of the subsidiary Harel Hamishmar Computers Ltd. (“Harel Hamishmar Computers"), and a director of subsidiaries of the Company. Yoav Manor has filled senior positions in the Group since its establishment. He is currently a Company director, Chairman of the Board of Directors of Harel Hamishmar Computers., which provides computer and automation services to various companies in the Harel Group, a director of Harel Insurance, director of Harel Finance, Harel Financing & Share Issues, and other subsidiaries of the Company.

Yoav Manor’s monthly salary will be NIS 127,000 (in this section: “the Salary”) and it includes CPI linkage and conversion of the thirteenth annual salary, in accordance with the employment conditions approved by the general meeting on March 5, 2012. The Salary will be linked to the CPI and will be revised in accordance with the increase in the CPI once a year, for the January salary every year.

The Company will make provision for social benefits according to generally accepted standards. Yoav Manor is entitled to 22 days annual vacation. Unutilized vacation days, including in respect of the period of Mr. Yoav Manor's employment from the commencement date of his employment for the Company, will be accumulated and may be redeemed when his employment terminates. Yoav Manor will be entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates.

Yoav Manor is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 672,625 at September 30, 2014). Should Mr. Yoav Manor choose to buy a more expensive car, he will pay the difference in cost. The cost of car maintenance, including the tax charged for use of the vehicle, is paid by the Company.

Yoav Manor will not be entitled to participate in the Company’s stock options plan. Additionally, it is stipulated that Yoav Manor will not be entitled to any additional remuneration for serving as a director in Group companies. Yoav Manor received a letter of indemnity as part of the Company's decisions as approved by the general meeting in July 2006.

Yoav Manor is entitled to an annual bonus of no more than 3 salaries (if he earns a maximum score of 120% - 3.6 salaries), where the parameters for determining the annual bonus are: (a) comprehensive income return on equity relative to the large insurance groups; (b) the Company’s rating relative to the large insurance groups in obtaining a VNB/VIF ratio (a figure which is included in the EV report); (c) the Company’s rating relative to the large insurance groups with respect to the rate of increase of VIF. Yoav Manor is not entitled to a minimum bonus. For the avoidance of doubt, the compensation mechanism that was determined does not include a discretionary component in evaluating the performance of the controlling shareholders. For additional information about the parameters which serve as the basis for determining the annual bonus and the manner of determining the bonus, see the Company’s Immediate Report dated October 7, 2014 (ref.: 2014-01-172221).

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

Should any of the following events take place, the annual bonus will not be paid at all for that year: (a) the comprehensive income return on equity of the Company is 4% or lower; (b) after payment of all the annual bonuses to the senior employees of the Company and Harel Insurance, Harel Insurance fails to meet the regulatory capital requirements that apply to Harel Insurance, plus NIS 150 million; (c) when the bonus is approved, “delaying circumstances” were present with respect to subordinated promissory notes issued by Harel Financing & Issues, as a result of which payment of the principal and/or interest payments defined in the aforementioned subordinated promissory notes was postponed, and this on account of the Commissioner’s instructions or decision of the Board of Directors of Harel Insurance.

When any of the following events occurs, the amount of the annual bonus will be reduced: (a) if the comprehensive income return on equity achieved by the Company is less than 7% but more than or equal to 4%, in the year for which the bonus is paid, a relative share of the annual bonus will be paid, on a linear basis, where for 4% yield 4/7 of the bonus will be paid, for 5% 5/7 of the bonus will be paid, and so on; (b) limitations will apply to all the Group’s bonuses: (1) the total amount of the annual performance-linked bonuses payable to all the Group’s key functionaries to whom the compensation policy for the Group’s financial institutions applies, does not exceed 6.5% of comprehensive income before tax for Harel Insurance (consolidated); (2) the total amount of the annual performance-linked bonuses for the senior officers of Harel Investments does not exceed 5.5% of the pre-tax comprehensive income posted by the Company (consolidated); (3) if the FSR of Harel Insurance is downgraded by a rate which is higher than the average rating of the four largest insurance companies in Israel (Migdal, Clal, The Phoenix, and Menorah), the following provisions will apply: in the event of a difference of one notch - the bonus will be reduced by 5%; in the event of a difference of two notches - the bonus will be reduced by 10%; in the event of a difference of three or more notches - the bonus will be reduced by 15%.

Of the annual bonus to which Mr. Yoav Manor is entitled for any particular year, insofar as he is entitled to a bonus, 55% will be paid in installments, as follows: one third of the deferred amount will be paid 12 months after the end of the year for which the bonus is paid; one third of the deferred amount will be paid 24 months after the end of the year for which the bonus is paid; one third of the amount will be paid 42 months after the end of the year for which the bonus is paid. Deferred amounts will be paid plus linkage differences to the CPI, on the above-mentioned dates, subject to meeting the following conditions: (1) no errors are found in the calculation of the amount of the bonus; (2) Harel Insurance is in compliance with the capital requirements that apply to it, based on the last financial statements published prior to the date of payment. If the aforementioned conditions are not met, the payment will be postponed to such time as the conditions are met. The method of computing the annual bonus must be approved by the Company’s Board of Directors each year, after the date of approval of the financial statements for the year ended, and no later than the end of June. Should Yoav Manor terminate his employment during the course of the calendar year, the annual bonus will be calculated pro rata to the period in which he worked for the Company in that year. Yoav Manor voluntarily accepted upon himself the revised conditions of the annual bonus which reflect a reduction compared with the existing bonus conditions, from the annual bonus for 2014, and this by way of waiving the rights he accumulated to receive the bonus under the existing agreement.

When the employment relationship ends for any reason whatsoever, Yoav Manor will be entitled to compensation of the amount to which he is entitled by law in the event of severance, less the amounts accrued on his behalf for severance pay in the provident fund/managers’ insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Manor (“Severance Pay”).

Notwithstanding the foregoing, subject to completing a minimum period of 3 years employment from December 1, 2011 (namely - from December 1, 2014), upon terminating his employment for the Company, Yoav Manor will be entitled to double severance pay, i.e. an additional 100% compensation (over and above the compensation stipulated by law). Notwithstanding the foregoing, if his employment terminates, unfortunately, as a result of death or work disability, the entitlement to double severance pay will also apply before the end of the minimum period of employment (“additional compensation”). Namely, Yoav Manor’s right to additional compensation vests on November 30, 2014.

Pursuant to the provisions of the revised compensation policy for the Group’s financial institutions, part of the additional compensation (over and above the 100%) (“retirement bonus”) that is accrued for the period of employment after December 31, 2016, will be paid in installments, as follows: 1/3 of the deferred amount will be paid 12 months from the end of the year in which Yoav Manor retires; 1/3 of the deferred amount will be paid 24 months from the end of the year in which Yoav Manor retires; 1/3 of the deferred amount will be paid 42 months from the end of the year in which Yoav Manor retires. Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that in retrospect was found did not materially reflect the actual exposure of the financial institution or the members’ monies; based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements that apply to it; in the last financial statements (quarterly or annual) published prior to the date of payment, Harel Insurance presents a comprehensive income. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met.

Based on all the foregoing, the cost of employment of Mr. Yoav Manor is expected to be NIS 2.7 million. This cost was computed on the basis of the entitlement to a normative bonus of 3 salaries. This cost may be NIS 76,000 higher than the above amount if Mr. Manor is entitled to a maximum bonus or it may be NIS 381,000 less if Mr. Manor is not entitled to a bonus for that year.

As part of the new employment agreement, which will enter into force on December 1, 2014, Yoav Manor will continue to undertake not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment by the Company. It is noted that Yoav Manor’s commitment to a minimum period of employment of 3 years, commencing December 1, 2011, will end on November 30, 2014.

It is clarified that the period of advance notice is 30 days. Mr. Yoav Manor will not be entitled to an adjustment period or an adjustment fee.

Following are the reasons given by the Compensation Committee and the Board of Directors for approving the terms of employment detailed above:

In addition to serving as a director, Yoav Manor is strategic director of a variety of issues in the fields of technology and automation as well as areas that are not technology related, including the assimilation of advanced management processes that utilize the knowledge accumulated by the Company as an available asset for helping to make sensible business decisions. This takes place at all levels of management and in all the decision-making processes at the different levels in the different areas of activity.

In the field of technology, Yoav Manor is Acting Chairman of Harel Hamishmar Computers. As a large financial institution incorporating numerous financial institutions and entities involved in the capital market, and as an entity whose insurance activity is the outcome of a number of mergers that have taken place over the years, the automated systems are complex and require proper, efficient, strategic thinking and leadership, in part due to the high costs of this area of activity, the numerous regulations and the need to provide the Group's companies with advanced tools capable of giving it a competitive edge over other players in the markets in which they operate.

In the non-technological areas of activity, thanks to Mr. Manor’s experience in the insurance industry, he provides strategic thinking and leadership in additional areas, including a culture of assimilating the use of existing knowledge among the Group companies and using it as the basis for educated decision making. Within the Group, Yoav Manor directs the team responsible for devising the training and assimilation of the decision-making culture, utilizing the information analysis capabilities among employees and decision makers in the Company and its agents. Mr. Manor’s considerable activity in this field has helped ensure that the advanced control systems and decision support systems (BI) are an inseparable part of the Group's daily business conduct and frequently provide the Harel Group with a business advantage.

During the discussions on this subject, based on the desire to compensate Yoav Manor and provide him with the incentive to continue to work for the Group's development and success, to improve profits and realize goals, all during this period of challenges in the insurance and finance markets in general, and to confront the competitive market in which technological capabilities directly affect the quality of products, the quality of customer service, the quality of service to agents, and the ability to comply with the frequent changes taking place in the markets in which the Group operates, the following data and parameters were taken into account: (a) comparison of the proposed compensation conditions with Yoav Manor’s present employment conditions; (b) comparison data for the senior officers ranked third and fourth among the five highest wage earners in the corporation in the benchmark group, which includes the largest insurance and finance groups and the five largest banks; in accordance with that stated in the Company's compensation policy; and (c) information about the scope of the proposed compensation for Yoav Manor and the financial ramifications, including provisions in respect of the compensation. As part of these comparative data, the bonus components and other salary components were taken into account.

As part of these discussions, the fact that the proposed terms of employment do not include a capital component, do not include advance notice, beyond that required by law and do not include an adjustment period, as generally accepted for senior executives, was taken into account. Likewise, the approval took into account the fact that the parameters for payment of the bonus are based on the compensation policy determined for the Company's senior officers.

Based on all the foregoing, and in view of Yoav Manor's importance and centrality to the Group, and the importance of maintaining the special and extraordinary technical and computer capabilities and business work processes that Mr. Manor has attained for the Group that form an important part of the Group's competitive capability among customers and agents alike, the Compensation Committee formulated the compensation proposal for Mr. Yoav Manor, as detailed below, and determined that this compensation is reasonable and fair, taking note of his positions in the Group, and that it is consistent with market conditions and when compared with the relevant benchmark group. Similarly, it was determined that the compensation is consistent with the compensation plan, it is for the benefit of and advances the Company's goals, and it is reasonable, adequate and consistent with Mr. Yoav Manor's contribution to the Company's performance.

The Compensation Committee was presented with data on the ratio between the total cost of Yoav Manor's employment conditions and his on-going salary, and the on-going wage and median and average cost of employment of all the Group's employees. The Compensation Committee and Board of Directors concluded, taking note of Yoav Manor's considerable contribution to the Group's achievements and performance, and taking note of the excellent work relationships in the Group, that the present ratio is reasonable.

The Compensation Committee and Board of Directors noted favorably Mr. Yoav Manor's announcement that he would significantly reduce the bonuses to which he is entitled, so as to adjust the level of compensation in the future to the norms reflected in the Ministry of Finance bill and the position of the Ministry's Superintendent of the Capital Market, Insurance and Savings. A positive view was also taken of Yoav Manor's announcement to the Company that subject to approval of the terms of his employment, as outlined in this report, the amended employment conditions would apply to the bonus for 2014, by way of waiving the bonus to which he is entitled in 2014 under the present employment conditions and instead applying the new employment conditions. This move is expected to save the Company up to NIS 390,000.

4.2. Information about the process of 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 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 are:

- David Granot, Chairman (External Director).
- Prof. Israel Gilad (External Director).
- Doron Cohen.
- Esther Dominissini (External Director) (until October 21, 2014).
- Hava Friedman Shapira (External Director) (commencing November 17, 2014).

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".

Information about the Committee member who was appointed after publication of the Periodic Report:

Hava Friedman Shapira	
Date of birth:	September 22, 1954
Address for serving court documents:	3, Uriel Ofek Street, Herzliya.
Citizenship:	Israeli
Commencement date as director:	November 17, 2014
Member of Board of Directors Committees:	Audit Committee, Compensation Committee, Committee for the Review of the Financial Statements.
External Director:	Yes
Employee of the Company, its subsidiary, of an associate company or interested party in the Company:	No
Has accounting and financial expertise or professional qualifications:	Yes
Qualifications:	Graduate of the College of Insurance Communications and Management (B.Sc.), Adelphi University, New York. MBA - New York Institute of Technology.
Occupation during last five years:	CEO of AIG Israel Insurance Company Ltd.
To the best of the Company's knowledge and of its directors, does she have any kinship with any other interested party in the Company:	No
Serves as a director considered by the Company as having accounting and financial expertise for the purpose of compliance with the minimum number determined by the Board of Directors under Section 92(A)(12) of the Companies Law:	Yes

4.2.3. Procedure for approval of the financial statements:

The Committee convened on November 20, 2014, to approve the financial statements at September 30, 2014.

In addition, the Company's external auditors 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 is also attended by the Company's CFO, Ronen Agassi CPA, and legal advisor, Adv. Nataly Mishan-Zakai. A meeting of the Committee held on November 20, 2014 was attended by Deborah Weisel CPA, and the internal auditor was also invited to the meeting.

A detailed review of the material issues in the financial reporting is presented to the balance sheet committee, including material transactions that are not the normal course of business, if and insofar as there are any, the material assumptions and critical estimates that were applied in the financial statements, the reasonability of the data, the accounting policy which was applied and any changes which occurred in this policy, as well as implementation of the principle of proper 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 November 20, 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 November 25, 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**

November 25, 2014

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 Regulation 38C(a)

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

In this instance, management consists of:

A. The Co-CEOs:

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

Mr. Shimon Elkabetz, who is also Chairman of the board of Directors of Harel Finance Holdings Ltd., Chairman of the Board of Directors of Pia Mutual Funds Ltd., Chairman of the Board of Directors of EMI Ezer Mortgage Company Ltd., and holds other positions in the Group's companies.

B. Mr. Ronen Agassi - the Company's CFO, deputy CEO and head of the Finance and Resources Division of Harel Insurance Company Ltd.

C. Mr. Sami Babkov - CEO of Harel Finance Holdings and CEO of Harel Pia Mutual Funds Ltd.

D. Mr. Avi Keller, CEO of Dikla Insurance Company Ltd.

E. Ms. Nataly Mishan-Zakai, legal advisor (corporate counsel) to the Corporation and the Group's companies, deputy CEO of Harel Insurance Company Ltd.

F. Mr. Amir Hessel, VP of the Corporation 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 Corporation's existing controls and procedures that were planned by or under the supervision of the general manager and the most senior financial officer, or by the person who actually performs these duties, under the oversight of the Corporation's Board of Directors, and the purpose of the controls and procedures is to provide reasonable assurance 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 Corporation 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 corporation is required to disclose, as noted, is accumulated and transferred to the Corporation's management, including to the CEO and most senior financial officer, or to the person who actually performs these duties, in an effort to ensure that decisions are made at the appropriate time, with respect to the disclosure requirement.

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

Harel Insurance Company Ltd. and subsidiaries of the Corporation 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 internal control in the aforementioned subsidiaries, the Corporation implements the following instructions:

- 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 quarterly report concerning the effectiveness of the internal control over financial reporting and disclosure that is included in the quarterly report for the period ended June 30, 2014 (hereinafter – the last annual report on internal control), the internal control was found to be effective.

Up to the date of the report, the Board of Directors and management received no information regarding any event or matter that is likely to change the assessment of the effectiveness of the internal control, as found in the quarterly report concerning the last internal control;

At the reporting date, based on the information in the quarterly report on the effectiveness of the last internal control, and based on information presented to the management and the Board of Directors, as noted above, the internal control is effective.

Attestation

I, Michel Siboni, hereby attest that:

1. I have reviewed the quarterly report of Harel Insurance Investments and Financial Services Ltd. ("the Corporation") for the third 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 situation, results of operations, and cash flows of the Corporation at the dates and periods covered in the Report.
4. I disclosed to the Corporation's external auditor, to the board of directors and the audit committee and financial reports committee of the Corporation, based on my most recent evaluation of the internal control over financial reporting:
   A. Any significant deficiencies 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 Corporation's ability to collect, process, summarize 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 Corporation:
   A. Defined controls and procedures, or ensured that controls and procedures are in place under my oversight, that are designed to ensure that material information pertaining to the Corporation, including its consolidated companies as they are defined in the Securities (Annual Financial Reports) Regulations, 5770-2010, is brought to my attention by others in the Corporation 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 oversight are in place, to ensure with reasonable certainty that the financial reports are credible and that the financial reports 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.

November 25, 2014

____

Michel Siboni
Co-CEO

Attestation

I, Shimon Elkabetz, hereby declare that:

1. I have reviewed the quarterly report of Harel Insurance Investments and Financial Services Ltd. ("the Corporation") for the third 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 situation, results of operations, and cash flows of the Corporation at the dates and periods covered in the Report.
4. I disclosed to the Corporation's external auditor, to the board of directors and the audit committee and financial reports committee of the Corporation, based on my most recent evaluation of the internal control over financial reporting:
   A. Any significant deficiencies 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 Corporation's ability to collect, process, summarize 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 Corporation:
   A. Defined controls and procedures, or ensured that controls and procedures are in place under my oversight, that are designed to ensure that material information pertaining to the Corporation, including its consolidated companies as they are defined in the Securities (Annual Financial Reports) Regulations, 5770-2010, is brought to my attention by others in the Corporation 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 oversight are in place, to ensure with reasonable certainty that the financial reports are credible and that the financial reports 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.

November 25, 2014

Shimon Elkabetz
Co-CEO

Attestation

I, Ronen Agassi, hereby declare that:

1. I have reviewed the interim financial statements and the other financial information contained in the interim reports of Harel Insurance Investments and Financial Services Ltd. ("the Corporation") for the third quarter of 2014 ("the Reports" or "the Interim Reports");
2. Based on my knowledge, the interim financial statements and the other financial information contained in the Interim 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 interim financial statements and other financial information contained in the Interim Reports reasonably reflect, in all material respects, the financial situation, results of operations, and cash flows of the Corporation at the dates and periods covered in the Report.
4. I disclosed to the Corporation's external auditor, to the board of directors and the audit committee and financial reports committee of the Corporation, based on my most recent evaluation of the internal control over financial reporting:
   A. Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure insofar as it relates to the interim financial statements and to any other information contained in the Interim Reports, that may reasonably have an adverse effect on the Corporation's ability to collect, process, summarize 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 Corporation:
   A. Defined controls and procedures, or ensured that controls and procedures are in place under my oversight, that are designed to ensure that material information pertaining to the Corporation, including its consolidated companies as they are defined in the Securities (Annual Financial Reports) Regulations, 5770-2010, is brought to my attention by others in the Corporation 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 oversight are in place, that are designed to ensure with reasonable certainty that the financial reports are credible and that the financial reports 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 that relates to the interim financial statements and to any other financial information contained in the Interim Reports, was brought to my attention, which may, in my opinion, 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.

November 25, 2014

Ronen Agassi
CFO

For your peace of mind | HAREL Insurance & Finance

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2014

Somekh Chaikin
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17 Ha'arbaa Street, P.O. Box 609
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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 the condensed consolidated interim statement of financial position as at September 30, 2014 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine 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 18.42% of the total consolidated assets as at September 30, 2014, and whose revenues constitute 2.58% and 2.75% of the total consolidated revenues for the nine 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 111,625 thousand as at September 30, 2014, and the Group's share in their profits amounted to NIS 9,325 thousand and NIS 3,315 thousand, respectively, for the nine 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
Member of KPMG International
Certified Public Accountants (Isr.)

November 25, 2014

Condensed consolidated interim statements of financial position as at

	September 30		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**1,598,120**	1,631,274	1,618,091
Deferred tax assets	**8,028**	10,414	14,928
Deferred acquisition costs	**1,774,663**	1,523,919	1,600,418
Fixed assets	**849,372**	670,381	682,673
Investments in investees accounted for by the equity method	**1,041,755**	783,355*	906,304*
Investment property for yield-dependent contracts	**1,308,342**	1,099,958	1,140,536
Other investment property	**1,461,572**	1,389,356	1,511,284
Reinsurance assets	**5,439,666**	5,319,019	5,422,847
Current tax assets	**83,218**	42,404	18,298
Other receivables	**571,595**	374,144	469,058
Outstanding premiums	**1,133,164**	1,141,513	1,215,685
Financial investments for yield-dependent contracts	**33,190,253**	27,549,995	28,909,167
Financial investments for holders of ETNs	**10,887,486**	7,701,893	9,199,547
Other financial investments			
Marketable debt assets	**8,960,429**	8,246,663	8,356,581
Non-marketable debt assets	**9,715,615**	9,501,694	9,663,973
Shares	**706,978**	567,052	595,327
Other investments	**2,126,316**	1,753,732	1,876,812
Total other financial investments	**21,509,338**	20,069,141	20,492,693
Cash and cash equivalents pledged for ETN holders	**4,178,629**	3,011,394	3,054,696
Cash and cash equivalents for yield-dependent contracts	**782,737**	908,036	1,088,024
Other cash and cash equivalents	**1,384,545**	1,572,657	1,389,685
Total assets	**87,202,483**	74,798,853	78,733,934
Total assets for yield-dependent contracts	**35,696,632**	29,998,732	31,534,632

* For the reclassification of comparative figures, see Note 2c.

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

Condensed consolidated interim statements of financial position as at

	September 30		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Equity and liabilities			
Equity			
Share capital and share premium	**336,729**	321,894	316,595
Treasury stock	**(170,970)**	(165,170)	(163,458)
Capital reserves	**454,830**	292,322	316,139
Retained earnings	**4,132,827**	3,809,071	4,037,093
Total equity attributed to Company shareholders	**4,753,416**	4,258,117	4,506,369
Non-controlling interests	**5,719**	5,361	5,403
Total equity	**4,759,135**	4,263,478	4,511,772
Liabilities			
Liabilities in respect of non-yield dependent insurance and investment contracts	**24,946,161**	23,937,238	24,234,519
Liabilities in respect of yield-dependent insurance and investment contracts	**35,030,432**	29,464,813	31,000,662
Deferred tax liabilities	**774,507**	555,758*	618,727*
Net liabilities for employee benefits	**294,924**	238,233	269,611
Current tax liabilities	**27,100**	40,831*	60,292*
Other payables	**2,554,521**	2,457,237	2,752,092
Liabilities for ETNs and covered warrants	**14,760,042**	10,556,183	12,054,305
Financial liabilities	**4,055,661**	3,285,082	3,231,954
Total liabilities	**82,443,348**	70,535,375	74,222,162
Total equity and liabilities	**87,202,483**	74,798,853	78,733,934

Yair Hamburger	Michel Siboni	Shimon Elkabetz	Ronen Agassi
Chairman of the Board of Directors	Co-CEO	Co-CEO	Chief Financial Officer

* For the reclassification of comparative figures, see Note 2c.

Date of approval of the financial statements: November 25, 2014

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

Condensed consolidated interim statement of income

	For the nine months ended September 30		For the three months ended September 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	**8,029,662**	7,635,805	**2,740,066**	2,572,201	10,281,765
Premiums earned by reinsurers	**1,385,088**	1,300,219	**477,309**	452,062	1,730,867
Premiums earned in retention	**6,644,574**	6,335,586	**2,262,757**	2,120,139	8,550,898
Net profit from investments and financing income	**2,667,314**	3,095,560	**855,726**	1,356,552	4,472,898
Income from management fees	**856,944**	739,550	**287,194**	265,243	1,062,060
Income from commissions	**322,193**	330,848	**108,898**	122,949	427,221
Total income	**10,491,025**	10,501,544	**3,514,575**	3,864,883	14,513,077
Payments and changes in liabilities for insurance and investment contracts, gross	**8,683,692**	8,815,135	**2,957,976**	3,209,270	12,203,281
Reinsurers' share of payments and changes in liabilities for insurance contracts	**994,524**	1,260,886	**341,599**	312,284	1,666,157
Payments and changes in liabilities for insurance and investment contracts, in retention	**7,689,168**	7,554,249	**2,616,377**	2,896,986	10,537,124
Commissions, marketing and other acquisition expenses	**1,429,872**	1,323,979	**474,961**	453,169	1,776,071
General and administrative expenses	**794,325**	758,119	**265,652**	261,256	1,027,408
Other expenses	**44,195**	52,622	**14,555**	19,143	72,875
Financing expenses, net	**116,323**	138,009	**60,770**	61,922	164,027
Total expenses	**10,073,883**	9,826,978	**3,432,315**	3,692,476	13,577,505
Company's share of the profits of investee companies accounted for by the equity method	**73,321**	40,918*	**21,524**	18,491*	123,828*
Profit before taxes on income	**490,463**	715,484	**103,784**	190,898	1,059,400
Taxes on income	**174,653**	265,491*	**39,543**	77,279*	378,609*
Profit for the period	**315,810**	449,993	**64,241**	113,619	680,791
Attributed to:					
Company shareholders	**315,560**	449,604	**64,079**	113,493	680,332
Non-controlling interests	**250**	389	**162**	126	459
Profit for the period	**315,810**	449,993	**64,241**	113,619	680,791
Basic profit per share (NIS)	**1.50**	2.11	**0.30**	0.53	3.23
Diluted profit per share (NIS)	**1.49**	2.10	**0.30**	0.53	3.23

* For the reclassification of comparative figures, see Note 2c.

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

Condensed consolidated interim statements of comprehensive income (loss)

	For the nine months ended September 30		For the three months ended September 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	**315,810**	449,993	**64,241**	113,619	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	**373,513**	86,283	**113,861**	67,972	166,357
Net change in the fair value of available-for-sale financial assets carried over to statement of income	**(158,204)**	(113,318)	**(60,104)**	(20,210)	(150,536)
Loss from impairment of value of available-for-sale financial assets carried over to statement of income	**9,245**	8,982	**4,906**	3,747	13,238
Foreign currency translation differences in respect of overseas operations	**16,229**	(14,403)	**20,102**	(802)	(18,824)
Taxes 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	**(87,786)**	1,882	**(25,941)**	(24,485)	(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	**152,997**	(30,574)	**52,824**	26,222	(5,294)
Other items of comprehensive income which will not be carried over to profit or loss					
Re-measurement of a defined benefit plan	**(10,727)**	21,927	**(3,101)**	6,584	17,518
Taxes on income for other items of comprehensive income which will not be carried over to profit or loss	**3,855**	(7,607)	**1,120**	(2,054)	(6,571)
Other comprehensive income (loss) for the period which will not be carried over to profit or loss, net of tax	**(6,872)**	14,320	**(1,981)**	4,530	10,947
Total other comprehensive income (loss) for the period	**146,125**	(16,254)	**50,843**	30,752	5,653
Total comprehensive income for the period	**461,935**	433,739	**115,084**	144,371	686,444
Attributed to:					
Company shareholders	**461,619**	433,368	**114,959**	144,230	686,031
Non-controlling interests	**316**	371	**125**	141	413
Total profit for the period	**461,935**	433,739	**115,084**	144,371	686,444

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

Condensed consolidated interim 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 nine months ended September 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	-	-	-	-	-	-	-	315,560	315,560	250	315,810
Total other comprehensive income (loss)	-	141,048	11,883	-	-	-	-	(6,872)	146,059	66	146,125
Total comprehensive income (loss) for period	-	141,048	11,883	-	-	-	-	308,688	461,619	316	461,935
Transactions with owners recognized directly in equity											
Dividend paid	-	-	-	-	-	-	-	(212,954)	(212,954)	-	(212,954)
Share based payment	-	-	-	1,975	-	-	-	-	1,975	-	1,975
Purchase of treasury stock	-	-	-	-	(13,733)	-	-	-	(13,733)	-	(13,733)
Reissuing of treasury stock	3,919	-	-	-	6,221	-	-	-	10,140	-	10,140
Exercising of stock options	16,215	-	-	(16,215)	-	-	-	-	-	-	-
Balance as at September 30, 2014	336,729	454,685	(10,192)	19,932	(170,970)	(48,908)	39,313	4,132,827	4,753,416	5,719	4,759,135

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

Condensed consolidated interim statements of changes in equity (contd.)

	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 September 30, 2014 (Unaudited)											
Balance as at July 1, 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
Profit for period	-	-	-	-	-	-	-	64,079	64,079	162	64,241
Total other comprehensive income (loss)	-	37,480	15,383	-	-	-	-	(1,983)	50,880	(37)	50,843
Total comprehensive income (loss) for period	-	37,480	15,383	-	-	-	-	62,096	114,959	125	115,084
Transactions with shareholders recognized directly in equity											
Share based payment	-	-	-	557	-	-	-	-	557	-	557
Purchase of treasury stock	-	-	-	-	(4,126)	-	-	-	(4,126)	-	(4,126)
Reissuing of treasury stock	1,669	-	-	-	1,670	-	-	-	3,339	-	3,339
Exercising of stock options	2,925	-	-	(2,925)	-	-	-	-	-	-	-
Balance as at September 30, 2014	336,729	454,685	(10,192)	19,932	(170,970)	(48,908)	39,313	4,132,827	4,753,416	5,719	4,759,135

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

Condensed consolidated interim statements of changes in equity (contd.)

	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 nine months ended September 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	-	-	-	-	-	-	-	449,604	449,604	389	449,993
Total other comprehensive income (loss)	-	(19,542)	(11,014)	-	-	-	-	14,320	(16,236)	(18)	(16,254)
Total comprehensive income (loss)	-	(19,542)	(11,014)	-	-	-	-	463,924	433,368	371	433,739
Transactions with shareholders recognized directly in equity											
Dividend paid	-	-	-	-	-	-	-	(307,762)	(307,762)	-	(307,762)
Exercising of stock options	10,084	-	-	(10,084)	-	-	-	-	-	-	-
Share based payment	-	-	-	4,789	-	-	-	-	4,789	-	4,789
Purchase of treasury stock	-	-	-	-	(24,749)	-	-	-	(24,749)	-	(24,749)
Reissuing of treasury stock	3,364	-	-	-	1,879	-	-	-	5,243	-	5,243
Balance as at September 30, 2013	321,894	284,149	(17,895)	35,032	(165,170)	(48,908)	39,944	3,809,071	4,258,117	5,361	4,263,478

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

Condensed consolidated interim statements of changes in equity (contd.)

	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 September 30, 2013 (Unaudited)											
Balance as at July 1, 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
Comprehensive income (loss) for the period											
Profit for period	-	-	-	-	-	-	-	113,493	113,493	126	113,619
Total other comprehensive income (loss)	-	26,729	(522)	-	-	-	-	4,530	30,737	15	30,752
Total comprehensive income (loss) for period	-	26,729	(522)	-	-	-	-	118,023	144,230	141	144,371
Transactions with shareholders recognized directly in equity											
Dividend paid	-	-	-	-	-	-	-	(254,762)	(254,762)	-	(254,762)
Exercising of stock options	4,043	-	-	(4,043)	-	-	-	-	-	-	-
Share based payment	-	-	-	1,288	-	-	-	-	1,288	-	1,288
Purchase of treasury stock	-	-	-	-	(11,343)	-	-	-	(11,343)	-	(11,343)
Reissuing of treasury stock	2,748	-	-	-	(556)	-	-	-	2,192	-	2,192
Balance as at September 30, 2013	321,894	284,149	(17,895)	35,032	(165,170)	(48,908)	39,944	3,809,071	4,258,117	5,361	4,263,478

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

Condensed consolidated interim statements of changes in equity (contd.)

	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 shareholders recognized directly in equity											
Dividend 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 consolidated interim financial statements are an integral part thereof.

Condensed consolidated interim statements of cash flows

	Appendix	For the nine months ended September 30 2014 (Unaudited) NIS thousands	For the nine months ended September 30 2013 (Unaudited) NIS thousands	For the three months ended September 30 2014 (Unaudited) NIS thousands	For the three months ended September 30 2013 (Unaudited) NIS thousands	For the year ended December 31 2013 (Audited) NIS thousands
Cash flows from operating activities						
Before taxes on income	A	**(2,152,971)**	(3,355,597)	**(730,946)**	(1,364,427)	(4,197,052)
Income tax paid		**(194,152)**	(118,424)	**(43,693)**	(19,130)	(146,053)
Net cash used for operations		**(2,347,123)**	(3,474,021)	**(774,639)**	(1,383,557)	(4,343,105)
Cash flows in investment activity						
Investment in investee companies accounted for by the equity method		**(158,367)**	(234,272)	**(144,562)**	(31,044)	(286,248)
Proceeds from the disposal of an investment in an investee company accounted for by the equity method		**93,719**	-	**55,618**	-	-
Investment in fixed assets		**(39,501)**	(40,556)	**(17,787)**	(16,490)	(67,749)
Investment in intangible assets		**(83,448)**	(284,621)	**(24,390)**	(27,943)	(331,809)
Dividend received from an investee company		**21,445**	52,426	**5,405**	10,062	61,081
Proceeds from sale of fixed assets		**-**	417	**-**	19	758
Net cash used for investment activities		**(166,152)**	(506,606)	**(125,716)**	(65,396)	(623,967)
Cash flows in financing activities						
Proceeds from issue of promissory notes		**189,724**	198,168	**-**	35,000	198,267
Sale (acquisition) of Treasury stock		**(3,593)**	(19,506)	**(787)**	(9,151)	(25,118)
Proceeds from issue of ETNs and covered warrants		**2,142,173**	4,172,410	**608,758**	1,435,520	5,318,662
Short-term credit from banks, net		**93,464**	6,600	**78,181**	(1,046)	6,735
Long-term loans received from financial institutions		**-**	200,900	**-**	900	169,068
Repayments of loans from banks and others		**(50,474)**	(88,412)	**-**	(8,059)	(154,136)
Dividends paid to Company shareholders		**(212,954)**	(307,762)	**(106,616)**	(254,762)	(307,726)
Net cash provided by financing activities		**2,158,340**	4,162,398	**579,536**	1,198,402	5,205,752
Effect of fluctuations in currency exchange rate on cash balances and cash equivalents		**44,508**	31,678	**40,496**	211	(28,215)
Increase (decrease) in cash and cash equivalents		**(310,427)**	213,449	**(280,323)**	(250,340)	210,465
Cash and cash equivalents retained at beginning of the period	B	**2,477,709**	2,267,244	**2,447,605**	2,731,033	2,267,244
Cash and cash equivalents retained at end of the period	C	**2,167,282**	2,480,693	**2,167,282**	2,480,693	2,477,709

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

Condensed consolidated interim statements of cash flows

	For the nine months ended September 30		For the three months ended September 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	**315,810**	449,993	**64,241**	113,619	680,791
Items not involving cash flows					
Company's share of investees' losses accounted for by the equity method	**(73,321)**	(40,918)*	**(21,524)**	(18,491)*	(123,828)*
Net profit from financial investments for yield-dependent insurance policies and investment contracts	**(1,353,808)**	(1,330,863)	**(543,982)**	(717,657)	(2,111,720)
Net losses (profits) from other financial investments					
Marketable debt assets	**(261,286)**	(197,988)	**(147,178)**	(94,795)	(177,035)
Non-marketable debt assets	**(35,697)**	(136,362)	**(45,998)**	(85,995)	(130,770)
Shares	**(36,289)**	(26,264)	**(6,353)**	(8,016)	(46,864)
Other investments	**205,903**	(210,968)	**174,375**	(51,148)	(253,760)
Financing expenses for financial liabilities	**604,419**	481,963	**363,798**	330,811	756,461
Changes in fair value of investment property for yield-dependent contracts	**698**	15,462	**(4,931)**	14,307	(13,566)
Changes in fair value of other investment property	**(59,292)**	4,116	**(28,952)**	12,923	(38,447)
Depreciation and amortization					
Fixed assets	**32,800**	30,912	**9,127**	9,793	45,403
Intangible assets	**101,347**	84,678	**33,039**	19,159	145,039
Change in liabilities for non-yield dependent insurance and investment contracts	**707,238**	1,347,078	**60,415**	235,744	1,649,648
Change in liabilities for yield-dependent insurance and investment contracts	**4,029,770**	5,076,646	**1,317,770**	1,453,655	6,502,495
Change in reinsurance assets	**(18,224)**	(348,651)	**8,326**	31,338	(450,899)
Change in deferred acquisition costs	**(174,529)**	(125,416)	**(35,681)**	(19,676)	(202,539)
Payroll expenses for share-based payment	**1,975**	4,789	**557**	1,288	5,954
Income tax expenses	**174,653**	265,491*	**39,543**	77,279*	378,609*
Changes in other balance sheet items:					
Financial investments and investment property for yield-dependent insurance policies and investment contracts					
Acquisition of investment property	**(168,504)**	(301,113)	**(9,049)**	(273,487)	(312,663)
Acquisitions net, of financial investments	**(2,708,276)**	(3,205,842)	**(860,309)**	(798,688)	(3,769,618)
Other financial investments and investment property					
Acquisition of investment property	**(49,088)**	(185,321)	**(18,102)**	(137,541)	(265,586)
Proceeds from the sale of investment property	-	5,035	-	-	5,935
Acquisitions net, of financial investments	**(458,440)**	(405,250)	**(57,349)**	188,666	(676,098)
Outstanding premiums	**82,207**	(42,981)	**27,415**	(16,398)	(115,606)
Other receivables	**13,544**	54,742	**(9,518)**	65,152	15,949
Investment for ETN holders	**(1,687,939)**	(2,346,488)	**(526,125)**	(959,783)	(3,844,142)
Cash and cash equivalents pledged for ETN holders	**(1,123,933)**	(2,192,871)	**(504,572)**	(726,743)	(2,236,173)
Other payables	**(229,943)**	(84,243)	**(14,646)**	(9,442)	354,811
Liabilities for employee benefits, net	**15,234**	5,037	**4,717**	(301)	31,167
Total adjustments required to present cash flows from operating activities	**(2,468,781)**	(3,805,590)	**(795,187)**	(1,478,046)	(4,877,843)
Total cash flows from operating activities, before taxes on income	**(2,152,971)**	(3,355,597)	**(730,946)**	(1,364,427)	(4,197,052)

Condensed consolidated interim 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 for insurance contracts and investment contracts.
(2) As part of current operations, interest received was presented in the amount of NIS 1,128 million (for the nine months ended September 30, 2013, an amount of NIS 1,061 million and for 2013, NIS 1,490 million) and interest paid of NIS 46 million (for the nine months ended September 30, 2013 - NIS 48 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 130 million (for the nine months ended September 30, 2013 - NIS 121 million, and for 2013 - NIS 158 million)

* For the reclassification of comparative figures, see Note 2c.

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

Condensed consolidated interim statements of cash flows

	For the nine months ended September 30		For the three months ended September 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	**879,359**	1,222,368	740,754
Other cash and cash equivalents	**1,389,685**	1,526,490	**1,568,246**	1,508,665	1,526,490
Cash and cash equivalents retained at beginning of period	**2,477,709**	2,267,244	**2,447,605**	2,731,033	2,267,244
Appendix C - Cash and cash equivalents, end of period					
Cash and cash equivalents for yield-dependent contracts	**782,737**	908,036	**782,737**	908,036	1,088,024
Other cash and cash equivalents	**1,384,545**	1,572,657	**1,384,545**	1,572,657	1,389,685
Cash and cash equivalents retained at end of period	**2,167,282**	2,480,693	**2,167,282**	2,480,693	2,477,709

The notes accompanying the condensed consolidated interim 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 principal holdings are subsidiaries that are insurance and finance companies. The condensed interim consolidated financial statements, as at September 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 November 25, 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 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 Ltd. won the public tender to set up and operate a database of individual price quotes and interest rates for financial institutions On September 2, 2014, the Commissioner of Insurance announced that the tender committee had decided to disqualify Shaarey Ribit’s bid and declare Mirvah Hogen Ltd. as winner of the tender. Until preparations for the move to the revised Mirvah Hogen model have been completed, Mirvah Hogen will continue to operate based on the current model.

   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 13 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 nine and three month periods ended June 30, 2013 and for the year ended 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.

Note 3 - Significant accounting policies (contd.)

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.

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

Note 3 - Significant accounting policies (contd.)

IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") (contd.)

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

In 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.

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 (non-life) 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.

4. Insurance companies overseas operating segment

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

5. 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).

Note 4 - Operating segments (contd.)

6. 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 nine months ended September 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	2,835,110	2,652,945	2,391,255	155,733	-	-	(5,381)	8,029,662
Premiums earned by reinsurers	103,966	161,039	1,059,484	65,980	-	-	(5,381)	1,385,088
Premiums earned in retention	2,731,144	2,491,906	1,331,771	89,753	-	-	-	6,644,574
Net profit from investments and financing income	2,062,098	214,372	124,784	7,628	37,994	219,636	802	2,667,314
Income from management fees	661,040	7,018	-	-	183,366	5,768	(248)	856,944
Income from commissions	23,160	57,545	196,372	17,319	1,187	89,684	(63,074)	322,193
Total income	5,477,442	2,770,841	1,652,927	114,700	222,547	315,088	(62,520)	10,491,025
Payments and changes in liabilities for insurance and investment contracts, gross	4,698,800	2,151,035	1,769,883	66,797	-	-	(2,823)	8,683,692
Reinsurers' share of payments and changes for insurance contract liabilities	65,261	140,830	770,704	20,552	-	-	(2,823)	994,524
Payments and changes in liabilities for insurance and investment contracts, in retention	4,633,539	2,010,205	999,179	46,245	-	-	-	7,689,168
Commissions, marketing expenses and other acquisition expenses	513,744	460,260	462,979	52,007	-	3,956	(63,074)	1,429,872
General and administrative expenses	326,048	160,748	23,349	9,283	165,272	109,873	(248)	794,325
Other expenses	29,574	-	723	199	10,372	3,327	-	44,195
Financing expenses (income), net	3,921	5,869	20,704	-	2,552	83,475	(198)	116,323
Total expenses	5,506,826	2,637,082	1,506,934	107,734	178,196	200,631	(63,520)	10,073,883
Company’s share of profit of investee companies accounted for by the equity method	25,228	8,435	31,267	-	22	8,369	-	73,321
Profit (loss) before taxes on income	(4,156)	142,194	177,260	6,966	44,373	122,826	1,000	490,463
Other comprehensive income (loss), before taxes on income	92,566	31,392	66,398	(1,071)	147	40,624	-	230,056
Total comprehensive income before taxes on income	88,410	173,586	243,658	5,895	44,520	163,450	1,000	720,519
Liabilities in respect of non-yield dependent insurance and investment contracts	11,254,625	3,350,728	10,110,020	237,220	-	-	(6,432)	24,946,161
Liabilities in respect of yield-dependent insurance and investment contracts	31,694,022	3,336,410	-	-	-	-	-	35,030,432

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	For the three months ended September 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	943,654	929,480	814,387	54,242	-	-	(1,697)	2,740,066
Premiums earned by reinsurers	35,139	56,668	364,630	22,569	-	-	(1,697)	477,309
Premiums earned in retention	908,515	872,812	449,757	31,673	-	-	-	2,262,757
Net profit from investments and financing income	641,875	75,630	44,398	1,887	16,258	73,451	2,227	855,726
Income from management fees	221,395	2,554	-	-	61,846	1,504	(105)	287,194
Income from commissions	6,009	17,717	69,908	6,081	325	36,342	(27,484)	108,898
Total income	1,777,794	968,713	564,063	39,641	78,429	111,297	(25,362)	3,514,575
Payments and changes in liabilities for insurance and investment contracts, gross	1,560,544	755,094	617,131	26,009	-	-	(802)	2,957,976
Reinsurers' share of payments and changes for insurance contract liabilities	23,134	44,051	267,610	7,606	-	-	(802)	341,599
Payments and changes in liabilities for insurance and investment contracts, in retention	1,537,410	711,043	349,521	18,403	-	-	-	2,616,377
Commissions, marketing expenses and other acquisition expenses	161,134	158,918	163,313	17,512	-	1,568	(27,484)	474,961
General and administrative expenses	107,844	50,577	7,085	3,081	55,063	42,107	(105)	265,652
Other expenses (income)	9,689	-	244	(88)	3,670	1,040	-	14,555
Financing (income) expenses	1,932	2,624	21,533	-	749	34,026	(94)	60,770
Total expenses	1,818,009	923,162	541,696	38,908	59,482	78,741	(27,683)	3,432,315
Company's share of profit (loss) of investee companies accounted for by the equity method	9,324	3,415	1,620	-	(42)	7,207	-	21,524
Profit (loss) before taxes on income	(30,891)	48,966	23,987	733	18,905	39,763	2,321	103,784
Other comprehensive income (loss), before taxes on income	31,379	7,923	18,681	202	70	17,409	-	75,664
Total comprehensive income (loss) before taxes on income	488	56,889	42,668	935	18,975	57,172	2,321	179,448
Liabilities in respect of non-yield dependent insurance and investment contracts	11,254,625	3,350,728	10,110,020	237,220	-	-	(6,432)	24,946,161
Liabilities in respect of yield-dependent insurance and investment contracts	31,694,022	3,336,410	-	-	-	-	-	35,030,432

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	For the nine months ended September 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	2,827,119	2,360,679	2,321,952	132,319	-	-	(6,264)	7,635,805
Premiums earned by reinsurers	106,968	161,854	988,867	48,794	-	-	(6,264)	1,300,219
Premiums earned in retention	2,720,151	2,198,825	1,333,085	83,525	-	-	-	6,335,586
Net profit from investments and financing income	2,351,265	250,784	231,786	2,152	22,987	242,378	(5,792)	3,095,560
Income from management fees	568,566	8,114	-	-	156,037	7,227	(394)	739,550
Income from commissions	29,847	64,405	192,465	14,074	2,398	69,735	(42,076)	330,848
Total income	5,669,829	2,522,128	1,757,336	99,751	181,422	319,340	(48,262)	10,501,544
Payments and changes in liabilities for insurance and investment contracts, gross	4,609,976	1,928,753	2,221,132	58,621	-	-	(3,347)	8,815,135
Reinsurers' share of payments and changes for insurance contracts liabilities	75,120	101,424	1,075,550	12,139	-	-	(3,347)	1,260,886
Payments and changes in liabilities for insurance and investment contracts, in retention	4,534,856	1,827,329	1,145,582	46,482	-	-	-	7,554,249
Commissions, marketing expenses and other acquisition expenses	464,187	391,077	458,351	49,035	-	3,405	(42,076)	1,323,979
General and administrative expenses	322,671	164,048	25,339	10,661	149,680	86,113	(393)	758,119
Other expenses	36,327	-	723	233	11,448	3,891	-	52,622
Financing expenses (income)	8,373	9,193	(7,760)	-	3,221	126,274	(1,292)	138,009
Total expenses	5,366,414	2,391,647	1,622,235	106,411	164,349	219,683	(43,761)	9,826,978
Company's share of profit of investee companies accounted for by the equity method	3,557	3,125	12,031	-	57	22,148*	-	40,918
Profit (loss) before taxes on income	306,972	133,606	147,132	(6,660)	17,130	121,805	(4,501)	715,484
Other comprehensive income (loss), before taxes on income	5,212	2,533	(9,043)	(3,314)	(165)	(5,752)	-	(10,529)
Total comprehensive income (loss) before taxes on income	312,184	136,139	138,089	(9,974)	16,965	116,053	(4,501)	704,955
Liabilities in respect of non-yield dependent insurance and investment contracts	10,726,687	2,896,260	10,105,508	215,702	-	-	(6,919)	23,937,238
Liabilities in respect of yield-dependent insurance and investment contracts	26,665,553	2,799,260	-	-	-	-	-	29,464,813

Note 4 - Operating segments (contd.)

A. Information regarding reportable segments (contd.)

	For the three months ended September 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	917,945	832,537	778,445	45,169	-	-	(1,895)	2,572,201
Premiums earned by reinsurers	38,640	60,090	338,790	16,437	-	-	(1,895)	452,062
Premiums earned in retention	879,305	772,447	439,655	28,732	-	-	-	2,120,139
Net profit from investments and financing income	1,068,211	108,228	86,229	848	10,442	85,655	(3,061)	1,356,552
Income from management fees	199,596	2,645	-	-	59,905	3,194	(97)	265,243
Income from commissions	13,445	24,475	70,716	4,697	362	28,169	(18,915)	122,949
Total income	2,160,557	907,795	596,600	34,277	70,709	117,018	(22,073)	3,864,883
Payments and changes in liabilities for insurance and investment contracts, gross	1,844,962	702,417	644,647	18,064	-	-	(820)	3,209,270
Reinsurers' share of payments and changes for insurance contract liabilities	22,605	37,329	249,296	3,874	-	-	(820)	312,284
Payments and changes in liabilities for insurance and investment contracts, in retention	1,822,357	665,088	395,351	14,190	-	-	-	2,896,986
Commissions, marketing expenses and other acquisition expenses	149,447	140,701	164,523	16,402	-	1,011	(18,915)	453,169
General and administrative expenses	109,461	56,118	9,271	2,928	53,888	29,686	(96)	261,256
Other expenses	11,913	-	244	67	5,471	1,448	-	19,143
Financing expenses (income)	4,169	4,332	(3,156)	-	1,290	55,510	(223)	61,922
Total expenses	2,097,347	866,239	566,233	33,587	60,649	87,655	(19,234)	3,692,476
Company’s share of profit (loss) of investee companies accounted for by the equity method	7,241	1,666	2,543	-	(18)	7,059*	-	18,491
Profit (loss) before taxes on income	70,451	43,222	32,910	690	10,042	36,422	(2,839)	190,898
Other comprehensive incomes (loss), before taxes on income	28,342	7,758	10,848	106	(22)	10,259	-	57,291
Total comprehensive income (loss) before taxes on income	98,793	50,980	43,758	796	10,020	46,681	(2,839)	248,189
Liabilities in respect of non-yield dependent insurance and investment contracts	10,726,687	2,896,260	10,105,508	215,702	-	-	(6,919)	23,937,238
Liabilities in respect of yield dependent insurance and investment contracts	26,665,553	2,799,260	-	-	-	-	-	29,464,813

* For the reclassification of comparative figures, see Note 2c.

Note 4 - Operating segments (contd.)

A. Information regarding reportable segments (contd.)

	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 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 taxes on income	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

* For the reclassification of comparative figures, see Note 2c.

Note 4 - Operating segments (contd.)

b. Additional Information about the non-life insurance segment

	For the nine months ended September 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	387,192	796,628	700,757	551,250	(18,177)	2,417,650
Reinsurance premiums	79,708	170,539	518,471	310,566	-	1,079,284
Premiums in retention	307,484	626,089	182,286	240,684	(18,177)	1,338,366
Changes in unearned premium balances in retention	28,103	68,159	9,342	(47,078)	(51,931)	6,595
Premiums earned on retention	279,381	557,930	172,944	287,762	33,754	1,331,771
Profits from investments, net, and financing income	48,982	10,003	3,532	39,625	22,642	124,784
Income from commissions	15,844	39,355	97,683	43,490	-	196,372
Total income	344,207	607,288	274,159	370,877	56,396	1,652,927
Payments and changes in liabilities for insurance contracts and investment contracts, gross	267,650	537,162	335,865	624,264	4,942	1,769,883
Payments and changes in liabilities for insurance contracts and investment contracts, gross	58,249	104,920	258,060	349,475	-	770,704
Payments and changes in liabilities for insurance contracts and investment contractors, in retention	209,401	432,242	77,805	274,789	4,942	999,179
Commissions, marketing expenses and other acquisition costs	55,661	144,094	162,541	100,683	-	462,979
General and administrative expenses	5,415	7,646	3,473	3,305	3,510	23,349
Other expenses, net	-	-	-	-	723	723
Financing expenses, net	9,913	2,021	715	8,019	36	20,704
Total expenses	280,390	586,003	244,534	386,796	9,211	1,506,934
Company's share of profits of investee companies accounted for by the equity method	14,577	2,973	1,051	11,792	874	31,267
Profit (loss) before taxes on income	78,394	24,258	30,676	(4,127)	48,059	177,260
Other comprehensive income, before taxes on income	30,583	6,238	2,205	24,741	2,631	66,398
Total comprehensive income before taxes on income	108,977	30,496	32,881	20,614	50,690	243,658
Liabilities for insurance policies, gross, as at September 30, 2014	2,640,960	688,443	946,412	5,259,486	574,719	10,110,020
Liabilities for insurance policies, in retention as at September 30, 2014	2,227,925	549,659	171,821	1,919,234	574,719	5,443,358

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 75% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability whose activities account for 75% 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 September 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	90,727	163,043	250,731	133,313	(6,499)	631,315
Reinsurance premiums	19,460	35,605	194,786	77,257	-	327,108
Premiums in retention	71,267	127,438	55,945	56,056	(6,499)	304,207
Changes in unearned premium balances in retention	(24,063)	(59,494)	(3,123)	(42,230)	(16,640)	(145,550)
Premiums earned on retention	95,330	186,932	59,068	98,286	10,141	449,757
Profits from investments, net, and financing income	16,249	3,007	1,289	13,259	10,594	44,398
Income from commissions	5,844	14,076	34,051	15,937	-	69,908
Total income	117,423	204,015	94,408	127,482	20,735	564,063
Payments and changes in liabilities for insurance contracts and investment contracts, gross	100,611	181,418	114,889	218,416	1,797	617,131
Reinsurers share of payments and changes in liabilities for insurance contracts	19,569	37,290	87,693	123,058	-	267,610
Payments and changes in liabilities for insurance contracts and investment contractors, in retention	81,042	144,128	27,196	95,358	1,797	349,521
Commissions, marketing expenses and other acquisition costs	21,783	53,201	52,487	35,842	-	163,313
General and administrative expenses	1,698	2,321	1,055	931	1,080	7,085
Other expenses	-	-	-	-	244	244
Financing expenses, net	10,319	2,108	743	8,346	17	21,533
Total expenses	114,842	201,758	81,481	140,477	3,138	541,696
Company's share of profit of investee companies accounted for according by the equity method	714	10	101	626	169	1,620
Profit (loss) before taxes on income	3,295	2,267	13,028	(12,369)	17,766	23,987
Other comprehensive income (loss), before taxes on income	10,748	1,999	851	8,766	(3,683)	18,681
Total comprehensive income (loss) before taxes on income	14,043	4,266	13,879	(3,603)	14,083	42,668
Liabilities for insurance policies, gross, as at September 30, 2014	2,640,960	688,443	946,412	5,259,486	574,719	10,110,020
Liabilities for insurance policies, in retention as at September 30, 2014	2,227,925	549,659	171,821	1,919,234	574,719	5,443,358

* Property and other branches primarily include results from property loss insurance and comprehensive homeowners insurance, whose activities account for 79% of total premiums in these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability whose activities account for 67% of total premiums in these branches.

Note 4 - Operating segments (contd.)

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

	For the nine months ended September 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	405,599	759,025	663,757	523,112	(12,014)	2,339,479
Reinsurance premiums	83,874	160,911	494,510	285,583	-	1,024,878
Premiums in retention	321,725	598,114	169,247	237,529	(12,014)	1,314,601
Changes in unearned premium balances in retention	15,440	45,653	12,845	(46,995)	(45,427)	(18,484)
Premiums earned on retention	306,285	552,461	156,402	284,524	33,413	1,333,085
Profits from investments, net, and financing income	106,522	20,806	5,645	73,772	25,041	231,786
Income from commissions	15,880	38,384	93,751	44,450	-	192,465
Total income	428,687	611,651	255,798	402,746	58,454	1,757,336
Payments and changes in liabilities for insurance contracts and investment contracts, gross	372,301	546,378	538,303	745,101	19,049	2,221,132
Reinsurers' share of payments and changes in liabilities for insurance contracts	71,344	105,840	457,555	440,811	-	1,075,550
Payments and changes in liabilities for insurance contracts and investment contractors, in retention	300,957	440,538	80,748	304,290	19,049	1,145,582
Commissions, marketing expenses and other acquisition costs	58,654	146,339	152,229	100,664	465	458,351
General and administrative expenses	5,071	7,074	3,575	3,526	6,093	25,339
Other expenses	-	-	-	-	723	723
Financing expenses (income), net	(4,179)	(816)	(221)	(2,895)	351	(7,760)
Total expenses	360,503	593,135	236,331	405,585	26,681	1,622,235
Company's share of profit of investee companies accounted for by the equity method	6,003	1,172	318	4,157	381	12,031
Profit before taxes on income	74,187	19,688	19,785	1,318	32,154	147,132
Other comprehensive income (loss), before taxes on income	(4,840)	(945)	(256)	(3,354)	352	(9,043)
Total comprehensive income (loss) before taxes on income	69,347	18,743	19,529	(2,036)	32,506	138,089
Liabilities for insurance policies, gross, as at September 30, 2013	2,753,606	687,933	872,623	5,154,507	636,839	10,105,508
Liabilities for insurance policies, in retention as at September 30, 2013	2,354,947	549,118	147,549	1,742,285	636,839	5,430,738

* Property and other branches primarily include results from property loss insurance and comprehensive homeowners insurance, whose activities account for 75% of total premiums in these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability whose activities account for 77% 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 September 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	101,478	177,512	215,060	120,433	(5,578)	608,905
Reinsurance premiums	21,771	38,707	162,305	71,119	-	293,902
Premiums in retention	79,707	138,805	52,755	49,314	(5,578)	315,003
Changes in unearned premium balances in retention	(21,376)	(42,925)	(664)	(45,763)	(13,924)	(124,652)
Premiums earned in retention	101,083	181,730	53,419	95,077	8,346	439,655
Profits from investments, net, and financing income	37,043	6,928	2,160	25,909	14,189	86,229
Income from commissions	5,830	13,616	34,117	17,153	-	70,716
Total income	143,956	202,274	89,696	138,139	22,535	596,600
Payments and changes in liabilities for insurance contracts and investment contracts, gross	141,517	171,634	111,102	213,629	6,765	644,647
Reinsurers share of payments and changes in liabilities for insurance contracts	23,997	33,692	83,870	107,737	-	249,296
Payments and changes in liabilities for insurance contracts and investment contractors, in retention	117,520	137,942	27,232	105,892	6,765	395,351
Commissions, marketing expenses and other acquisition costs	22,322	53,633	53,409	35,159	-	164,523
General and administrative expenses	1,942	2,781	1,602	1,379	1,567	9,271
Other expenses	-	-	-	-	244	244
Financing expenses (income), Net	(1,680)	(317)	(96)	(1,174)	111	(3,156)
Total expenses	140,104	194,039	82,147	141,256	8,687	566,233
Company's share of profit (loss) of investee companies accounted for by the equity method	1,574	287	96	1,106	(520)	2,543
Profit (loss) before taxes on income	5,426	8,522	7,645	(2,011)	13,328	32,910
Other comprehensive income, before taxes on income	4,346	890	205	2,974	2,433	10,848
Total comprehensive income before taxes on income	9,772	9,412	7,850	963	15,761	43,758
Liabilities for insurance policies, gross, as at September 30, 2013	2,753,606	687,933	872,623	5,154,507	636,839	10,105,508
Liabilities for insurance policies, in retention as at September 30, 2013	2,354,947	549,118	147,549	1,742,285	636,839	5,430,738

* Property and other branches primarily include 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 67% 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 December 31, 2013	2,681,469	584,017	1,001,408	5,225,856	621,790	10,114,540
Liabilities for insurance policies, in retention as at December 31, 2013	2,290,599	468,736	159,493	1,838,108	621,790	5,378,726

* Property and other branches primarily include 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 about the life assurance and long-term savings segment

	For the nine months ended September 30 2014 (Unaudited)				For the nine months ended September 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	-	-	2,835,110	2,835,110	-	-	2,827,119	2,827,119
Premiums earned by reinsures	-	-	103,966	103,966	-	-	106,968	106,968
Premiums in retention	-	-	2,731,144	2,731,144	-	-	2,720,151	2,720,151
Profits from investments, net, and financing income	1,046	4,068	2,056,984	2,062,098	1,532	2,570	2,347,163	2,351,265
Revenues from management fees	164,724	180,382	315,934	661,040	145,690	160,868	262,008	568,566
Income from commissions	-	-	23,160	23,160	-	-	29,847	29,847
Total income	165,770	184,450	5,127,222	5,477,442	147,222	163,438	5,359,169	5,669,829
Payments and changes in liabilities for insurance contracts and investment contracts, gross	1,394	7,646	4,689,760	4,698,800	1,501	6,631	4,601,844	4,609,976
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	65,261	65,261	-	-	75,120	75,120
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	1,394	7,646	4,624,499	4,633,539	1,501	6,631	4,526,724	4,534,856
Commission, marketing expenses and other acquisition costs	54,704	77,682	381,358	513,744	50,725	68,449	345,013	464,187
General and administrative expenses	56,381	47,158	222,509	326,048	57,350	42,871	222,450	322,671
Other expenses	12,085	1,548	15,941	29,574	17,670	2,716	15,941	36,327
Financing expenses (income), net	69	11	3,841	3,921	52	(54)	8,375	8,373
Total expenses	124,633	134,045	5,248,148	5,506,826	127,298	120,613	5,118,503	5,366,414
Company's share of profit of investee companies accounted for by the equity method	-	-	25,228	25,228	-	-	3,557	3,557
Profit (loss) before taxes on income	41,137	50,405	(95,698)	(4,156)	19,924	42,825	244,223	306,972
Other comprehensive income (loss), before taxes on income	527	1,313	90,726	92,566	(367)	(1,218)	6,797	5,212
Total comprehensive income (loss) before taxes on income	41,664	51,718	(4,972)	88,410	19,557	41,607	251,020	312,184

Note 4 - Operating segments (contd.)

c. Additional information about the life assurance and long-term savings segment (contd.)

	For the three months ended September 30 2014 (Unaudited)				For the three months ended September 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	-	-	943,654	943,654	-	-	917,945	917,945
Premiums earned by reinsures	-	-	35,139	35,139	-	-	38,640	38,640
Premiums in retention	-	-	908,515	908,515	-	-	879,305	879,305
Profits (losses) from investments, net, and financing income	626	2,521	638,728	641,875	615	1,055	1,066,541	1,068,211
Revenues from management fees	58,614	64,255	98,526	221,395	46,308	55,283	98,005	199,596
Income from commissions	-	-	6,009	6,009	-	-	13,445	13,445
Total income	59,240	66,776	1,651,778	1,777,794	46,923	56,338	2,057,296	2,160,557
Payments and changes in liabilities for insurance contracts and investment contracts, gross	461	2,487	1,557,596	1,560,544	538	2,194	1,842,230	1,844,962
Reinsurer's share of payments and changes in liabilities for insurance contracts	-	-	23,134	23,134	-	-	22,605	22,605
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	461	2,487	1,534,462	1,537,410	538	2,194	1,819,625	1,822,357
Commission, marketing expenses and other acquisition costs	18,527	26,525	116,082	161,134	17,672	22,763	109,012	149,447
General and administrative expenses	18,421	16,510	72,913	107,844	17,859	15,101	76,501	109,461
Other expenses	4,019	357	5,313	9,689	5,704	896	5,313	11,913
Financing expenses, net	15	18	1,899	1,932	24	-	4,145	4,169
Total expenses	41,443	45,897	1,730,669	1,818,009	41,797	40,954	2,014,596	2,097,347
Company's share of profit of investee companies accounted for by the equity method	-	-	9,324	9,324	-	-	7,241	7,241
Profit (loss) before taxes on income	17,797	20,879	(69,567)	(30,891)	5,126	15,384	49,941	70,451
Other comprehensive income (losses), before taxes on income	(199)	(941)	32,519	31,379	(97)	(339)	28,778	28,342
Total comprehensive income before taxes on income	17,598	19,938	(37,048)	488	5,029	15,045	78,719	98,793

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. Tax arrangement applicable to a subsidiary - ETNs

Pursuant to the information in Note 37 in the Company's Financial Statements at December 31, 2013, concerning the main points of a tax arrangement that applies to Harel Sal and Harel Sal Trade and the subsidiary, on August 4, 2014, a tax arrangement was received from the Tax Authority that applies to Harel Sal and Harel Sal Trade, and the holders of ETNs in Series 72, 93, 95, 96, 97, 89, 91. This tax arrangement is similar in principle to the one mentioned above.

c. Approved pre-rulings

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

   Pursuant to the approval of the merger, when the merged funds are sold or the management rights in the fund are changed in a manner that changes the management rights in relation to the ownership of tracks owned by Harel Insurance and/or Harel Gemel, a tax event will be incurred.

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

Note 5 - Taxes on income

d. Tax assessments in dispute

1. For information about income tax assessments issued to Harel Insurance in connection with real estate activity and 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. Explanations by the tax assessors and hearings on the subject have begun in the court. Harel Insurance has made adequate provision in respect of the tax exposures.
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 was 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 filed an objection to the assessments that were 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 Group.

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 audits conducted by the Commissioner's office, during the Reporting Period several in-depth audits were conducted of the pensions, investments, actuary, customer service, life assurance, information systems and claims sectors. During an audit of long-term claims in Dikla, requests were received to correct several subjects including outline of a work plan to implement changes in the claims-handling process that emerged from the report, as well as the handling of specific claims addressed in the audit. Dikla intends to submit comments on the report, and at the same time to examine implementation of the findings and integrate them in its activities.

The following details 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 and 30-35 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

Note 6 - Contingent Liabilities and Commitments (Contd.)

a. Contingent Liabilities (contd.)

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. 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 an application for its certification as an amended 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 October 20, 2014, the opinion of the Attorney General was submitted, according to which the Attorney General objected to some of the components of settlement arrangement.

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 consists of women who have or had insurance policies with the four Respondents, and in which no distinction between men and women was made in calculation of the "risk" premium.

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. In accordance with the parties’ notice given to the court, a mediation process is underway between the parties.

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.

Note 6 - Contingent Liabilities and Commitments (contd.)

a. Contingent Liabilities (contd.)

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.

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 and against the IDF Disabled Veterans Organization (“the Respondents”) 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, the Respondents 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

Note 6 - Contingent Liabilities and Commitments (contd.)

a. Contingent Liabilities (contd.)

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.

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.

Note 6 - Contingent Liabilities and Commitments (contd.)

a. Contingent Liabilities (contd.)

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.

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. Following the class applicant’s request to withdraw from the application for certification of the claim as a class action, on November 10, 2014, the court approved the application of the applicant’s attorney to replace the class applicant and a date was scheduled to file an amended claim and motion for its certification as a class action.

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.

Note 6 - Contingent Liabilities and Commitments (contd.)

a. Contingent Liabilities (contd.)

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.

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.

Note 6 - Contingent Liabilities and Commitments (contd.)

a. Contingent Liabilities (contd.)

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.

32. 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.

33. In September 2014, an application was filed in the Tel Aviv District Court, together with an application to certify a claim as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance paid policyholders of its travel insurance, benefits for expenses that were incurred in New Israel Shekels, by an amount that is lower than the amount actually incurred. This, as a result of conversion of the amount to dollars and then converting it back into New Israel Shekels on different dates, and this, ostensibly in contravention of the provisions of the policy 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 50 million.

Actions filed after the Reporting Period

34. In October 2014, an action was filed in the Central District Court in 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 ostensibly computes the insurance benefits for persons insured by policies that include cover for accidental disability, for insured events relating to a disability of the hand or foot, contrary to the natural expectation of the insureds, thus ostensibly operating in contravention of the provisions of the law. Based on the action, the Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 115 million. The Plaintiff wishes to include the motion for certification of a class action in a previous motion to certify a class action which was filed against Harel Insurance and which concerns the manner of computing the insurance benefits in those policies that include cover for accidental disability (as described in Section A(28) above).

35. In October 2014, an action was filed against the Company in the Tel Aviv District Court, together with an application for its certification as a class action. The subject of the action is the allegation that the Company ostensibly refunds its customers with amounts that it overcharged in their nominal values, without adding interest and linkage and/or without any additional payment for the consumer's expenses, as defined in the Consumer Protection Law, 5741-1981. The Company therefore practices unlawful enrichment and operates contrary to the provisions of the law. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent to be NIS 136.5 million.

Note 6 - Contingent Liabilities and Commitments (contd.)

a. Contingent Liabilities (contd.)

Actions filed after the Reporting Period (contd.)

36. In November 2014, an application for certification of a claim as a class action was filed against the subsidiary Harel Insurance and Standard Insurance Ltd. and against other insurance companies and insurance agencies (together: "the Respondents") in the Central District Court in Lod. The subject of the action is the allegation that when the holders of Isracard and CAL credit cards call the sales call centers run by the Respondents in order to activate an overseas travel insurance policy that they are entitled to receive free of charge ("the Basic Policy"), the Respondents ostensibly market these customers riders or extensions to the Basic Policy, in practice selling them complete, standard policies that provide cover from the first shekel and include coverages that overlap the cover included in the Basic Policy. This, at full cost and without subtracting the value of the Basic Policy. The Plaintiffs argue that the Respondents are therefore misleading the insureds, in breach of the disclosure obligations, operating in contravention of the law and practicing unjust enrichment. According to the action, the total loss claimed for all members of the Group that the Plaintiffs wish to represent is estimated at NIS 270 million.

<u>Summary table</u>

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 is 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	23	3,038,637
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	6	3,105,890
Claim amount is not specified	3	
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 NIS 52 million (at December 31, 2013, about 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.

   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. 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. The hearing on both actions was consolidated. On November 24, 2014, the claimants filed an amended application to approve a derivative claim ("the Amended Motion"). In addition to the claims in the original applications, the Amended Motion argued that Maccabi and Clalit allegedly also refrained from fully utilizing the right of participation available to them by virtue of the law against the insurance companies in respect of expenses incurred in rendering the services they provided under the National Health Insurance Law, 1994 ("the Basic Basket of Services") in relation to those instances where, ostensibly, the obligations in the Basic Basket of Services overlap those in the health insurance policies sold by the insurance companies. In the Amended Motion, the claimants estimate the amount of the claim against all the insurance companies being sued to be about NIS 5.2 million.

   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 appealed the decision to the Supreme Court claiming that the amount awarded for legal fees, expenses and remuneration was exorbitant. On May 26, 2014 the Supreme Court issued a ruling which instructed that the appeal be struck out.

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 Insurance 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 Insurance undertook to publish an announcement in two daily newspapers, enabling those insureds whose claims had been dismissed exclusively on the grounds of a lack of cooperation by the insured, to resubmit their case to Harel Insurance.

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.

7. In July 2014, an application for certification of a claim as a class action against Harel Insurance was filed in the Central District Court in Lod, together with an application to certify a compromise settlement in the action. The subject of the action is the allegation that in a health insurance policy sold by Harel Insurance, insurance cover for pregnancy tests and fertility treatment for married female insureds is conditional on that the insured’s husband has health insurance through Harel Insurance (“the Condition”). According to the Plaintiff, 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. On October 27, 2014, the Central Region District Court issued a validation of the compromise settlement as a judgment, terminating the action. According to the compromise settlement, Harel Insurance undertook to 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 group policies with such insurance, whose claims for insurance benefits for fertility treatment were rejected exclusively on account of this condition.

Note 7 - Capital requirements and management

1. The following is information 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:

	September 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)	**5,048,615**	**133,167**	**474,521**	4,772,739	153,657	437,806
Existing amount calculated according to the Capital Regulations:						
Tier 1 capital						
Basic tier-1 capital	**3,734,060**	**463,512**	**575,129**	3,616,856	481,625	489,615
Hybrid tier-1 capital	**50,394**	**-**	**-**	-	-	-
Total tier-1 capital	**3,784,454**	**463,512**	**575,129**	3,616,856	481,625	489,615
Tier-2 capital						
Subordinated tier-2 capital	**502,395**	**-**	**-**	597,948	-	-
Hybrid tier-2 capital	**940,294**	**-**	**99,863**	938,820	-	99,840
Total tier-2 capital	**1,442,689**	**-**	**99,863**	1,536,768	-	99,840
Hybrid tier-3 capital (b)	**755,810**	**-**	**-**	566,685	-	-
	2,198,499	**-**	**99,863**	2,103,453	-	99,840
Total existing capital amount computed according to the Capital Regulations	**5,982,953**	**463,512**	**674,992**	5,720,309	481,625	589,455
Surplus at report date	**934,338**	**330,345**	**200,471**	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	**-**	**-**	**-**	(85,000)	(30,000)	-
Total events after the report date	**-**	**-**	**-**	(49,260)	(30,000)	-
Surplus including the effect of events after the report date	**934,338**	**330,345**	**200,471**	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:

	September 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	**645,193**	**133,167**	**90,362**	626,890	150,923	90,273
Activity in long-term care insurance	**83,064**	**-**	**179,814**	74,776	-	165,010
Capital requirements for yield guaranteed programs	**49,322**	**-**	**-**	47,147	-	-
Investment assets and other assets (c)	**1,142,927**	**-**	**35,923**	1,054,611	-	34,756
Catastrophe risks in non-life insurance	**76,821**	**-**	**-**	77,617	-	-
Operating risks	**303,491**	**-**	**46,847**	301,555	-	45,666
Deferred acquisition costs in life assurance and insurance against illness and hospitalization	**1,175,691**	**-**	**113,945**	1,085,066	-	97,267
Investments in consolidated management companies and insurers	**1,192,380**	**-**	**-**	1,143,154	-	-
Extraordinary life assurance risks (d)	**331,453**	**-**	**5,582**	309,550	-	2,812
Unrecognized assets as defined in the Capital Regulations (e)	**48,273**	**-**	**2,048**	52,373	2,734	2,022
	5,048,615	**133,167**	**474,521**	4,772,739	153,657	437,806
Amount of capital write-down for the original difference (this write-down is not recognized for the purpose of a dividend distribution) *	**205,487**	**-**	**-**	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 128 million at September 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 861 million in Harel Insurance and NIS 50 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 ETN issuing companies (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 September 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 August 14, 2014, the Board of Directors of EMI 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 reached its decision after taking into account the financial results of EMI at June 30, 2014; the distributable surplus of EMI at June 30, 2014 was presented, and the capital surpluses and equity requirements of EMI were reviewed, based on the equity management policy of EMI. The dividend distribution was completed on September 11, 2014

7. 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.

8. 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.

9. 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.

Note 7 - Capital requirements and management (contd.)

10. 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.

11. 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.

Note 7 - Capital requirements and management (contd.)

12. 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.

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. At this stage, the Directive is due to enter into force in Europe on January 1, 2016.

    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.

    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.

    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. On November 11, 2014, the Commissioner published an "Outline for implementation of a solvency regime based on Solvency II", whereby in view of the expected publication of final instructions in Europe by June 2015, the Commissioner intends to publish directives during the course of 2016, which will replace the present directives, and will be based on the European instructions with the relevant adjustments for Israel, according to which the insurance companies will compute a new solvency ratio. According to the outline, the Commissioner intends to determine that insurance companies will be required to comply with the solvency ratio under the new directives from the annual financial statements for 2016.

    The Company continues to implement the aforementioned requirements.

14. 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.

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

Note 8 - Financial liabilities

a. Details of financial liabilities

	September 30 (Unaudited)		December 31 (Audited)	September 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)	**342,391**	404,624	375,191	**342,391**	404,624	375,191
Loans from non-bank entities (1)	**98,695**	102,761	102,677	**100,193**	103,140	103,953
Loans from interested parties	**939**	902	911	**939**	902	911
Short term credits from banks and others	**33,580**	26,849	26,984	**33,580**	26,849	26,984
Subordinated promissory notes (2)	**2,482,738**	2,393,529	2,319,410	**2,788,496**	2,656,373	2,569,630
	2,958,343	2,928,665	2,825,173	**3,265,599**	3,191,888	3,076,669
Financial liabilities at fair value, through profit and loss						
Loans from banks (3)	**172,184**	45,883	90,121	**172,184**	45,883	90,121
Derivatives	**847,733**	237,561	289,966	**847,733**	237,561	289,966
Short sales	**77,401**	72,973	26,694	**77,401**	72,973	26,694
	1,097,318	356,417	406,781	**1,097,318**	356,417	406,781
Total financial liabilities	**4,055,661**	3,285,082	3,231,954	**4,362,917**	3,548,305	3,483,450
Subordinated promissory notes, which form tier-2 and tier-3 capital	**2,298,362**	2,204,983	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) The fair value of subordinated promissory notes was computed based on the stock exchange price at September 30, 2014, September 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 1.35%, 1.8% and 1.9% at September 30, 2014, September 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 September 30 2014, the balance of the financial liabilities for this activity is NIS 150 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).

	September 30 2014 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks	-	172,184	172,184
Derivatives	30,425	817,308	847,733
Short sales	77,401	-	77,401
Total financial liabilities stated at fair value through profit or loss	107,826	989,492	1,097,318

	September 30 2014 (Unaudited)		
	Level 1	Level 2	Total
	NIS Thousands	NIS Thousands	NIS Thousands
Loans from banks	-	45,883	45,883
Derivatives	21,219	216,342	237,561
Short sales	72,973	-	72,973
Total financial liabilities stated at fair value through profit or loss	94,192	262,225	356,417

	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. Pursuant to that mentioned in Note 26(f)(17) in the Company's 2013 annual financial statements, on March 19, 2014, the subsidiary made a partial repayment of the capital note in the amount of NIS 5 million to Harel Investments, in parallel to an identical early repayment to the bank. On June 17, 2014, the subsidiary repaid the bank an amount of NIS 8 million, principal and interest and an identical amount of the capital note to the Company. Additionally, on November 17, 2014, the board of directors of a subsidiary approved an additional partial early repayment of the capital note to Harel Investments, in the amount of NIS 6 million, in parallel to an identical early repayment to the bank..

2. 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%.

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

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

   The 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%.

4. 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.

Note 8 - Financial liabilities (contd.)

c. Additional Information (contd.)

5. 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 September 30, 2014 the Company and its subsidiaries are in compliance with the financial covenants which were determined.
6. On the issuance of hybrid, tier-1 capital by Harel Insurance to the Company during the Reporting Period, see Note 7.
7. Concerning an amendment of the prospectus of Harel Financing and Share Issues after the Report Date, see Note 12.

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 September 30, 2014 is NIS 429,130, thousands whereas their fair value at September 30, 2014 is NIS 473,549 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 September 30, 2014 (unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets	**16,240,420**	**17,891**	**-**	**16,258,311**
Non-negotiable debt assets	**-**	**4,652,844**	**120,302**	**4,773,146**
Shares	**4,439,627**	**-**	**775,618**	**5,215,245**
Other	**4,488,012**	**149,609**	**1,876,800**	**6,514,421**
Total	**25,168,059**	**4,820,344**	**2,772,720**	**32,761,123**

	At September 30, 2013 (unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Negotiable debt assets	13,254,135	4,883	-	13,259,018
Non-negotiable debt assets	-	4,424,204	103,463	4,527,667
Shares	3,726,496	-	568,088	4,294,584
Other	3,448,714	148,539	1,439,540	5,036,793
Total	20,429,345	4,577,626	2,111,091	27,118,062

	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 nine and three months ended September 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	**28,645**	**56,442**	**165,463**	**250,550**
Interest and dividend receipts	**(8,110)**	**(15,234)**	**(49,606)**	**(72,950)**
Purchases	**48,508**	**185,032**	**450,495**	**684,035**
Sales	**(19,720)**	**(32,643)**	**(116,076)**	**(168,439)**
Redemptions	**(17,182)**	**(14,444)**	**(6,920)**	**(38,546)**
Transfers to level 3	**901**	**-**	**-**	**901**
Transfers from level 3*	**(13,662)**	**(22,224)**	**-**	**(35,886)**
Balance as at June 30, 2014	**120,302**	**775,618**	**1,876,800**	**2,772,720**
Total profits (losses) for the nine-month period ended September 30, 2014, that were included in profit or loss for held assets	**6,819**	**61,593**	**166,969**	**235,381**

	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 July 1, 2014	**120,229**	**635,555**	**1,711,871**	**2,467,655**
Total profits (losses) that were recognized:				
In profit or loss	**21,463**	**39,993**	**80,084**	**141,540**
Interest and dividend receipts	**(3,707)**	**(6,028)**	**(17,229)**	**(26,964)**
Purchases	**11,794**	**139,983**	**144,776**	**296,553**
Sales	**(19,653)**	**-**	**(42,011)**	**(61,664)**
Redemptions	**(10,652)**	**(1,248)**	**(691)**	**(12,591)**
Transfers to level 3	**859**	**-**	**-**	**859**
Transfers from level 3*	**(31)**	**-**	**-**	**(31)**
Balance as at September 30, 2014	**120,302**	**808,255**	**1,876,800**	**2,805,357**
Total profits (losses) for the three-month period ended September 30, 2014, that were included in profit or loss for held assets	**(363)**	**48,121**	**80,077**	**127,835**

* Mainly for securities that changed their rating.

** Mainly for securities that were issued for trade on the TASE.

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

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

For the nine and three months ended September 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	61,946	490,302	1,198,764	1,751,012
Total profits (losses) that were recognized:				
In profit or loss	(14,215)	6,923	(21,081)	(28,373)
Interest and dividend receipts	(4,369)	(10,501)	(7,932)	(22,802)
Purchases	32,802	88,584	394,291	515,677
Sales	-	(7,220)	(124,502)	(131,722)
Redemptions	(6,165)	-	-	(6,165)
Transfers to level 3*	33,464	-	-	33,464
Balance as at September 30, 2013	103,463	568,088	1,439,540	2,111,091
Total profits (losses) for the nine-month period ended September 30, 2013, included in profit or loss for held assets	(14,916)	3,558	24,206	12,848

	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 July1, 2013	118,851	551,119	1,444,892	2,114,862
Total profits (losses) that were recognized:				
In profit or loss	(13,653)	11,917	(5,580)	(7,316)
Interest and dividend receipts	(1,642)	(2,204)	(1,813)	(5,659)
Purchases	-	14,197	39,559	53,756
Sales	-	(6,941)	(37,518)	(44,459)
Redemptions	(93)	-	-	(93)
Balance as at September 30, 2013	103,463	568,088	1,439,540	2,111,091
Total profits (losses) for the three-month period ended September 30, 2013, included in profit or loss for held assets	(13,255)	8,564	5,158	467

* For 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	61,946	490,302	1,198,764	1,751,012
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	100,922	618,689	1,433,444	2,153,055
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

* For 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 through 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 September 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)	**989,358**	**7,615,881**	**355,190**	**-**	**8,960,429**
Non-negotiable debt assets (2)	**776**	**-**	**-**	**9,714,839**	**9,715,615**
Shares (3)	**-**	**706,978**	**-**	**-**	**706,978**
Other (4)	**280,134**	**1,846,182**	**-**	**-**	**2,126,316**
Total	**1,270,268**	**10,169,041**	**355,190**	**9,714,839**	**21,509,338**

	At September 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)	1,162,282	6,698,457	385,924	-	8,246,663
Non-negotiable debt assets (2)	712	-	-	9,500,982	9,501,694
Shares (3)	15,343	551,709	-	-	567,052
Other (4)	306,130	1,447,602	-	-	1,753,732
Total	1,484,467	8,697,768	385,924	9,500,982	20,069,141

	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 September 30, 2014, September 30, 2013 and December 31, 2013 are NIS 381,416, NIS 408,720, and NIS 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 September 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	**374,326**	454,743	532,932
Available for sale	**3,327,268**	2,895,588	3,023,882
Total government bonds	**3,701,594**	3,350,331	3,556,814
Other debt assets			
Non-convertible			
Presented at fair value, through profit or loss, designated upon initial recognition	**603,186**	694,854	641,742
Held to maturity	**355,190**	385,924	370,923
Available for sale	**4,288,613**	3,802,869	3,776,437
Total other non-convertible debt assets	**5,246,989**	4,883,647	4,789,102
Convertible			
Presented at fair value, through profit or loss, designated upon initial recognition	**11,846**	12,685	10,665
Total other convertible debt assets-	**11,846**	12,685	10,665
Total marketable debt assets	**8,960,429**	8,246,663	8,356,581
Impairment balances - recognized in profit or loss in respect of available-for-sale debt assets	**1,931**	10,157	7,524

Note 10 - Other financial investments (contd.)

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

(2) Non-marketable debt assets

	September 30 2014		December 31	September 30 2014		December 31
	(Unaudited)		(Audited)	(Unaudited)		(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	**4,448,334**	4,398,197	4,339,783	**5,327,795**	5,162,829	5,122,751
Total government bonds	**4,448,334**	4,398,197	4,339,783	**5,327,795**	5,162,829	5,122,751
Other non-convertible debt assets						
Accounted for as loans and debts, including bank deposits	**5,266,505**	5,102,785	5,323,402	**6,040,337**	5,678,897	5,911,822
Total other non-convertible debt assets	**5,266,505**	5,102,785	5,323,402	**6,040,337**	5,678,897	5,911,822
Other convertible debt assets						
Presented at fair value, through profit or loss, designated upon initial recognition	**776**	712	788	**776**	712	788
Total convertible other debt assets	**776**	712	788	**776**	712	788
Total non-convertible debt assets	**9,715,615**	9,501,694	9,663,973	**11,368,908**	10,842,438	11,035,361
Impairment balances recognized in profit or loss	**13,592**	74,404	67,584			

Note 10 - Other financial investments (contd.)

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

(3) Shares

	Book Value as at September 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, upon initial recognition	-	15,343	14,792
Available for sale	**594,510**	447,957	473,323
Total marketable shares	**594,510**	463,300	488,115
Non-marketable shares			
Available for sale	**112,468**	103,752	107,212
Total non-marketable shares	**112,468**	103,752	107,212
Total	**706,978**	567,052	595,327
Impairment balances, recognized in profit or loss	**54,441**	68,289	63,775

(4) Other financial investments

	Book Value as at September 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	**126,652**	142,242	146,889
Available for sale	**1,014,142**	821,680	939,404
Derivative instruments	**2,000**	603	15,024
Total marketable financial investments	**1,142,794**	964,525	1,101,317
Non marketable			
Presented at fair value through profit or loss designated upon initial recognition	**74,871**	72,394	72,117
Available for sale	**832,040**	625,922	628,683
Derivative instruments	**76,611**	90,891	74,695
Total non-marketable financial investments	**983,522**	789,207	775,495
Total other financial investments	**2,126,316**	1,753,732	1,876,812
Impairment balances for other financial investments presented as available for sale	**76,885**	79,632	80,313
Derivative instruments, presented as financial liabilities	**492,219**	162,038	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 8B.

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.

	September 30, 2014 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets	8,602,058	3,181	-	8,605,239
Non-negotiable debt assets	-	-	776	776
Shares	594,510	-	112,468	706,978
Other	1,142,794	76,611	906,911	2,126,316
Total	10,339,362	79,792	1,020,155	11,439,309

	September 30, 2013 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS Thousand	NIS Thousand	NIS Thousand	NIS Thousand
Negotiable debt assets	7,860,739	-	-	7,860,739
Non-negotiable debt assets	-	-	712	712
Shares	463,300	-	103,752	567,052
Other	964,525	90,891	698,316	1,753,732
Total	9,288,564	90,891	802,780	10,182,235

	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 nine and three months ended September 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	(6)	1,440	24,173	25,607
In other comprehensive income	-	8,437	69,026	77,463
Interest and dividend receipts	-	(3,796)	(17,207)	(21,003)
Purchases	-	9,706	169,689	179,395
Sales	(6)	(3,948)	(36,064)	(40,018)
Redemptions	-	-	(3,506)	(3,506)
Transfers from level 3	-	(6,583)	-	(6,583)
Balance as at September 30, 2014	776	112,468	906,911	1,020,155
Total profits (losses) for the nine-month period ended September 30, 2014, included in profit or loss for held assets	(6)	(1,884)	24,763	22,873

	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 July 1, 2014	782	108,874	816,256	925,912
Total profits (losses) that were recognized:				
In profit or loss	(6)	(3,612)	12,175	8,557
In other comprehensive income	-	7,377	36,445	43,822
Interest and dividend receipts	-	(1,718)	(7,247)	(8,965)
Purchases	-	5,495	63,206	68,701
Sales	-	(3,948)	(13,758)	(13,758)
Redemptions	-	-	(166)	(166)
Balance as at September 30, 2014	776	116,416	906,911	1,024,103
Total profits (losses) for the three-month period ended September 30, 2014, included in profit or loss for held assets	(6)	(3,607)	12,095	8,482

* For securities issued for trade on the TASE.

Note 10 - Other financial investments (contd.)

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

For the nine and three-month periods ended September 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	585,719	686,288
Total profits (losses) that were recognized:				
In profit or loss	(524)	3,246	(1,786)	936
In other comprehensive income	-	3,690	(4,406)	(716)
Interest and dividend receipts	-	(3,670)	(2,852)	(6,522)
Purchases	-	355	188,147	188,502
Sales	-	(413)	(66,506)	(66,919)
Transfers to level 3*	1,211	-	-	1,211
Balance as at September 30, 2013	712	103,752	698,316	802,780
Total profits (losses) for nine-month period ended September 30, 2013, included in profit or loss for held assets	(524)	3,234	16,345	19,055

	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 July 1, 2013	712	98,638	706,092	805,442
Total profits (losses) that were recognized:				
In profit or loss	-	795	(7,546)	(6,751)
In other comprehensive income	-	5,660	(968)	4,692
Interest and dividend receipts	-	(1,177)	(644)	(1,821)
Purchases	-	112	26,007	26,119
Sales	-	(276)	(24,625)	(24,901)
Balance as at September 30, 2013	712	103,752	698,316	802,780
Total profits for three-month period ended September 30, 2013, included in profit or loss for held assets	-	799	1,036	1,835

* For securities that changed their rating

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	100,544	585,719	686,288
Total profits (losses) that were recognized:	(365)	4,329	24,118	28,082
In profit or loss	-	7,186	(1,213)	5,973
In other comprehensive income	(83)	(4,647)	(30,078)	(34,808)
Interest and dividend receipts	-	354	197,101	197,455
Purchases	-	(554)	(74,847)	(75,401)
Sales	-	-	-	-
Transfers to level 3*	1,211	-	-	1,211
Balance as at December 31, 2013	788	107,212	700,800	808,800
Total profits (losses) for the year ended December 31, that were included in profit or loss for the held assets	(365)	4,316	24,489	28,440

* For securities that changed their marketability.

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. Designation of 16 floors in Crystal House for the Company's own use

   On February 29, 2012, Harel Insurance Company entered into agreement to add 16 floors of office space to the Crystal House. Crystal House is an office block located at 12 Hachilazon Street, Ramat Gan (Parcel 365, Block 6109, and part of Parcel 366 in Block 6109), consisting of 9 floors of offices above a gallery and lobby as well as a 5-story underground parking garage. Crystal House was acquired by Harel Insurance on December 31, 2007 (from Nostro funds).

   The Project is being undertaken to upgrade Crystal House, most of which is currently used by the Company for its own purposes. The project is scheduled for completion in 2015.

   When the construction work began, Harel Insurance did not determine the final designation of the additional floors to be built. Nevertheless, at that time, Harel Insurance designated three of the additional floors (about 18.75% of the additional construction) for its own use. Regarding the remaining the areas, no final decision has yet been made as to their designation.

   In September, Harel Insurance determined the final designation of all the additional floors, whereby they will be used by Harel Insurance and additional companies in the Group and development work consistent with this designation commenced. Accordingly, the Company reclassified an amount of NIS 158 million from investment property to fixed assets.

2. 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.

3. Liability Adequacy tests

   Harel Insurance regularly conducts a review of the adequacy of the reserves (LAT). 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. 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 September 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.

4. 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 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

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

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 175 million before tax and NIS 109 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.

In the third quarter, an expense was included for updating the discounting interest rates used to calculate the insurance obligations and the LAT in the amount of NIS 49 million before tax, and NIS 30 million after tax. This effect was included only in the long-term savings segment.

5. Agreement with Rom Geves Casing and Covering (1997) Ltd.

   The Audit Committee and Board of Directors of Harel Insurance, respectively, approved an agreement between Harel Insurance and Rom Geves to carry out a construction and renovation project in the total amount of NIS 80 million, to be carried out in 2014 and 2015.

   The agreement was submitted for the approval of the Audit Committee and Board of Directors as a transaction with a related party, due to the fact that Harel Insurance is an interested party in U. Dori Construction Ltd., the parent company of Rom Geves. The Audit Committee and Board of Directors determined that the transaction was made under market conditions and was for the benefit of the Company.

6. 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.

7. 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.

8. 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: Mr. Yair Hamburger (Chairman of the Board), Mr. Gideon Hamburger, Yoav Manor, Yoseph Ciechanover, and Doron Cohen; (c) discussion of the 2013 Periodic Report. The general meeting approved all the items on the agenda.

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

9. 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.

10. 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 formally ended his term of office in August 2014.

11. Appointment of senior officers

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

12. 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.

13. Double management fees

In February 2012, the Supervision of Financial Services (Provident Funds) (Direct Expenses on account of Transactions Performed) Regulations (Amendment), 5771-2011, were revised so that subsequent to the revision, supervised entities are prohibited from paying management fees to certain external managers, from the balances retained in the fund, including 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.

On June 10, 2014, a circular was published concerning an amendment to the provisions of the consolidated circular - Management of Investment Assets (Direct Expenses on Account of Performing Transactions). The Supervision of Financial Services (Provident Funds) (Direct Expenses on Account of Performing Transactions) (Amendment no. 2) Regulations, 2014, which entered into force on April 1, 2014, permit an expense for the investment of a provident fund in ETNs in Israel of up to 0.1% of the fair value of the note, according to those indices to be instructed by the Commissioner and under the conditions he prescribes, provided that the issuer of the note is not a related party of the provident fund management company. The provisions of the circular apply to all financial institutions, excluding insurers in relation to liabilities that are not yield dependent, from their date of publication. In 2014 financial institutions may collect expenses from provident fund assets or money held against yield-

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

dependent liabilities, as applicable, 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. The Company estimates that these regulations will not significantly affect the Company's performance.

14. 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.

15. 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.

16. KaDeWe credit transaction

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

Pursuant to the recommendation of the audit committees, the Audit Committee and Board of Directors determined that the transaction was made under market conditions and was for the benefit of the financial institutions. On July 15, 2014, the loan was repaid in fully plus interest, based on the conditions prescribed in the agreement.

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

17. 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.

18. 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

19. 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.

20. 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.

21. 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

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

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.

22. 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.

23. 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.

24. Amendment to Section 49 of the Joint Investment Trusts Law, 5754-1994 ("the Funds Law") and Regulation 41 of the Joint Investment (Reports on a Joint Investment) Regulations

As part of the publication of a revised version of Amendment no. 21 to the Funds Law was published, a proposal was included to amend Section 49 of the Funds Law (which will become Section 67A under the amendment). In accordance with the text of the amendment, a portfolio manager who is part of the group of companies to which the fund manager belongs ("associate portfolio manager"), which holds 25% or more of the net value of the fund's assets for its customers, will be considered an "associate entity" and various obligations and limitations will apply to the fund manager that belongs to the group of companies to which the associate portfolio manager belongs ("associate fund manager"), which manages such an "associate fund". These obligations and limitations include that the fee paid to the fund manager in that fund will not exceed the average rates paid to the fund manager for all the funds of that class that it manages, and the fund supplement will not exceed the average supplement rates in any of the funds that it manages ("the proposed amendment"). At this stage, it is impossible to estimate the impact on the Company's financial statements, given that the proposed amendment is still being discussed by the Association of Mutual Fund Managers and the ISA.

25. Ruling in principle concerning 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

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

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 operate in accordance with the provisions of the Ruling and they have made reasonable provision in the management companies' books in relation to the Ruling.

26. Issuance of new ETNs

    During the Reporting Period, Harel Sal issued 17 series of new ETNs.

27. Concerning a dividend distribution by EMI, see Note 7.
28. Concerning a dividend distribution by Harel Insurance, see Note 7.
29. Concerning the raising of tier-3 capital by Harel Insurance (expansion of Series 6-8 bonds), see Note 8.
30. Concerning the publication of a shelf prospectus, see Note 8.
31. Concerning the raising of hybrid, tier-1 capital by Harel Insurance, see Note 7.
32. Concerning an announcement on the discontinuation by Maalot of the rating of EMI - Ezer Mortgage Insurance Company Ltd. ("EMI"), see Note 7.
33. Concerning affirmation of the Financial Strength Rating (FSR) of Harel Insurance in August 2014, see Note 7.

Note 12 - Significant events after the Reporting Period

1. Dividend distribution by Harel Investments

   On November 25, 2014, the Company's Board of Directors approved the distribution of 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 third 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.

2. General meeting

   On November 17, 2014, a special general meeting of the Company was held and the following items were on the agenda: (1) Reappointment of Mr. David Granot for a further term of office as an external director in the Company; (2) reappointment of Mr. Israel Gilad for a further term of office as an external director in the Company; (3) the appointment of Ms. Hava Friedman Shapira as an external director in the Company; (4) approval of a renewed employment agreement and revision of the conditions in the employment agreement between the Company and Mr. Yair Hamburger, one of the Company’s controlling shareholders who is Chairman of the Board of Directors and chairman of the board in subsidiaries of the Company; (5) approval of a renewed employment agreement and revision of the conditions in the employment agreement between the Company and Mr. Gideon Hamburger, one of the Company’s controlling shareholders, who serves as a director in the Company and in Company subsidiaries; (6) approval of a renewed employment agreement and revision of the conditions of the employment agreement between the Company and Mr. Yoav Manor, one of the Company’s controlling shareholders, who serves as a director in the Company and in Company subsidiaries. The general meeting approved all the items on the agenda. For additional information about the employment conditions of Mr. Yair Hamburger, Mr. Gideon Hamburger, and Mr. Yoav Manor - see Section 3 below.

3. Employment conditions of the controlling shareholders

   On November 17, 2014, the general meeting of the parent company approved the employment conditions of the controlling shareholders of the parent company (after they had been approved by the Compensation Committee on October 2, 2014, and by the Board of Directors on October 6, 2014).

   The present employment conditions of the controlling shareholders are in accordance with the employment agreements of each of the controlling shareholders which are in force from December 1, 2011 until November 30, 2014. As part of the re-approval of the agreements with the controlling shareholders, the employment conditions were also revised. The main points of the revisions are a reduction of the annual bonuses and adjustment of the parameters of the annual bonuses to those listed in the Company’s compensation policy and in the revised compensation policy of the Group’s financial institutions.

   Based on the existing law at the date of this report, the agreement with the controlling shareholders must be re-approved three years after its commencement (November 30, 2017), due to the fact that they are the controlling shareholders of the parent company. This change is not expected to significantly affect the Group’s profit or loss.

4. Revision of the repayment schedule and basis of interest on a bank loan

   In November 2014 Harel Investments signed an update to an agreement on a bank loan. According to the revised agreement, the loan principal will be repaid in installments over nine years and the interest on the loan will change from variable to fixed interest. The other conditions of the loan are unchanged.

5. Amendment to a shelf prospectus

On November 25, the Board of Directors of the Company and of Harel Insurance approved a review of an option to issue new bonds (from one or more series) by way of an exchange purchase offer of one or more series in Harel Insurance, Financing & Share Issues, a wholly owned subsidiary of Insurance.

To perform this exchange purchase offer, Harel Insurance, Financing & Share Issues intends to apply for a permit to amend the shelf prospectus.

Amending the shelf prospectus and performing the exchange purchase offer are subject to obtaining all the relevant statutory approvals, including permission from the ISA and the Stock Exchange, Approval from the Superintendent of the Capital Market, Insurance and Savings in the Ministry of Finance to amend the shelf prospectus and that the proceeds of the new series to be issued (if it is issued) will be recognized as hybrid tier-2 capital of the Company.

It is clarified that there is no certainty that the amendment to the shelf prospectus will be published or that the exchange purchase offer will in fact take place, and there is also no certainty as to the volume, conditions and timing of the exchange purchase offer.

6. Group long-term care policy for members of Clalit Health Services HMO through Dikla

On the basis of an agreement from 1998, 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, and it was determined that the rate of the refunding of expenses paid to Clalit will be the rate fixed in the group health insurance regulations. Clalit has the right to terminate the agreement by giving 60 days' notice.

In November 2014, approval was received from the Commissioner extending the approval to operate the plan until December 31, 2015. In this context, several improvements were made to the insurance cover and provisions were prescribed regarding the manner of handling claims and management of the assets when the plan comes to an end. Likewise, the approval notes that if designated regulations are promulgated pertaining to group long-term care insurance for health fund members, the approval will expire from the commencement date of the regulations. Subsequently, Clalit and Dikla signed agreements to extend the agreement until December 31, 2015, giving Clalit the right to curtail the commitment period by giving 60 days advance notice.

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HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

APPENDICES 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

Following are details of assets held against insurance contracts and investment contracts presented at fair value through profit or loss:

	September 30		December 31
	2014	2013	2013
	(Unaudited)		(Unaudited)
	NIS thousands		NIS thousands
Investment property	**1,308,342**	1,099,958	1,140,536
Financial investments			
Marketable debt assets	**16,258,311**	13,259,018	14,057,930
Non-marketable debt assets	**4,773,146**	4,527,668	4,654,614
Shares	**5,215,245**	4,294,584	4,478,332
Other financial investments	**6,514,421**	5,036,793	5,300,289
Total financial investments	**32,761,123**	27,118,063	28,491,165
Cash and cash equivalents-	**782,737**	908,036	1,088,024
Accounted for as loans and receivables including bank deposits			
Non marketable debt assets*	**429,130**	431,932	418,002
Other	**415,300**	440,743	396,905
Total financial assets in respect of yield- dependent contracts	**35,696,632**	29,998,732	31,534,632
Other receivables	**14,616**	4,520	4,268
Financial liabilities**	**312,144**	69,717	51,948
Financial liabilities in respect of yield dependent contracts	**326,760**	74,237	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 September 30, 2014, is NIS 73,549,000 (at September 30, 2013, and as at December 31, 2013, NIS 468,816,000 and NIS 454,856,000 respectively).

** Mainly derivatives and futures 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

	September 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)	**988,139**	**7,572,570**	**355,190**	**-**	**8,915,899**
Non-marketable debt assets (2)	**776**	**-**	**-**	**9,691,450**	**9,692,226**
Shares (3)	**-**	**645,766**	**-**	**-**	**645,766**
Other (4)	**266,475**	**1,457,480**	**-**	**-**	**1,723,955**
Total	**1,255,390**	**9,675,816**	**355,190**	**9,691,450**	**20,977,846**

	September 30 2013 (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)	1,160,457	6,643,608	385,924	-	8,189,989
Non-marketable debt assets (2)	712	-	-	9,472,447	9,473,159
Shares (3)	-	551,703	-	-	551,703
Other (4)	295,748	1,137,346	-	-	1,433,094
Total	1,456,917	8,332,657	385,924	9,472,447	19,647,945

	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)	1,183,216	6,744,829	370,923	-	8,298,968
Non-marketable debt assets (2)	788	-	-	9,634,689	9,635,477
Shares (3)	-	580,528	-	-	580,528
Other (4)	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 at September 30, 2014 is NIS 381,416,000 (at September 30, 2013 and at December 31, 2013 - NIS 408,720,000 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		
	September 30		December 31	September 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	**3,680,018**	3,323,257	3,529,611	**3,493,573**	3,269,604	3,452,870
Other debt assets						
Total other non-convertible debt assets	**5,224,035**	4,854,047	4,758,692	**4,945,001**	4,615,965	4,514,577
Other convertible debt assets (*)	**11,846**	12,685	10,665	**10,170**	16,347	13,986
Total marketable debt assets	**8,915,899**	8,189,989	8,298,968	**8,448,744**	7,901,916	7,981,433
Impairment balances that were recognized in profit or loss for debt assets presented as available-for-sale	**1,931**	10,157	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		
	September 30		December 31	September 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	**4,448,334**	4,398,197	4,339,783	**5,327,795**	5,162,829	5,122,751
Other debt assets						
Accounted for as loans and receivables including bank deposits	**5,243,116**	5,074,250	5,294,906	**6,014,911**	5,650,363	5,883,654
Presented at fair value, through profit or loss, designated upon initial recognition	**776**	712	788	**776**	712	788
Total non-marketable debt assets	**9,692,226**	9,473,159	9,635,477	**11,343,482**	10,813,904	11,007,193
Fixed impairments recognized in aggregate in profit and loss	**13,592**	74,404	67,584			

3. Shares

	Book Value			Cost		
	September 30		December 31	September 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	**533,306**	447,957	473,323	**416,859**	344,376	368,004
Non-marketable Shares	**112,460**	103,746	107,205	**78,537**	81,755	81,718
Total Shares	**645,766**	551,703	580,528	**495,396**	426,131	449,722
Impairment balances recognized in profit or loss for shares presented as available for sale	**54,441**	68,289	63,775			

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

b. Details of other financial investments (contd.)

4. Other financial investments

	Book Value			Cost		
	September 30		December 31	September 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	**742,230**	660,074	697,830	**742,230**	624,624	638,087
Non-marketable financial investments	**742,230**	773,020	759,251	**742,230**	612,915	621,587
Total other financial investments	**1,484,460**	1,433,094	1,457,081	**1,484,460**	1,237,539	1,259,674
Fixed impairments recognized in aggregate in profit or loss	**742,230**	79,632	80,313			
Derivative instruments, presented in financial liabilities	**742,230**	162,038	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.

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HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS RELATING TO THE COMPANY ITSELF

As at September 30, 2014

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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 at September 30, 2014 and for the nine 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 from the financial statements of investee companies in which the investments amounted to NIS 720,123 thousand as at September 30, 2014, and where the profit from these investee companies amounted to about NIS 31,078 thousand and NIS 16,092 thousand for the nine 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 leads 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.)

November 25, 2014

Financial information from the condensed consolidated interim statements of financial position at

	September 30		December 31
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**-**	7	-
Deferred tax assets	**2,017**	3,065	2,860
Fixed assets	**2,426**	2,209	1,916
Investments in investee companies accounted for using the equity method	**4,640,818**	4,223,572	4,490,167
Loans to investee companies	**50,394**	135,000	-
Investment property	**18,215**	18,325	18,325
Other receivables	**20,669**	28,167	14,979
Other financial investments			
Marketable debt assets	**-**	6,428	6,553
Non-marketable debt assets	**23,389**	28,535	28,496
Shares	**-**	15,337	14,792
Others	**347,922**	225,227	335,772
Total other financial investments	**371,311**	275,527	385,613
Cash and cash equivalents	**71,519**	85,560	62,823
Total assets	**5,177,369**	4,771,432	4,976,683
Equity			
Share capital and premium on shares	**336,729**	321,894	316,595
Treasury stock	**(170,970)**	(165,170)	(163,458)
Capital reserves	**454,830**	292,322	316,139
Retained earnings	**4,132,827**	3,809,071	4,037,093
Total capital	**4,753,416**	4,258,117	4,506,369
Liabilities			
Liabilities for employee benefits, net	**20,544**	19,540	19,838
Other payables	**28,991**	58,206	37,508
Current tax liabilities	**7,280**	6,896	6,703
Financial liabilities	**367,138**	428,673	406,265
Total liabilities	**423,953**	513,315	470,314
Total liabilities and equity	**5,177,369**	4,771,432	4,976,683

Yair Hamburger	Michel Siboni	Shimon Elkabetz	Ronen Agassi
Chairman of the Board of Directors	Co-CEO	Co-CEO	Chief Financial Officer

Date of approval of the financial statements: November 25, 2014

Financial information from the condensed consolidated interim statements of income

	For the nine months ended September 30		For the three months ended September 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 income	**8,316**	13,191	**2,425**	1,853	15,308
Income from management fees	**63,010**	64,367	**20,344**	21,567	85,244
Total revenues	**71,326**	77,558	**22,769**	23,420	100,552
General and administrative expenses	**16,087**	28,491	**5,817**	11,613	31,633
Other expenses	**-**	23	**-**	23	24
Financing expenses	**9,012**	13,171	**3,042**	5,053	16,498
Total expenses	**25,099**	41,685	**8,859**	16,689	48,155
Company's share of profits (losses) of investee companies	**280,626**	417,390	**52,928**	106,933	636,024
Income (loss) before taxes on income	**326,853**	453,263	**66,838**	113,664	688,421
Taxes on income	**11,293**	3,659	**2,759**	171	8,089
Profit for period attributed to the Company's shareholders	**315,560**	449,604	**64,079**	113,493	680,332

Financial information from the condensed consolidated interim statement of comprehensive income

	For the nine months ended September 30		For the three months ended September 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	**315,560**	449,604	**64,079**	113,493	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 available-for-sale financial assets	**1,850**	3,004	**1,382**	512	3,087
Net changes in fair value of available-for-sale financial assets transferred to statement of income	**(1,748)**	(7,232)	**(1,149)**	101	(7,090)
Foreign currency translation difference for overseas operations	**(2,699)**	(3,614)	**(636)**	(393)	(5,384)
The Group’s share of comprehensive income (loss) of investee companies	**148,565**	(9,134)	**51,474**	30,687	14,277
Taxes on income for items of other comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss	**(27)**	986	**(62)**	(224)	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	**145,941**	(15,990)	**51,009**	30,683	5,815
Other items of comprehensive income which will not be transferred to profit or loss					
Re-measurement of a defined benefit plan	**173**	(328)	**(171)**	72	(154)
Taxes on income for other items of comprehensive income which will not be transferred to profit or loss	**(55)**	82	**42**	(18)	38
Other comprehensive income (loss) for the period which will not be transferred to profit or loss, net of tax	**118**	(246)	**(129)**	54	(116)
Other comprehensive income (loss) for the period	**146,059**	(16,236)	**50,880**	30,737	5,699
Total profit for the period attributed to the Company's shareholders	**461,619**	433,368	**114,959**	144,230	686,031

Financial information from the condensed consolidated interim statements of changes in equity

	Share capital and premium	Capital reserve for available-for-sale assets	Capital reserve for transactions with non-controlling interests	Translation reserve for overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the nine months ended September 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									
Profit for period	-	-	-	-	-	-	-	315,560	315,560
Total other comprehensive income (loss)	-	141,048	-	11,883	-	-	-	(6,872)	146,059
Total comprehensive income (loss) for year	-	141,048	-	11,883	-	-	-	308,688	461,619
Transactions with shareholders recognize directly in equity									
Dividends declared	-	-	-	-	-	-	-	(212,954)	(212,954)
Share based payments	-	-	-	-	1,975	-	-	-	1,975
Purchase of treasury stock	-	-	-	-	-	(13,733)	-	-	(13,733)
Reissuing of treasury stock	3,919	-	-	-	-	6,221	-	-	10,140
Exercising of stock options	16,215	-	-	-	(16,215)	-	-	-	-
Balance as at September 30, 2014	336,729	454,685	(48,908)	(10,192)	19,932	(170,970)	39,313	4,132,827	4,753,416

Financial information from the condensed consolidated interim statements of changes in equity

	Share capital and premium	Capital reserve for available-for-sale assets	Capital reserve for transactions with non-controlling interests	Translation reserve for overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of fixed assets	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 September 30, 2014 (Unaudited)									
Balance as at July 1, 2014	332,135	417,205	(48,908)	(25,575)	22,300	(168,514)	39,313	4,070,731	4,638,687
Total comprehensive income									
Profit for period	-	-	-	-	-	-	-	64,079	64,079
Total other comprehensive income (loss)	-	37,480	-	15,383	-	-	-	(1,983)	50,880
Total comprehensive income (loss) for year	-	37,480	-	15,383	-	-	-	62,096	114,959
Transactions with shareholders recognized directly in equity									
Share based payment	-	-	-	-	557	-	-	-	557
Purchase of treasury stock	-	-	-	-	-	(4,126)	-	-	(4,126)
Reissuing of treasury stock	1,669	-	-	-	-	1,670	-	-	3,339
Exercising of stock options	2,925	-	-	-	(2,925)	-	-	-	-
Balance as at September 30, 2014	336,729	454,685	(48,908)	(10,192)	19,932	(170,970)	39,313	4,132,827	4,753,416

Financial information from the condensed consolidated interim statements of changes in equity

	Share capital and premium	Capital reserve for available-for-sale assets	Capital reserve for transactions with non-controlling interests	Translation reserve for overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the nine months ended September 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
Total comprehensive income									
Profit for period	-	-	-	-	-	-	-	449,604	449,604
Total other comprehensive income (loss)	-	(19,542)	-	(11,014)	-	-	-	14,320	(16,236)
Total comprehensive income (loss) for year	-	(19,542)	-	(11,014)	-	-	-	463,924	433,368
Transactions with shareholder recognized directly in equity									
Dividends paid	-	-	-	-	-	-	-	(307,762)	(307,762)
Exercising of stock options	10,084	-	-	-	(10,084)	-	-	-	-
Share based payment	-	-	-	-	4,789	-	-	-	4,789
Purchase of treasury stock	-	-	-	-	-	(24,749)	-	-	(24,749)
Reissuing of treasury stock	3,364	-	-	-	-	1,879	-	-	5,243
Balance as at September 30, 2013	321,894	284,149	(48,908)	(17,895)	35,032	(165,170)	39,944	3,809,071	4,258,117

Financial information from the condensed consolidated interim statements of changes in equity

	Share capital and premium	Capital reserve for available-for-sale assets	Capital reserve for transactions with non-controlling interests	Translation reserve for overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of fixed assets	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 September 30, 2013 (Unaudited)									
Balance as at July 1, 2013	315,103	257,420	(48,908)	(17,373)	37,787	(153,271)	39,944	3,945,810	4,376,512
Total comprehensive income									
Profit for period	-	-	-	-	-	-	-	113,493	113,493
Total other comprehensive income (loss)	-	26,729	-	(522)	-	-	-	4,530	30,737
Total comprehensive income (loss) for year	-	26,729	-	(522)	-	-	-	118,023	144,230
Transactions with shareholders recognized directly in equity									
Dividend paid	-	-	-	-	-	-	-	(254,762)	(254,762)
Exercising of stock options	4,043	-	-	-	(4,043)	-	-	-	-
Share based payment	-	-	-	-	1,288	-	-	-	1,288
Reissuing of treasury stock	-	-	-	-	-	(11,343)	-	-	(11,343)
Re-purchase of treasury stock	2,748	-	-	-	-	(556)	-	-	2,192
Balance as at September 30, 2013	321,894	284,149	(48,908)	(17,895)	35,032	(165,170)	39,944	3,809,071	4,258,117

Financial information from the condensed consolidated interim statements of changes in equity

	Share capital and premium	Capital reserve for available-for-sale assets	Capital reserve for transactions with non-controlling interests	Translation reserve for overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of fixed assets	Retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For year ended 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
Total comprehensive income									
Profit for year	-	-	-	-	-	-	-	680,332	680,332
Total other comprehensive income (loss)	-	9,946	-	(15,194)	-	-	(631)	11,578	5,699
Total comprehensive income for year	-	9,946	-	(15,194)	-	-	(631)	691,910	686,031
Transactions with shareholders recognized directly in equity									
Dividend 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

Financial information from the condensed consolidated interim statement of cash flows

	Appendix	For the nine months ended September 30		For the three months ended September 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	**30,282**	68,666	**13,625**	32,584	74,886
Income tax received (paid)		**(9,444)**	(4,182)	**(3,581)**	(4,162)	(9,657)
Net cash provided by operating activities		**20,838**	64,484	**10,044**	28,422	65,229
Cash flows from investing activities						
Investment in investee companies		**(17,281)**	(80,766)	-	(18,384)	(89,661)
Investment in fixed assets		**(847)**	(1,054)	-	(400)	(810)
Proceeds from disposal of fixed assets		-	100	-	100	651
Investment in intangible assets		-	(401)	-	-	-
Purchase of investment property		**285,000**	291,199	-	187,357	409,264
Dividends from investee companies		**4,496**	14,656	**107,300**	(22,584)	(93,364)
Net financial investments		**(50,000)**	(155,000)	-	-	(158,064)
Loans to investee companies		**5,000**	132,751	-	92,743	131,768
Repayment of loans given to investee companies		**226,368**	201,485	**107,300**	238,832	199,784
Net cash provided by (used for) investing activity						
Cash flows from financing activities		**(212,954)**	(307,762)	**(106,616)**	(254,762)	(307,726)
Dividend paid		-	100,900	-	900	100,900
Loans from banks and others		**(25,556)**	(21,525)	-	-	(43,342)
Repayment of loans from banks and others		**(238,510)**	(228,387)	**(106,616)**	(253,862)	(250,168)
Net cash provided by financing activities		**8,696**	37,582	**10,728**	13,392	14,845
Net increase in cash and cash equivalents		**62,823**	47,978	**60,791**	72,168	47,978
Cash and cash equivalents at beginning of period		**71,519**	85,560	**71,519**	85,560	62,823

Financial information from the condensed consolidated interim statement of cash flows

	For the nine months ended September 30		For the three months ended September 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					
Profit for the period attributed to Company shareholders	**315,560**	449,604	**64,079**	113,493	680,332
Items which are not connected with cash flows					
Company's share of profit of investee companies	**(280,626)**	(417,390)	**(52,928)**	(106,933)	(636,024)
Net profits from financing activities	**(3,978)**	(9,536)	**(585)**	(499)	(12,089)
Net financing expenses	**3,490**	4,824	**1,700**	3,590	156
Taxes on income	**11,293**	3,659	**2,759**	171	8,089
Depreciation and amortization	**337**	865	**136**	444	20
Profit from the disposal of fixed assets	**-**	-	**-**	-	(53)
Share-based payment	**1,975**	847	**557**	241	1,085
Changes in other balance sheet items					
Other receivables	**(5,690)**	50,367	**(2,540)**	(491)	63,555
Other payables	**(12,895)**	(18,367)	**(159)**	20,787	(34,276)
Revaluation of investment property	**110**	-	**110**	-	-
Liabilities for employee benefits, net	**706**	3,793	**496**	1,781	4,091
Total adjustments required to present cash flows from operating activities	**(285,278)**	(380,938)	**(50,454)**	(80,909)	(605,446)
Total cash flows from operating activities, before taxes on income	**30,282**	68,666	**13,625**	32,584	74,886

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

a. General

Following is a summary of financial information from the condensed consolidated interim financial statements of the Group as at September 30, 2014 (“Consolidated Statements”) which are published as part of the Periodic Reports, attributed to the actual company (“Condensed separate interim financial information”), which are presented in accordance with the provisions of Regulation 38D (“the Regulation”) and the Annex no. 10 to the Securities (Periodic and Immediate Reports Regulations, 1970 “Annex no. 10”, concerning a summary of separate, interim financial information for the corporation. This condensed, separate interim financial information should be read together with the separate financial information as at December 31, 2013, and with the consolidated financial statements.

b. Definitions

The Company	-	Harel Insurance Investments and Financial Services Ltd.
Consolidated/subsidiary companies	-	Companies, including joint ventures, whose statements are fully consolidated, directly or indirectly with those of the Company.
Investee companies	-	Subsidiaries, including partnerships in which the Company’s investments therein, direct or indirect, are included in the financial statements based on the equity method.
Date of report	-	Date of the statement of financial position.

c. Method of preparing the financial information

The separate financial information was prepared in accordance with the accounting policy detailed in Note 1 to the separate annual financial statements of the Company.

Note 2 - Affiliations, agreements, and material transactions with investee companies

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 from 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 utilizes about NIS 20 million of this 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 this 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 & 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 included in 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.

Note 2 - Affiliations, agreements, and material transactions with investee companies (contd.)

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 penultimate 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 - Significant 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 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.
3. 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.
4. Pursuant to that mentioned in Note 26 to the Company’s annual consolidated financial statements for 2013, on March 19, 2014, the subsidiary made a partial repayment of the capital note in the amount of NIS 5 million to Harel Investments, corresponding with an identical early repayment to the bank. On June 17, 2014, the subsidiary repaid a bank NIS 8 million principal and interest. Additionally, on November 17, 2014, the board of directors of a subsidiary approved a further partial repayment of the capital note to Harel Investments, in the amount of NIS 6 million, corresponding with an identical early repayment to the bank.
5. 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.
6. Concerning a dividend distribution by Harel Insurance, see Note 7 to the consolidated financial statements.
7. Concerning compliance with financial covenants that were defined, see Note 8 to the consolidated financial statements.
8. Concerning the termination of the term of office of the Company’s internal auditor, see Note 11 to the consolidated financial statements.
9. Concerning the establishment of a hedge fund, see Note 11 to the consolidated financial statements.
10. Concerning a bonus for 2013 for Mssrs. Yair Hamburger, Gideon Hamburger and Yoav Manor , see Note 11 to the consolidated financial statements.
11. Concerning the approval by the general meeting of a change in the conditions of compensation paid to the controlling shareholders, see Note 11 to the consolidated financial statements.
12. Concerning an annual general meeting, see Note 11 to the consolidated financial statements.
13. Concerning the agreement with Rom Geves Casing and Covering (1997) Ltd, see Note 11 to the consolidated financial statements.

Note 4 - Significant events after the Reporting Period

1. Concerning a change in the compensation for controlling shareholders, see Note 12 to the consolidated financial statements.
2. Concerning a revision of the repayment schedule and interest base on a bank loan, see Note 12 to the consolidated financial statements.
3. Dividend distribution

   On November 25, 2014, the Company's Board of Directors approved the distribution of 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 third 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.

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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 Regulation 38C(a)

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

In this instance, management consists of:

A. The Co-CEOs:

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

Mr. Shimon Elkabetz, who is also Chairman of the board of Directors of Harel Finance Holdings Ltd., Chairman of the Board of Directors of Pia Mutual Funds Ltd., Chairman of the Board of Directors of EMI Ezer Mortgage Company Ltd., and holds other positions in the Group's companies.

B. Mr. Ronen Agassi - the Company's CFO, deputy CEO and head of the Finance and Resources Division of Harel Insurance Company Ltd.

C. Mr. Sami Babkov - CEO of Harel Finance Holdings and CEO of Harel Pia Mutual Funds Ltd.

D. Mr. Avi Keller, CEO of Dikla Insurance Company Ltd.

E. Ms. Nataly Mishan-Zakai, legal advisor (corporate counsel) to the Corporation and the Group's companies, deputy CEO of Harel Insurance Company Ltd.

F. Mr. Amir Hessel, VP of the Corporation 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 Corporation's existing controls and procedures that were planned by or under the supervision of the general manager and the most senior financial officer, or by the person who actually performs these duties, under the oversight of the Corporation's Board of Directors, and the purpose of the controls and procedures is to provide reasonable assurance 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 Corporation 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 corporation is required to disclose, as noted, is accumulated and transferred to the Corporation's management, including to the CEO and most senior financial officer, or to the person who actually performs these duties, in an effort to ensure that decisions are made at the appropriate time, with respect to the disclosure requirement.

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

Harel Insurance Company Ltd. and subsidiaries of the Corporation 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 internal control in the aforementioned subsidiaries, the Corporation implements the following instructions:

- 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 quarterly report concerning the effectiveness of the internal control over financial reporting and disclosure that is included in the quarterly report for the period ended June 30, 2014 (hereinafter – the last annual report on internal control), the internal control was found to be effective.

Up to the date of the report, the Board of Directors and management received no information regarding any event or matter that is likely to change the assessment of the effectiveness of the internal control, as found in the quarterly report concerning the last internal control;

At the reporting date, based on the information in the quarterly report on the effectiveness of the last internal control, and based on information presented to the management and the Board of Directors, as noted above, the internal control is effective.

Attestation

I, Michel Siboni, hereby attest that:

1. I have reviewed the quarterly report of Harel Insurance Investments and Financial Services Ltd. ("the Corporation") for the third 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 situation, results of operations, and cash flows of the Corporation at the dates and periods covered in the Report.
4. I disclosed to the Corporation's external auditor, to the board of directors and the audit committee and financial reports committee of the Corporation, based on my most recent evaluation of the internal control over financial reporting:
   A. Any significant deficiencies 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 Corporation's ability to collect, process, summarize 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 Corporation:
   A. Defined controls and procedures, or ensured that controls and procedures are in place under my oversight, that are designed to ensure that material information pertaining to the Corporation, including its consolidated companies as they are defined in the Securities (Annual Financial Reports) Regulations, 5770-2010, is brought to my attention by others in the Corporation 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 oversight are in place, to ensure with reasonable certainty that the financial reports are credible and that the financial reports 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.

November 25, 2014

Michel Siboni
Co-CEO

Attestation

I, Shimon Elkabetz, hereby declare that:

1. I have reviewed the quarterly report of Harel Insurance Investments and Financial Services Ltd. ("the Corporation") for the third 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 situation, results of operations, and cash flows of the Corporation at the dates and periods covered in the Report.
4. I disclosed to the Corporation's external auditor, to the board of directors and the audit committee and financial reports committee of the Corporation, based on my most recent evaluation of the internal control over financial reporting:
   A. Any significant deficiencies 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 Corporation's ability to collect, process, summarize 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 Corporation:
   A. Defined controls and procedures, or ensured that controls and procedures are in place under my oversight, that are designed to ensure that material information pertaining to the Corporation, including its consolidated companies as they are defined in the Securities (Annual Financial Reports) Regulations, 5770-2010, is brought to my attention by others in the Corporation 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 oversight are in place, to ensure with reasonable certainty that the financial reports are credible and that the financial reports 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.

November 25, 2014

Shimon Elkabetz
Co-CEO

Attestation

I, Ronen Agassi, hereby declare that:

1. I have reviewed the interim financial statements and the other financial information contained in the interim reports of Harel Insurance Investments and Financial Services Ltd. ("the Corporation") for the third quarter of 2014 ("the Reports" or "the Interim Reports");
2. Based on my knowledge, the interim financial statements and the other financial information contained in the Interim 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 interim financial statements and other financial information contained in the Interim Reports reasonably reflect, in all material respects, the financial situation, results of operations, and cash flows of the Corporation at the dates and periods covered in the Report.
4. I disclosed to the Corporation's external auditor, to the board of directors and the audit committee and financial reports committee of the Corporation, based on my most recent evaluation of the internal control over financial reporting:
   A. Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure insofar as it relates to the interim financial statements and to any other information contained in the Interim Reports, that may reasonably have an adverse effect on the Corporation's ability to collect, process, summarize 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 Corporation:
   A. Defined controls and procedures, or ensured that controls and procedures are in place under my oversight, that are designed to ensure that material information pertaining to the Corporation, including its consolidated companies as they are defined in the Securities (Annual Financial Reports) Regulations, 5770-2010, is brought to my attention by others in the Corporation 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 oversight are in place, that are designed to ensure with reasonable certainty that the financial reports are credible and that the financial reports 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 that relates to the interim financial statements and to any other financial information contained in the Interim Reports, was brought to my attention, which may, in my opinion, 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.

November 25, 2014

Ronen Agassi
CFO