HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Interim Statement
As at March 31, 2015

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 three months ended March 31, 2014

The Board of Directors' Report for the three months ended March 31, 2015 ("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 2014 which was published on March 18, 2015 ("the Periodic Report").

The Board of Directors' Report also contains forward-looking information, as defined in the Securities Law, 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 94.5% stake ("Interasco"), which operates in Greece in non-life insurance; and Turk Nippon (in which the Company owns a 100% stake), which operates in Turkey;

(b) In the long-term savings sector, the Company operates through subsidiaries which are provident funds and pension 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 Funds Management Company Ltd. (wholly controlled) ("Tzva Hakeva").

Pension fund management companies: Harel Pension Funds Management Ltd. (wholly controlled) ("Harel Pension"); Manof Pension Funds Management Ltd. (wholly controlled)

("Manof"); and LeAtid Pension Funds Management Company Ltd. (in which the Company has a 79% stake), which manages an old pension fund ("LeAtid").

(c) In the financial services and capital market sector, the Company operates through Harel Finance Ltd. ("Harel Finance") (wholly controlled by the Company) and its subsidiaries: Harel Pia Mutual Funds Ltd. ("Harel-Pia"), Harel Finance Investments Management Ltd. ("Harel Finance Investments"), 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 company and issues certificates of deposit on different currencies.

The Group has been active in the insurance industry for about 80 years, and according to its financial statements for 2014, it is Israel's largest insurance group in terms of premiums, with a market share of 21.3%. 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 16.1%. 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 12.9%.

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 shareholders

At the publication date of the report, the Hamburger family (Yair Hamburger, Gideon Hamburger and Nurit Manor) holds - mainly through G.Y.N Financial Consulting and Management Ltd., a holding company fully controlled by them - 50.18% of the Company's voting rights and 49.65% 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. Maalot rating – Harel Insurance

Concerning affirmation of a Maalot rating for Harel Insurance from January 18, 2015, see Note 8(C)(5) to the Financial Statements.

2.1.2. Termination of the supply of outsourcing services - Harel Hamishmar Computers Ltd., subsidiary of the Company ("HHM")

Concerning the termination of the supply of outsourcing services to HHM, see Note 11(1)(2) to the Financial Statements.

2.1.3. Exchange purchase offer – Harel Share Issues

Concerning the issuance of Series 9-10 bonds by way of a partial exchange purchase offer, see Note 8(C)(4) to the Financial Statements.

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

2.2.1. Receipt of building rights in Harel House, Ramat Gan.

On the receipt of additional building rights in Harel House, Ramat Gan, see Note 12(1) to the Financial Statements.

2.2.2. Decision concerning a dividend distribution

Concerning a decision by the Company's Board of Directors from April 28, 2015 on a dividend distribution – see Note 12 to the Financial Statements.

2.2.3. Merger of Dikla's insurance activity

Concerning a merger of the insurance activity of Dikla into Harel Insurance, see Note 12(5) to the Financial Statements.

2.2.4. Formation of a trade union in Dikla

Concerning the formation of a trade union in Dikla, see Note 12(4) to the Financial Statements.

2.3. Developments in the macroeconomic environment of the Group

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

2.3.1. General

The first quarter of 2015 pointed to further moderate growth of the global economy. During this quarter, the ECB launched a quantitative easing program, which contributed to the decision by many central banks around the world to adopt a more expansionary monetary policy.

In Israel, recent indicators of economic activity in the first quarter of 2015 show continuing growth. Figures from the labor market continue to paint a positive picture, with a further decline in unemployment, and recent publications indicating a strengthening of private consumption. In contrast, figures for foreign trade were mixed and the business sector climate indices indicate moderate recovery.

During the quarter, economic indicators in the US were mixed, pointing to a decline in the growth rate compared with the previous quarter; according to preliminary estimates, growth was

0.2% at an annual rate. Contributing factors were the weather, the effect of falling oil prices on the energy industry and the impact of the stronger dollar on exports.

In the Eurozone, economic indicators for the first quarter were surprisingly favorable and pointed to more rapid growth than in the previous quarter. Contributing factors were the depreciation of the euro, drop in the price of fuel, decline in bond yields and the quantitative easing (QE).

In the emerging markets, the picture for the first quarter remained mixed; the slowdown in Russia continued and was accompanied by high inflation. Brazil remained weak and forecasts for growth were lowered as a corruption episode in the government oil company harmed the prospects for investment. In contrast, indicators from China continued to show reasonable growth; in India the positive growth momentum continued although forecasts for growth were revised downwards..

2.3.2. Developments in the 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 assurance and long-term savings.

2.3.3. Stock markets

The TA-100 index rose sharply by 10% in Q1 2015, following a 7% increase in 2014. Average daily turnover of shares and convertible stock increased by 7% to NIS 1.4 billion in Q1 2014, compared with an increase of 13% in the corresponding quarter last year.

2.3.4. Bond market

The general bond index rose sharply by 3.5% in Q1 2015, following an increase of 4.7% in 2014. During the quarter, the government bond index rose 4.2% and the corporate bond index rose 2.1%. Average daily turnover in bonds increased by 1% to NIS 4.8 billion during Q1 2015 compared with the previous quarter and a 21% increase compared with the corresponding quarter last year.

2.3.5. Mutual Funds

Mutual funds recorded net redemptions of NIS 6 billion during Q1 2015, following on from net redemptions of NIS 6.2 billion in the previous quarter. As a result of the reduction of the Bank of Israel interest rate to an all-time low, the money market funds recorded enormous redemptions of NIS 15 billion in Q1 2015, after redemptions of NIS 7.4 billion in 2014. In contrast, the mutual funds specializing in bonds raised a net amount of NIS 5.8 billion during the first quarter.

2.3.6. Index products

According to the Association of ETFs, at the end of Q1 2015 assets under management

amounted to NIS 118.9 billion, almost unchanged from the end of 2014 (NIS 118.1 billion), a 12% increase compared to the end of the corresponding quarter last year (NIS 106.4 billion).

ETNs specializing in foreign shares were particularly favorable in Q1 2015 and raised net amounts of NIS 2 billion. In contrast, deposit certificates recorded high redemptions of NIS 7.5 billion, mainly due to the low Bank of Israel interest rate.

2.3.7. Foreign exchange market

During the first quarter of 2015, the shekel depreciated 2.3% against the dollar (to NIS 3.98 / USD 1), but strengthened against the euro by 9.5% (to NIS 4.2735 / EUR 1).

2.3.8. Inflation

According to the last known index, at the end of Q1 2015 inflation was -1.0% (until the February index), after falling 1.6% during the quarter (November-February). The main cause of this sharp drop in the CPI in the first quarter lies in the falling price of fuel and the government's decision to reduce electricity and water prices. The CPI for March rose by 0.3%.

2.3.9. Bank of Israel interest

During the first quarter of 2015, the Bank of Israel Interest decreased by 0.15 percentage points to 0.1%, the lowest level ever recorded.

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

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

2.4.1. General

2.4.1.1. Provisions of law

2.4.1.1.1. On December 16, 2014, an amendment was published to the Supervision of Financial Services (Insurance) Law, 1981, amending Section 40 of the Law and which determines that an insurer wishing to introduce an insurance plan or change the conditions of the insurance must give the Commissioner 30 working days advance notice to this effect. Furthermore, the amendment authorizes the Commissioner to instruct that the marketing of an insurance plan shall be discontinued or that the policy conditions must be changed (also for policies that were issued according to the insurance plan before the instruction was given) as well as the authority to prescribe provisions concerning the premiums and policy conditions. The provisions of the amendment also apply to service notes. The amendment becomes applicable on January 1, 2015.

Subsequently, on February 3, 2015, the Commissioner published an amendment to a circular on introducing insurance policies and provident fund

articles, according to which the provisions of the circular were adapted to the amendment to Section 40 to the Supervision Law, as noted above. The circular takes effect on its date of publication.

2.4.1.2. Circulars

2.4.1.2.1. On May 11, 2015, the Commissioner published a circular concerning an amendment to the chapter on management of investment assets in the consolidated circular. The circular prescribes conditions under which institutional investors may continue to hold more than 20% of the means of control in a borrowing corporation as a result of exercising means of control that served as a guarantee for a debt in its possession. The provisions of the circular become applicable on its date of publication.

2.4.1.2.2. On May 11, 2015, the Commissioner published a circular concerning an amendment to the chapter on management of investment assets in the consolidated circular. The circular prescribes the conditions under which financial institutions may participate in consortium and syndicate transactions, including the information that the transaction organizer must submit to the financial institution, the minimum requirements for consortium transactions and the functions of the transaction organizer in an Israeli consortium. The provisions of the circular become applicable on August 1, 2015.

2.4.1.2.3. On May 10, 2015, the Commissioner published a circular concerning an amendment to the chapter on management of investment assets in the consolidated circular on the subject of providing coordinated [tailor-made] loans to corporations and controlling shareholders in corporations who are in financial difficulties. The amendment discusses the conditions that apply to financial institutions when providing coordinated loans to a corporation, where the corporation or its controlling shareholder has been in financial difficulties in the years prior to granting of the loan. The provisions of the circular become applicable on January 1, 2016.

2.4.1.2.4. On May 10, 2015, the Commissioner published a circular concerning an amendment to the chapter on management of investment assets in the consolidated circular on the subject of rules under which financial institutions may provide credit. The amendment prescribes provisions concerning the introduction of internal limitations on providing credit to borrowers, underwriting procedures and analysis of coordinated loans, conditions for relying on guarantees, instructions relating to the action to be taken when a condition for immediate recall is breached, and an obligation to disclose credit taken to finance the purchase of controlling shares in a corporation. The provisions of the circular became applicable on August 1, 2015.

2.4.1.2.5. On May 10, 2015, the Commissioner published a circular concerning leveraged loans. The circular stipulates that at least once a year, an investment committee must discuss the financial institution's policy in relation to leveraged loans and the overall situation of the leverages loans portfolio, and it also prescribes those subjects about which it must receive a report once a year. The provisions of the circular became applicable on August 1, 2015.

2.4.1.2.6. On May 10, 2015, the Commissioner published a circular concerning reports to be submitted to the Commissioner about debt arrangements that financial institutions have undertaken. The circular prescribes the manner in which entities that participate in debt arrangements that include changes made in the original debt conditions, must report their participation in such arrangements to the Commissioner. The provisions of the circulars will apply from the reports in respect of the second quarter of 2015

2.4.1.2.7. On April 30, 2015, a circular was published concerning provisions for the wording of insurance plans and a Commissioner's position paper on the principles for wording insurance plans (eliminating the existing provisions on this subject). These documents prescribe further provisions (besides those included in the circulars that were revoked) that should or should not be included in an insurance plan.

2.4.1.2.8. On April 19, 2015, a circular was published concerning rules for the granting of a control permit in a management company, for those who already have a permit to control a management company (under Section 9(B1) of the Supervision Law). The circular stipulates that an additional control permit will be granted subject to that management of the assets managed by the acquired management company will be transferred to a management company that is controlled by the buyer within 90 days of the acquisition date of the acquired management company, so that the buyer controls one management company. The provisions of the circular apply from its date of publication.

2.4.1.2.9. On March 4, 2015, the Commissioner published a circular concerning information that must appear on a financial institution's website, which revises the present circular on the same subject. The circular adds information to be included on the financial institution's website with respect to the bonuses that financial institutions offer license holders for meeting sales promotion campaign targets. The provisions of the circular become applicable on June 1, 2015.

2.4.1.2.10. On January 26, 2015, the Commissioner published a circular revising the instructions relating to the format of the disclosure required in the insurance companies' financial statements bringing them into line with International Financial Reporting Standards (IFRS), which updates the format for disclosure in the annual financial statements of the insurance companies. Additionally,

the circular prescribes a requirement to submit an immediate report to the Commissioner if a significant error is discovered in the financial statements. The provisions of the circular become applicable from the financial reports for 2014.

2.4.1.2.11. On November 13, 2014, a circular was published for agents and advisors concerning the involvement of non-licensed entities in the marketing and sale of insurance products that are not group insurance. When the provisions prescribed in the circular are met, supervised entities (financial institutions, insurance agents as defined in the Supervision of Insurance Law, or license holder as defined in the Pension Advice Law, as well as employees of any of the above) may enter into agreement with an external entity (an entity that is not a supervised entity) in connection with the marketing or sale of a personal lines insurance product, that is not a group product. On April 30, 2015, an amendment to the circular was published postponing commencement of the circular with respect to the marketing of travel insurance through travel agents to December 31 2015.

2.4.1.3. Draft circulars

On January 4, 2015, the Commissioner published a draft of the sections relevant to corporate governance on the subject of investments in the consolidated circular, and a draft circular concerning the management of credit risks in relation to investment activity. The draft documents propose adding provisions on the appointment of a credit sub-committee and the qualifications required for appointment to the credit sub-committee, as well as its composition. Insofar as they are passed as binding, the draft provisions will take effect on March 1, 2015. The Commissioner and the insurance companies are discussing the draft documents.

2.4.1.4. Instructions and clarifications

2.4.1.4.1. On February 12, 2015, a ruling in principle was published concerning the Equal Rights for People with Disabilities Law. The ruling prescribes that insurance companies must provide a written explanation within 90 days for insureds who are disabled and received differential treatment in an insurance contract or who an insurance company refuses to insure; the letter must specify that the Company's decision is based on its assessment that the specific insurance risk is higher than the insurance risk for a person who does not suffer from the same disability. A summary of the actuarial and statistical information or any other medical information on which the company based its decision must also be specified, as well the options available to the disabled person for filing a complaint to the Commissioner and the complaints committee, as specified in the law, or to file a claim in the courts.

2.4.1.4.2. On January 18, 2015, the Commissioner published a position paper concerning payments by financial institutions to license holders, whereby a review found that financial institutions generally pay license holders commissions that are derived from the management fees paid by members or insureds. The Commissioner's position is that payment of commissions in the aforementioned manner encourages license holders to offer customers products with higher management fees, and is therefore unacceptable. On March 30, 2015, the Commissioner published a clarification to this position according to which the payment of commissions in a manner that creates an in-built preference for the license holder's personal interest over the customer's interest in paying lower management fees, is a breach of the obligations that apply to management companies with respect to providing services for members and the financial institution's other duties, and that financial institutions and insurance agents must take immediate action to amend the contracts regulating payment of the commissions so that they are consistent with the provisions, and that no new contracts that are contrary to the provisions may be signed. Nevertheless, the Commissioner noted that this position is not intended to prevent a company from setting differential management fees up to the maximum set by law and that she does not intend to apply her enforcement powers against financial institutions and insurance agents in relation to existing customers and in relation to customers who were enrolled in the period immediately after publication of the Commissioner's position paper. The Company is reviewing the Commissioner's opinion and its possible ramifications, as well as ways of addressing this opinion.

2.4.2. Life assurance and long-term savings

2.4.2.1. Circulars

2.4.2.1.1. On April 28, 2015, a circular was published concerning disability allowance in a pension fund in the event of entitlement to an allowance from another source. According to the circular, management companies must inform members that they must submit a claim for an allowance from another source, if it becomes aware that the member has a disability on account of which he is entitled to an allowance from another source, and insofar as the member has not filed a claim for the allowance form another source, the allowance payable by the fund will be the higher of: (a) 25% of the effective income, multiplied by the percentage disability; (b) 100% of the effective income multiplied by the percentage disability minus the basis of the allowance to be offset (as defined in the circular), and all this provided that the amount of the disability allowance does not exceed the allowance to which the member is entitled were it not for the above provision. The circular becomes applicable on October 1, 2015.

2.4.2.1.2. On April 27, 2015, a circular was published concerning the way in which financial institutions collect management fees from the accrued balance which prescribes a standard method of calculating and reporting management fees from the accrued balance. The circular becomes applicable on January 1, 2016.

2.4.2.1.3. On April 14, 2015, a circular was published concerning reporting the rate of management fees in pension savings products to the Commissioner. The circular prescribes provisions for reporting to the Commissioner on the management fees collected from new customers, for the purpose of displaying them on the management fees calculator that the Ministry of Finance intends to publish. Furthermore, the circular prescribes that financial institutions shall not collect management fees from new customers at a rate which is higher than the reported management fees and the parameters for setting the reported management fees. The provisions of the circular apply from its date of publication.

2.4.2.1.4. On March 24, 2015, the Commissioner published a circular concerning enrollment in a pension fund or provident fund. The circular prescribes a standard text for a pension fund or provident fund application form, the content of the information that management companies must submit to enrolling members, and rules for transferring money from pension funds in which the member is not an active member, to the pension fund he wishes to join. The provisions of the circular will become applicable from January 1, 2016.

2.4.2.1.5. On March 18, 2015, a circular was published concerning a change in the sum insured in life assurance policies associated with mortgages. The circular prescribes that a transaction to refinance a mortgage will not be used as cause to cancel the continuity of insurance cover in a life assurance policy that was purchased for the purpose of a mortgage, and that policyholders will be allowed to continue the insurance cover with the same insurance company under the same conditions and without new underwriting. The circular take effect on its date of publication.

2.4.2.1.6. On February 19, 2015, a circular was published on the subject of reporting to the public on direct expenses that are deducted from savers accounts, which aims to align the provisions about reporting on direct expenses with the amendment passed in 2014 to the Supervision of Financial Services (Provident Funds) (Direct Expenses on account of Transactions Performed), 2008. The circular prescribes provisions, inter alia, concerning the structure and format of the report and the manner of reporting. The circular also stipulates that financial institutions must present this report for two years from the publication date of each report, where the first period to be presented according to this circular is the period ended December 31, 2014. The reports for previous periods will continue to be presented according to the current

circulars, and these circulars will be repealed on September 1, 2016. The provisions of the circular will apply to all financial institutions, excluding management companies with respect to individually managed provident funds that they manage, and excluding old funds and it takes effect on its date of publication.

2.4.2.1.7. On February 17, 2015, the Commissioner published a circular concerning provident fund investment tracks. The circular prescribes that in each of the provident funds that they manage, financial institutions will manage age-adjusted investment tracks (for members up to age 50, between age 50 and 60, and over the age of 60) in which the money of members who have not chosen any other investment track will be managed, as well as a special track for the members who are already receiving annuities. Likewise, provident funds may manage specialist investment tracks as specified in the circular. The circular also prescribes provisions concerning investment tracks in education funds and insurance policies that are not insurance funds; provisions to ensure that the name of the investment track corresponds with its investment policy, publication of a list of the investment tracks on the Capital Market, Insurance and Savings Division's website, and provisions concerning a change in the defined investment policy of an investment track, as well as provisions concerning a deviation from the defined investment policy. With respect to provident funds or life assurance policies that are not insurance funds, the circular will enter into force on January 1, 2016, and with respect to insurance policies that are insurance funds that were marketed before 2004, the circular will enter into force on January 1, 2017.

2.4.2.1.8. On January 5, 2015, the Commissioner published a circular concerning the transfer of money between provident funds. The circular prescribes amendments to an existing circular on this subject, including - an obligation to attach a photocopy of the member's identity card to a request to transfer money; notice of rejection must be submitted within five business days from the submittal date of the application and shall include all the reasons for the rejection; a request by an inactive member will expire within 60 days if the member's signature is not received; if transfer of the money is delayed, details of the amount of the accumulated balance and the yield must be submitted by the date of the actual transfer; an obligation to send notice of a request - by the recipient fund - if the transferring fund bears the difference between the recipient fund's yield and the transferring fund's yield, which is higher than the interest rate on arrears. The provisions of the circular became applicable on July 1, 2015

2.4.2.2. Draft circulars

2.4.2.2.1. On May 4, 2015, a draft circular was published concerning money deposited

by self-employed members that is not money deposited on account of income from work, in an individually managed provident fund (IRA). The draft circular stipulates that this money may be deposited in an IRA provided that it is not more than twice the amount of the minimum annuity multiplied by the capital conversion factor (as it is defined in the Income Tax Ordinance), subject to the conditions prescribed in the draft circular. If and when they are published as binding, the draft provisions will become applicable on August 1, 2015.

2.4.2.2.2. On April 20, 2015, a draft circular was published concerning guidelines for an insurance plan for work disability (P.H.I.). The draft circular prescribes that a P.H.I. plan will consist of a basic plan - regarding which the circular prescribes provisions pertaining to an insured event, policy period, waiting period, scope of the cover, insurance benefits, etc. Riders may be added to the basic plan, in line with the conditions and provisions prescribed in the draft circular, and which extend the basic cover. If and when they are published as binding, the provisions of the draft circular will become applicable on June 1, 2016 for personal lines or group P.H.I. plans that are marketed or renewed from the commencement date.

2.4.2.2.3. On April 1, 2015, a draft circular was published concerning the reporting of tariffs in life assurance plans to the Commissioner. The draft circular prescribes provisions for reporting the insurance tariffs to the Commissioner so that they can be published on the life assurance prices calculator that the Ministry of Finance intends to publish. The reported tariffs will be gross tariffs without an underwriting supplement and the parameters for reporting these tariffs were also prescribed

2.4.2.3. Instructions and clarifications

2.4.2.3.1. On March 29, 2015, the Commissioner published a document concerning temporary provisions relating money withdrawn from small accounts in provident funds. The document extends the validity of the Supervision of Financial Services (Provident Funds) (Withdrawal of Money from Provident Funds) (Accounts with a low accrued balance) (Temporary Order) Regulations, 2014, until June 30, 2015. These regulations allow pension money to be withdrawn from a provident fund member's account as a lump sum (lawful withdrawal without taxation) from small accounts (accounts in a fund in which no money was deposited from January 1, 2012 and thereafter, where no money was transferred to or from the account from January 1, 2013 and thereafter, and in which the balance on the day before January 1, 2013 was not more than NIS 7,000).

2.4.2.3.2. On March 8, 2015, a Commissioner's position paper was published concerning direct expenses relating to investment in a fund of funds. The position paper

stipulates that with respect to the total amount of direct expenses that financial institutions may collect for investments in a fund of funds as defined in the Supervision of Financial Services (Provident Funds) (Direct Expenses on account of Transactions Performed) (Amendment no. 2) Regulations, 2014, in addition to the restriction on the expenses arising from an investment in a fund of this kind, the restriction will also apply to the management fees paid by institutional investors, directly or indirectly, pro rata to their share in each of the secondary funds held by the fund of funds. The position paper takes effect on its date of publication.

2.4.3. Health insurance

2.4.3.1. Circulars

2.4.3.1.1. On April 1, 2015, the Commissioner published a circular on the drawing up of personal lines health insurance plans. The circular prescribes that all health insurance plans will be for a two-year period and will be renewed automatically every two years on June 1, without a review of a pre-existing medical condition and without a further qualifying period. Insureds must give their express consent to renew the insurance if, on the renewal date, the monthly premiums increase by more than NIS 10 or more than 20%, whichever is higher, or if the insurance cover is reduced in lieu of an increase in the premium. If, in such cases, no consent is given, the insurance for such insureds will be cancelled. If the policy is renewed without the insured's express consent, the insured may give notice within 60 days of the renewal date that the policy is cancelled, and the policy will be cancelled from the date of the renewal, provided that the insured has not filed a claim to exercise his rights under the policy on account of an insured event that took place during this period. Regarding changes that insurers are required to make in the policy at the time of the renewal - insurers are entitled not to make these changes provided that they do not continue to sell the policy to new policyholders. Any changes that insurers make in the policy will become applicable on the date of renewal for all existing policyholders. Insurers will inform existing policyholders of the option to move over to a personal lines policy in accordance with the provisions of the circular with continuity of insurance for the existing coverages in the policyholder's present policy. The provisions of the circular will become applicable from December 1, 2015.

2.4.3.1.2. On April 1, 2015, the Commissioner published a circular concerning the sale of insurance coverage in personal lines health insurance that is not conditional on any other purchase. The circular prescribes that insurers will allow basic insurance plans (cover for surgery or transplants and special treatment abroad or medications or critical illness) to be purchased independently of the purchase of any other plan (plans that insurers may introduce as riders to the

basic plan) or of any other basic plan, and they must also allow additional plans to be purchased, provided that a basic plan has been purchased, independently of the purchase of any additional plan or another basic plan. Furthermore, the circular prohibits conditioning the offering of a discount in a particular plan on the purchase or holding of another plan (except for joint pricing in advance of several plans), the circular prescribes an obligation to obtain the insured's documented consent separately for each plan that he intends to purchase, it prohibits cancellation of the discount when another plan is cancelled; and insurers will be obligated to allow cancellation of one of the plans at any time, without conditioning this on the cancellation of another plan purchased together with that plan (except if the basic plan or all the basic plans to which the rider was attached with respect to a particular insured, are cancelled). The provisions of the circular will become applicable from December 1, 2015.

2.4.3.1.3. On March 22, 2015, the Commissioner published an update to the circular concerning the drawing up of long-term care insurance plans (which was published on March 28, 2012), in which context the date for termination of group long-term care insurance plans was extended to December 31, 2015.

2.4.3.2. Instructions and clarifications

2.4.3.2.1. On January 25, 2015, the Superintendent published a position paper concerning the definition of an insured event in long-term care insurance. The position stipulates that the underlying purpose of the method of determining entitlement by way of a test of ADLs, is to examine whether or not the insured is capable of performing the acts of daily living without assistance. The circular on drawing up a long-term care insurance plan therefore prescribes a significant test which was also given a quantitative value ("at least 50% of the activity"), although the Commissioner's original intention was not that this 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 at least 50% of the activity. The Commissioner's position prescribes 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 intended interpretation above.

2.4.4. Non-life insurance

2.4.4.1. Provisions of law

2.4.4.1.1. On January 27, 2015, Supervision of Insurance Business (Conditions of a Contract to Insure Homes and their Content) (Amendment), Regulations, 2015,

were published which revise the standard policy for homeowners insurance. Among other things, the regulations stipulate that insurers will only be allowed to cancel a policy for the reasons prescribed in the regulations, and for no other reason whatsoever; that the principle of underinsurance will not apply to structural insurance (including an additional amount in an apartment building), and for insurance for the contents in respect of certain items prescribed in the policy and that it will apply to insurance for the rest of the contents, only if the sum insured is at least 15% less than the value of the contents when the policy was purchased; that the insured will be given an option to purchase an additional sum insured at a rate of at least 100% of the sum insured for the apartment if the apartment is in an apartment building, for loss resulting from earthquake under the conditions prescribed in the policy; that third-party liability cover may be purchased; provisions concerning linking the sums insured to the Building Inputs Index; and that insurers may not change the text of the clauses in the standard policy. The amendment takes effect six months from its date of publication and will apply to insurance contracts which enter into force on or after that date.

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.

Furthermore, on January 12, 2015, the Commissioner published an opinion paper and two circulars on the subject of the calculation of reserves in non-life insurance. The Commissioner's opinion paper sets out the principles underlying the assessment of the reserves in non-life insurance and provisions for setting the amount of the reserve for policies that were sold close to the balance sheet date and for risks after the balance sheet date. One of the

circulars, which replaces a previous circular on the same subject, prescribes changes to be made in the actuarial report. The second circular stipulates that from the financial statements for 2015, there will no longer be a requirement to calculate reserves for excess income over expenses in those lines of business specified in the circular.

2.4.5. Capital market and financial services

2.4.5.1. Draft regulations

On February 10, 2015, the ISA published draft Joint Investment Trust (ETFs) Regulations, 2015, for public comment. The intention was that ETFs would be regulated together with ETNs, as part of Amendment no. 21 to the Joint Investment Trust Law. But in view of the prolonged legislative process on the one hand, and the rapid growth of the ETN market and passive products on the other, the ISA decided to move ahead and allow faster transition of the existing notes to proper supervision under the Joint Investment Trust Law.

Under the proposed mechanism, the legal structure of ETNs will change from that of a bond to a mutual fund, while eliminating the ETN's undertaking to achieve the yields of the assets that it tracks. This is expected to reduce the capital requirements of the issuers of these products.

To limit the likelihood of an error in the tracking of the note relative to the index that it tracks, the ISA will allow ETN managers, if they so wish, to provide investors with a safety margin at a rate that is limited in such a way as to prevent the materialization of systemic risk in the capital market. This safety margin will be expressed in the possibility of collecting, in addition to the fixed management fees, floating management fees at a limited rate to be paid to the note manager from the surplus yield, over and above the change in the index that the note tracks, or to be paid by the ETN manager to its holders should the yield on the ETN fall short of the said rate. These tracking errors will be defined as the maximum positive or negative deviation of the value of the note relative to the index that it tracks over the course of one calendar year.

The effects of this move on the Group's financial results cannot be quantified at this stage. Furthermore, the Group is unable to estimate the date on which these regulations will enter into force.

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

2.5.1. Condensed data from the consolidated performance reports of Harel Investments (NIS thousand):

	For the three months ended March 31		change %	For year ended December 31
	2015	2014		2014
Life assurance and long-term savings segment				
Gross premiums earned	1,206,682	957,356	26	3,797,466
Income from management fees	336,298	248,718	35	848,059
Profit (loss) from life assurance business	(76,902)	60,066	-	(71,747)
Profit from provident fund management	11,832	10,880	9	54,670
Profit from pension fund management	17,678	15,740	12	67,877
Total profit (loss) from life assurance and long-term savings	(47,392)	86,686	-	50,800
Total comprehensive income (loss) from life assurance and long-term savings	(27,403)	143,409	-	163,760
Non-life insurance segment				
Gross premiums earned	763,170	775,531	(2)	3,205,322
Premiums earned on retention	443,204	438,111	1	1,772,233
Total profit from non-lie insurance	86,324	89,329	(3)	219,070
Comprehensive income from non-life insurance	130,839	147,108	(11)	286,796
Health insurance segment				
Gross premiums earned	955,353	844,887	13	3,571,159
Premiums earned on retention	903,069	794,016	14	3,354,979
Total profit (loss) from health insurance	(37,999)	35,108	-	101,019
Comprehensive income (loss) from health insurance	(19,489)	58,668	-	139,972
Insurance companies overseas segment				
Gross premiums earned	62,154	48,550	28	213,750
Premiums earned on retention	37,586	28,283	33	123,042
Total profit from insurance companies overseas	9,747	886	-	4,885
Total comprehensive loss from insurance companies overseas	1,388	2,441	(43)	4,807
Capital market and financial services segment				
Revenues from capital market and financial services	81,108	69,734	16	304,234
Total expenses from capital market and financial services	58,247	58,905	(1)	240,341
Total profit from capital market and financial services	22,863	10,851	111	63,902
Total comprehensive profit from capital market and financial services	22,964	10,851	112	63,992

	For the three months ended March 31		change %	For year ended December 31
	2015	2014		2014
Items not included in operating segments				
Net profit from investments and financing income	67,117	54,979	22	241,989
Income from commissions	33,232	23,507	41	123,675
General & administrative expenses not charged to reports for operating segments	39,355	34,071	16	148,098
Financing expenses (income)	(1,570)	12,268	-	106,997
Pre-tax profit (loss)	102,004	257,973	(60)	568,929
Net profit (loss) for the period	75,874	166,320	(54)	374,231
Other comprehensive profit for the period	79,069	114,868	(31)	158,910
Total comprehensive profit for the period	154,943	281,188	(45)	533,141
Net profit for the period attributed to the Company's shareholders	75,938	165,963	(54)	373,907
Net profit (loss) attributed to non-controlling interests	(64)	357	-	324
Return on equity in terms of annual comprehensive income in percent	12%	22%	(45)	11%

Condensed data from the consolidated balance sheets of Harel Investments (NIS million):

	For the three months ended March 31		change %	For year ended December 31
	2015	2014		2014
Total balance sheet	92,983	82,022	13.4	89,253
Assets for yield-dependent contracts	38,517	33,057	16.5	36,526
Other financial investments	21,603	21,106	2.4	21,492
Intangible assets	1,586	1,606	(1.2)	1,589
Reinsurance assets	5,482	5,486	(0.1)	5,497
Insurance liabilities (insurance reserves and outastanding claims) in life assurance				
For yield-dependent investment contracts and insurance contracts	34,266	29,355	16.7	32,324
For insurance contracts that are not yield dependent	11,448	10,963	4.4	11,246
In non-life insurance	10,282	10,397	(1.1)	10,003
In health insurance (yield dependent and non-yield dependent)	7,262	6,193	17.3	6,933
(Insurance companies overseas segment (yield dependent and non-yield dependent	253	235	7.6	263
Adjustments and Offsets	(5)	(8)	(27.2)	(6)
Total insurance liabilities	63,505	57,136	11.1	60,763
Equity attributedt to holders of the Company's equity	4,876	4,678	4.2	4,718

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

	For the three months ended March 31		change %	For year ended December 31
	2015	2014		2014
For yield dependent invetsment contracts and insurance contracts	38,517	33,057	16.5	36,526
For members of provident funds and pension funds *	63,552	54,920	15.7	60,466
For mutual fund customers *	33,045	34,504	(4.2)	33,650
For customers portfolios *	8,935	8,621	3.6	8,917
Index linked certificates (ETFs)	16,360	13,173	24.2	15,298
Total assets under management for the Group's policyholders and members	160,410	144,275	11.2	154,857

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

2.6. Additional figures regarding outcomes of activity

The total amount of the premium earned from insurance business during the Reporting Period amounted to NIS 2.99 billion compared with NIS 2.62 billion during the corresponding period last year, an increase of 14% compared with the corresponding period last year.

Comprehensive income, which consists of income 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, decreased by 45% to NIS 155 million in the Reporting Period, compared with NIS 281 million for the corresponding period last year. The decline in comprehensive income can be attributed mainly to the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities, as a result of which the Group's insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities increased by NIS 289 million before tax and NIS 181 million after tax (for additional information see Note 11(1) to the Financial Statements). These factors were partially offset by yields in the capital market which were higher during the Reporting Period than those of the corresponding quarter last year and by the variable management fees collected during the Reporting Period that were higher than those collected during the corresponding period last year.

Net profit for the reporting period was NIS 76 million, compared with NIS 166 million in the corresponding period last year.

The pre-tax loss in the Reporting Period amounted to NIS 102 million compared to pre-tax profit of NIS 258 million in the corresponding period last year.

During the Reporting Period income from investments, net, and financing income amounted to NIS 1,640 million, compared with profits of NIS 1,019 million during the corresponding period last year.

Due to the negative rate of inflation in the Reporting Period, the Company recorded financing income that was not attributed to the operating segments and amounted to NIS 2 million, compared with financing expenses of NIS 12 million in the corresponding period last year.

The Company's equity at March 31, 2015, relating to the Company's shareholders, amounts to NIS 4,876 million, compared with equity of NIS 4,718 million at December 31, 2014. The change in equity is attributable to: (a) comprehensive income of NIS 155 million attributed to the Company's shareholders; and (b) insignificant amounts in respect of a translation fund for foreign operations, a capital reserve for the issuance of employee stock options and the holding of Company shares by a subsidiary that manages ETNs.

For information about the regulatory capital required of the group's insurance companies and from the provident fund and pension fund management companies, based on the Commissioner's circulars and regulations, including information about the effect of the entering into force of the Supervision of Financial Services (Minimum Capital Required of a Provident Fund or Pension Fund Management Company) Regulations, 2012, see Note 7 to the Financial Statements.

2.7. Life assurance and Long-term savings

The comprehensive loss in life assurance and long-term savings was NIS 27 million in the Reporting Period, compared with NIS 143 million in the corresponding period last year. The shift from comprehensive income to comprehensive loss is attributable mainly to the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities, as a result of which the Group's insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities increased by NIS 222 million before tax compared with an increase in insurance liabilities of about NIS 21 million before tax in the corresponding period last year (for additional information see Note 11(1) to the Financial Statements). This was partially offset by yields in the capital market which were higher during the Reporting Period than those of the corresponding quarter last year and by the variable management fees of NIS 152 million collected during the Reporting Period compared with the variable management fees collected in the corresponding period last year in the amount of NIS 83 million.

The pre-tax loss in the life assurance and long term savings segment during the Reporting Period amounted to NIS 47 million compared to pre-tax profit of NIS 87 million in the corresponding period last year.

Life assurance

2.7.1. Total premiums earned during the Reporting Period increased by 26% to NIS 1,207 million, compared with NIS 957 million in the corresponding period last year. Premiums earned during the Reporting Period accounted for 40% of the total premiums earned by the Group during the Reporting Period.

During the Reporting Period, single premiums were recorded in the amount of NIS 216 million which were received for early retirement arrangements drawn up with a large employer (for additional information see Note 11(1) to the Financial Statements).

The comprehensive loss in life assurance was NIS 60 million in the Reporting Period, compared with comprehensive income of NIS 115 million for the corresponding period last year. The shift from comprehensive income to comprehensive loss is mainly due to the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities, as a result of which the Group's insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities increased by NIS 222 million before tax compared with an increase in insurance liabilities of about NIS 21 million before tax in the corresponding period last year (for additional information see Note 11(1) to the Financial Statements). These factors were partially offset by yields in the capital market which were higher during the Reporting Period than those of the corresponding quarter last year and by the variable management fees of NIS 152 million collected during the Reporting Period compared with the variable management fees collected in the corresponding period last year in the amount of NIS 83 million.

The pre-tax loss in life assurance during the Reporting Period amounted to NIS 77 million compared with pre-tax profit of NIS 60 million during the corresponding period last year.

Income from investments held against insurance obligations in life assurance totaled NIS 1,404 million for the Reporting Period, compared with investment income of NIS 856 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 financial margin achieved was higher than the financial margin for the corresponding period last year, due mainly to capital market yields that were higher than those of the corresponding quarter last year and negative inflation which was higher in the Reporting Period compared with the corresponding period last year.

During the Reporting Period redemptions amounted to NIS 264 million and accounted for 2.7% of the average reserve in life assurance, compared to redemptions in the amount of NIS 227 million during the corresponding period last year that accounted for 2.5% of the average reserve last year.

The total amount of life assurance reserves at March 31, 2015, was approximately NIS 46 billion.

Yield-dependent policies:

	Policies issued from 1991-2003	
	1-3.2015 (in percent)	1-3.2014 (in percent)
Real yield before payment of management fees	5.95	3.48
Real yield after payment of management fees	4.96	2.85
Nominal yield before payment of management fees	4.26	2.77
Nominal yield after payment of management fees	3.29	2.14

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

	Policies issued from 2004	
	1-3.2015 (in percent)	1-3.2014 (in percent)
Real yield before payment of management fees	5.93	3.43
Real yield after payment of management fees	5.63	3.13
Nominal yield before payment of management fees	4.23	2.72
Nominal yield after payment of management fees	3.95	2.43

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

	1-3.2015	1-3.2014
Profits (losses) after management fee	1,097	613
Total management fees	218	139

Pension funds

2.7.2. The number of members in the pension funds managed by the Group at March 31, 2015, is 912,000 members, of which 460,000 are active members, a 1% increase in the number of active members compared with December 31, 2014.

The volume of assets managed by the pension funds at March 31, 2015, increased by 25% to NIS 34 billion, compared with NIS 27 billion at March 31, 2014, and NIS 31 billion at December 31, 2014, which is an increase of 7% relative to the previous year. The increase in comparison to the previous year can be attributed to an increase in the amounts of provisions of members and the yield achieved during the Reporting Period.

Contribution fees that were collected by the Group's pension funds during the Reporting Period increased by 14% to NIS 1,236 million, compared with NIS 1,087 million on the corresponding period last year.

The total amount of the assets managed by the pension funds and the contribution fees deposited therein are not included in the Company's consolidated financial statements.

Total income from management fees collected by the pension funds and managed by the Group during the Reporting Period increased by 11% to NIS 63 million, compared with NIS 57 million in the corresponding period last year.

Expenses in connection with management of the pension funds amounted to NIS 45 million, compared with NIS 42 million in the corresponding quarter last year.

Total comprehensive income from the management of pension funds and operation of an old pension fund during the Reporting Period amounted to NIS 19 million, compared with NIS 17 million in the corresponding period 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 18 million, compared with NIS 16 million in the corresponding period last year.

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

For the three months ended March 31, 2015	
Fund name	**Investment yield (in percent)**
Harel Gilad Pension	3.75
Harel - Manof	3.88

Provident funds

2.7.3. At the report date, the Group manages 10 provident funds (provident funds, education funds, central and personal severance pay funds, a provident fund for sick pay and budgetary pension fund). Some of the provident funds have several investments tracks which members can choose from. At March 31, 2015, the Group operates 34 tracks in its provident funds.

The volume of assets in the provident funds managed by the Group at March 31, 2015, amounted to NIS 29.8 billion, compared with NIS 28 billion at March 31, 2014, and NIS 29 billion at December 31, 2014. This represents an increase of 6.6% compared to March 31, 2014, and an increase of 2.8% compared to December 31, 2014. The increase is due mainly to the yields obtained in the capital market .

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

Income from management fees collected by the provident funds managed by the Group during the Reporting Period increased by 5% to NIS 55 million, compared with NIS 52 million for the corresponding period last year. The increase in management fees is mainly due to an increase in the average assets during the Reporting Period. This effect was partially offset by an erosion of the rate of management fees.

The provident funds had expenses amounting to NIS 42 million, similar to the corresponding period last year.

Total comprehensive income before tax of the provident fund management companies, which is included in the consolidated statement of income in the life assurance and long-term savings segment, was NIS 13 million in the Reporting Period, compared with NIS 11 million in 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, was NIS 12 million, compared with NIS 11 million in corresponding period last year.

Net accrual (excluding investment profit) in the provident funds in the Reporting Period was negative and amounted to NIS -148 million, compared with positive accrual of NIS 217 million in the corresponding period last year.

2.8. Health Insurance

Premiums earned **i**n the health insurance segment increased by 13% to NIS 955 million for the Reporting Period, compared with NIS 845 million for the corresponding period last year. Total premiums earned in the health insurance segment during the Reporting Period, accounted for 32% of all premiums earned by the Group.

The comprehensive loss in the health insurance segment was NIS 19 million in the Reporting Period,

compared with comprehensive income of NIS 59 million for the corresponding period last year. The shift from comprehensive income to comprehensive loss is mainly due to the ongoing decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities, as a result of which the Group's insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the insurance liabilities increased by NIS 61 million before tax (for additional information see Note 11(1) to the Financial Statements) and due to the continuing erosion in the results of activity in group health policies, stemming from an increase in the percentage of claims. These factors were partially offset by yields in the capital market which were higher during the Reporting Period than those of the corresponding quarter last year and by higher negative inflation in the Reporting Period compared with the corresponding period last year.

The pre-tax loss in the health insurance segment was NIS 38 million in the Reporting Period, compared with pre-tax profit of NIS 35 million for the corresponding period last year

Total payments and the change in gross liabilities in respect of insurance contracts in the health insurance segment during the Reporting Period increased by 25% to NIS 876 million, compared with NIS 702 million in the corresponding period last year. Most of the change is due to an increase in the insurance liabilities on account of a decline in the discounting interest rate, as noted above, and an increase in investment profits credited to a group long-term care policy in which most of the risk is imposed on the actual plan, in the amount of NIS 66 million in the Reporting Period, compared with NIS 45 million in the corresponding period last year.

2.9. Non-life insurance

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

	Gross premiums			
	1-3.2015	1-3.2014	% change	2014
Compulsory motor	228,418	204,347	11.8	454,232
Motor property	362,941	462,679	(21.6)	922,601
Property & other branches	231,945	248,347	(6.6)	981,463
Other liabilities branches	276,129	254,952	8.3	787,051
Credit & mortgage insurance*	(7,205)	(5,674)	27.0	(23,718)
Total	1,092,228	1,164,651	(6.2)	3,121,629

*Net of settlements

	Pre-tax profit			
	1-3.2015	1-3.2014	% change	2014
Compulsory motor	64,933	61,464	5.6	128,754
Motor property	11,520	16,359	(29.6)	34,184
Property & other branches	11,614	13,509	(14.0)	47,213
Other liabilities branches	10,586	29,139	(63.7)	12,417
Credit & mortgage insurance	32,186	26,637	20.8	64,228
Total	130,839	147,108	(11.1)	286,796

Gross premiums during the Reporting Period amounted to NIS 1,092 million, compared with NIS 1,165 million in the corresponding period last year, a decline of 6%. The decrease in gross premiums during the Reporting Period is attributable mainly to the decline in Harel Insurance's share of the insurance of state employees' motor vehicles during the Reporting Period relative to the corresponding period last year (see Section 2.9.1 below).

Premiums in retention during the Reporting Period amounted to NIS 742 million, compared with NIS 725 million in the corresponding period last year, an increase of 2%.

Comprehensive income in non-life insurance during the Reporting Period amounted to NIS 131 million, compared with comprehensive income of NIS 147 million in the corresponding period last year. The decline in comprehensive income in the Reporting Period is attributable mainly to an increase in the insurance liabilities in the liabilities sectors due to the effect of the increase in the dollar exchange rate, the revised discounting interest rate used to calculate some of the insurance liabilities (for additional information see Note 11(1) to the Financial Statements), and the effect of winter damage during the Reporting Period. These factors were partially offset by yields in the capital market which were higher during the Reporting Period than those of the corresponding quarter last year and by higher negative inflation in the Reporting Period compared with the corresponding period last year.

Pre-tax profit in non-life insurance during the Reporting Period amounted to NIS 86 million compared with NIS 89 million in the corresponding period last year, a decrease of 3%.

2.9.1. Motor property

Gross premiums in motor property insurance amounted to NIS 363 million in the Reporting Period, compared with gross premiums of NIS 463 million in the corresponding period last year, a decrease of 22%. This decrease is attributable mainly to the reduction 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.

During the Reporting Period, premiums in retention amounted to NIS 324 million compared with NIS 365 million in the corresponding period last year, a decrease of 11%.

Comprehensive income in motor property insurance in the Reporting Period amounted to NIS 12 million, compared with comprehensive income of about NIS 16 million in the corresponding period last year. The decrease in comprehensive income stems mostly from the effect of winter-related losses during the Reporting Period..

Pre-tax profit in motor property insurance in the Reporting Period amounted to NIS 8 million compared with pre-tax profit of about NIS 11 million in the corresponding period last year.

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

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

2.9.2. Compulsory motor

During the Reporting Period, gross premiums in compulsory motor insurance amounted to NIS 228 million, compared with gross premiums of NIS 204 million in the corresponding period last year.

For compulsory motor insurance for vehicles owned by state employees, see Section 02.9.1 above on motor property insurance.

During the Reporting Period, premiums in retention amounted to NIS 205 million compared with NIS 163 million in the corresponding period last year.

Comprehensive income in compulsory motor insurance was NIS 65 million in the Reporting Period compared with NIS 61 million in the corresponding period last year.

Pre-tax profit in compulsory motor insurance was NIS 49 million in the Reporting Period, compared with NIS 38 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 a letter from the CEO, the temporary share of Harel Insurance in the Pool's premiums for 2015 was set at 10.1% (compared with 9.8% which was the Company's share in 2014).

2.9.3. Liabilities and other branches

During the Reporting Period gross premiums in liabilities insurance and others amounted to NIS 276 million, compared with NIS 255 million in the corresponding period last year.

Premiums in retention in the Reporting Period increased by 19% to NIS 158 million, compared with NIS 134 million in the corresponding period last year.

Comprehensive income in other liabilities insurance in the Reporting Period was NIS 11 million in the Reporting Period, compared with NIS 29 million for the corresponding period last year. This decline can be attributed to the revised discounting interest rate, due to falling interest rates, in the amount of NIS 6 million before tax, and further devaluation of the shekel against the dollar.

The pre-tax loss in others liabilities insurance in the Reporting Period was NIS 4 million, compared with NIS 10 million in the corresponding period last year.

2.9.4. Property and other branches

Premiums in property and other branches amounted to NIS 232 million in the Reporting Period compared with NIS 248 million in the corresponding period last year, a decrease of 7%.

Premiums in retention amounted to NIS 62 million in the Reporting Period compared with NIS 69 million in the corresponding period last year, a decrease of 10%.

Comprehensive income in property and other branches amounted to NIS 12 million in the Reporting Period, compared with NIS 14 million in the corresponding quarter last year.

Pre-tax profit in property and other insurance amounted to NIS 10 million in the Reporting Period, compared with NIS 12 million in the corresponding period last year.

2.9.5. Mortgage credit insurance

Premiums earned in retention in credit insurance for residential mortgages amounted to NIS 14 million in the Reporting Period, similar to the corresponding period last year.

EMI does not have reinsurance agreements in this branch.

Comprehensive income in mortgage credit insurance amounted to NIS 32 million in the Reporting Period compared with NIS 27 million in the corresponding period last year. This increase is mostly attributable to the influence of the capital market during the Reporting Period in which yields were higher than those in the corresponding period last year and to the higher negative inflation during the Reporting Period compared with the corresponding period last year.

Pre-tax profit in mortgage credit insurance amounted to NIS 23 million in the Reporting Period compared with NIS 19 million in the corresponding period last year.

2.10. Insurance companies overseas

The Company holds the controlling share (94.5% stake) of Interasco Societe Anonyme General Insurance Company S.A.G.I ("Interasco"), an insurance company operating in Greece in the health and non-life insurance sectors, and holds full control of Turk Nippon which operates in Turkey.

Total premiums earned in the insurance companies overseas segment were NIS 62 million in the Reporting Period, compared with NIS 49 million in the corresponding period last year, an increase of 28%. Total premiums earned by the insurance companies overseas segment in the Reporting Period account for 2% of all premiums earned by the Group.

Comprehensive income for the insurance companies in the overseas operating segment was about NIS 1 million in the Reporting Period, compared with NIS 2 million in the corresponding quarter last year.

The insurance companies in the overseas operating segment posted pre-tax profit of NIS 10 million in the Reporting Period, compared with NIS 1 million in the corresponding quarter last year.

2.11. Capital market and financial services

Revenues in the capital market and financial services sector increased by 16% to NIS 81 million in the Reporting Period, compared with NIS 70 million in the corresponding period last year. This increase in revenues during the Reporting Period compared with the corresponding period last year can be attributed mainly to the further expansion of activity in ETNs and deposit certificates.

The volume of assets under management in the capital market and financial services segment at March 31, 2015, was NIS 58.3 billion, compared with NIS 56.3 billion at March 31, 2014, and similar to the volume of managed assets at December 31, 2014.

These amounts include mutual fund assets in the amount of NIS 33.0 billion at March 31, 2015, compared with NIS 34.5 billion at March 31, 2014 and NIS 33.7 billion at December 31, 2014, as well as ETN assets, which at March 31, 2015 amounted to NIS 16.4 billion against NIS 13.2 billion at March 31, 2014 and NIS 15.3 billion at December 31, 2014. The assets under management, excluding the assets of the ETN Company, are not included in the Company's consolidated balance sheets.

During the Reporting Period, the capital market and financial services sector recorded pre-tax profit of NIS 23 million, compared with pre-tax profit of NIS 11 million in the corresponding period last year. The increased profit is mainly the result of further growth of activity in ETNs and deposit certificates.

2.12. Income tax

Income tax during the Reporting Period amounted to an expense of about NIS 26 million, compared with tax expenses of NIS 92 million in the corresponding period last year.

2.13. Liquidity and sources of finance

2.13.1. Cash flows

Net cash flows used for current operations amounted to NIS 548 million in the Reporting Period. Net cash flows used for investment activity amounted to NIS 214 million. Net cash flows provided by financing activity and foreign exchange fluctuations amounted to NIS 696 million. The outcome of all the aforementioned activity is reflected in a decrease of the cash balances in the amount of NIS 66 million.

2.13.2. Financing of operations

The Company and its subsidiaries generally finance their on-going operations from their own sources. 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-1 capital, hybrid tier-2 capital, and hybrid tier-3 capital.

Concerning the issuance of Series 9-10 bonds of Harel Share Issues by way of an exchange purchase offer, see Note 8(C)(4) to the Financial Statements.

3. Market risks - exposure and management

During the Reporting Period, there were no material changes in the Company’s exposure to and management of market risks compared with the Periodic Report.

4. Corporate governance

4.1. 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, 2010, prescribe 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 must 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 members of the Committee for the review of the financial statements are:

- David Granot, Chairman (External Director).
- Prof. Israel Gilad (External Director).
- Hava Friedman Shapira (External Director)
- Doron Cohen.

4.1.1. 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.

4.1.2. For information about the members of the Committee for the Review of the Financial Statements, see Regulation 26 in Chapter 5 – "Additional Information" in the Periodic Report.

4.1.3. Procedure for approval of the financial statements:

To approve the financial statements at March 31, 2015, the Committee convened on May 17, 2015.

In addition, the Company's CPA are invited to and attend meeting of the Committee and Board of Directors' meeting that discuss and approve the financial statements, and they present the principal findings, if there are such, that emerged during the course of the audit or the review. The meeting was also attended by the Company's CFO, Ronen Agassi CPA, and the Company's Corporate Counsel, Adv. Nataly Mishan-Zakai. A meeting of the Committee held on May 17, 2015 was attended by the Company's CPA, Deborah Weisel and the internal auditor was also invited to the meeting.

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

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

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

The Committee is also advised of the results of the SOX procedure implemented by the Company and its subsidiaries that are financial institutions, and it reviews the effectiveness of the internal control. The Committee also received the draft EV report. To formulate its recommendations to the Board of Directors, the draft financial statements are submitted to the members of the Committee several days before the meeting scheduled to discuss them. The Committee meets prior to the Board of Directors' meeting which discusses and approves the Financial Statements. The Committee's recommendations are submitted to the Board of Directors as soon as the Committee's meeting is over.

At a meeting of the Committee held on May 17, 2015, 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 May 20, 2015, the CFO and CEOs advised the Board of Directors as to the Committee's recommendations, the main points of the attached consolidated financial statements according to the different operating segments, and the significant relevant 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**

May 20, 2015

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at March 31, 2015

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

Introduction

We reviewed the attached financial information of Harel Investments in Insurance and Financial Services Ltd. and its subsidiaries (hereinafter: "the Group") which include the condensed consolidated interim statement of financial position as at March 31, 2015 and the condensed consolidated interim statements of income, comprehensive income, changes in capital and cash flows for the three months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with international accounting standard IAS 34 "Financial reporting for interim periods", and they are also responsible for the preparation of financial information for this interim period under Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, to the extent that these regulations apply to companies that consolidate insurance companies and subject to the disclosure requirements issued by the Commissioner of Insurance in accordance with Supervision of Financial Services (Insurance) Law, 1981. Our responsibility is to express a conclusion on the financial information for this interim period, based on our review.

We did not review the condensed financial information for the interim period of consolidated companies whose assets included in the consolidation comprise 19.36% of all the consolidated assets as at March 31, 2015 and whose revenues included in the consolidation comprise 2.14% of all the consolidated revenues for the three-month period ended on that date. The condensed financial information for the interim period of those companies was reviewed by other auditors whose review reports were furnished to us and our conclusions, to the extent that they relate to financial information for those companies, are based on the review reports of the other auditors.

Scope of the review

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

Conclusion

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

In addition to the remark in the previous paragraph, based on our review and on the review reports of the other auditors, nothing came to our attention that might cause us to believe that the above financial information does not meet, from all significant respects, the provisions of the Pronouncement under Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, to the extent that these regulations apply to a corporation that consolidates insurance companies and subject to the disclosure requirements issued by the Commissioner of Insurance pursuant Supervision of Financial Services (Insurance) Law, 1981.

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

Somekh Chaikin
Certified Public Accountants (Isr)

May 20, 2015

KPMG Somekh Chaikin , a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Condensed consolidated interim statements of financial position at

	March 31		December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Assets			
Intangible assets	**1,586,037**	1,605,530	1,589,254
Deferred tax assets	**8,745**	10,697	8,102
Deferred Acquisition Costs	**1,907,769**	1,712,786	1,810,432
Fixed assets	**909,932**	685,966	860,526
Investments in equity accounted investees	**1,452,883**	944,190	1,196,617
Investment property for yield-dependent policies	**1,332,111**	1,144,950	1,331,182
Other investment property	**1,508,143**	1,529,460	1,493,299
Reinsurance assets	**5,481,625**	5,486,158	5,497,249
Current tax assets	**98,898**	23,701	84,627
Trade and other receivables	**828,036**	466,240	779,735
Premium due	**1,240,193**	1,295,232	1,203,543
Financial investments for yield-dependent policies	**35,569,565**	30,566,752	33,640,040
Financial investments for holders of ETNs	**10,565,572**	11,083,813	11,241,144
Other financial investments			
Marketable debt assets	**8,354,061**	8,819,815	8,583,238
Non-marketable debt assets	**10,216,094**	9,672,936	9,957,991
Shares	**724,628**	613,616	673,907
Other	**2,308,043**	1,999,329	2,277,047
Total other financial investments	**21,602,826**	21,105,696	21,492,183
Cash and cash equivalents pledged for holders of ETNs	**6,357,459**	2,178,474	4,426,087
Cash and cash equivalents for yield-dependent contracts	**1,187,167**	844,950	1,153,223
Other cash and cash equivalents	**1,345,717**	1,337,239	1,445,313
Total assets	**92,982,678**	82,021,834	89,252,556
Total assets for yield-dependent policies	**38,517,450**	33,057,366	36,525,679

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

Condensed consolidated interim statements of financial position at

	March 31		December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Equity and liabilities			
Equity			
Share capital and share premium	**336,578**	317,053	338,849
Treasury shares	**(168,277)**	(167,618)	(173,231)
Capital reserves	**537,986**	432,171	451,871
Retained earnings	**4,169,387**	4,096,338	4,100,371
Total equity attributed to shareholders of the Company	**4,875,674**	4,677,944	4,717,860
Non-controlling interests	**5,770**	5,863	5,721
Total equity	**4,881,444**	4,683,807	4,723,581
Liabilities			
Liabilities for non yield-dependent insurance policies and investment contracts	**25,691,494**	24,682,583	25,047,665
Liabilities for insurance contracts and yield-dependent investment contracts	**37,813,810**	32,453,110	35,715,364
Deferred tax liabilities	**830,956**	702,307	766,602
Liability for employee benefits, net	**277,455**	273,255	261,587
Current tax liability	**34,181**	58,683	30,624
Trade and other payables	**2,840,576**	2,828,819	2,939,887
Liabilities for ETNs and covered warrants	**16,353,182**	13,173,113	15,291,480
Financial liabilities	**4,259,580**	3,166,157	4,475,766
Total liabilities	**88,101,234**	77,338,027	84,528,975
Total equity and liabilities	**92,982,678**	82,021,834	89,252,556

Yair Hamburger	Michel Siboni	Shimon Elkabetz	Ronen Agassi
Chairman of the Board of Directors	Co-CEO	Co-CEO	VP Finance (CFO)

Date of approval of the financial statements: May 20, 2015

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

Condensed consolidated interim statements of income

	For the three-month period ended March 31		For year ended December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	**2,985,550**	2,624,477	10,780,677
Premiums earned by reinsurers	**430,813**	441,177	1,858,185
Earned premiums in retention	**2,554,737**	2,183,300	8,922,492
Profit from investments, net, and financing income	**1,640,417**	1,019,498	2,721,618
Income from management fees	**399,065**	312,705	1,109,688
Income from commissions	**89,745**	103,842	426,819
Total income	**4,683,964**	3,619,345	13,180,617
Payments and changes in liabilities for insurance policies and investment contracts, gross	**4,157,483**	2,949,193	11,032,853
Reinsurers' share of payments and change in liabilities for insurance policies	**323,452**	303,269	1,424,334
Payments and changes in liabilities for insurance policies and investment contracts in retention	**3,834,031**	2,645,924	9,608,519
Commissions, marketing expenses and other purchasing expenses	**474,483**	460,213	1,902,040
General and administrative expenses	**282,614**	262,508	1,064,611
Other expenses	**13,194**	14,974	61,387
Financing expenses, net	**701**	14,041	159,786
Total expenses	**4,605,023**	3,397,660	12,796,343
Company's share of profits of equity accounted investees	**23,063**	36,288	184,655
Profit before taxes on income	**102,004**	257,973	568,929
Taxes on income	**26,130**	91,653	194,698
Profit for period	**75,874**	166,320	374,231
Attributed to:			
Shareholders of the Company	**75,938**	165,963	373,907
Non-controlling interests	**(64)**	357	324
Profit for period	**75,874**	166,320	374,231
Basic earnings per share (NIS)	**0.36**	0.80	1.78
Diluted earnings per share (NIS)	**0.36**	0.80	1.76

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

Condensed consolidated interim statements of income

	For the three-month period ended March 31		For year ended December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Profit for period	**75,874**	166,320	374,231
Other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss			
Net change in fair value of financial assets classified as available-for-sale	**290,009**	207,227	370,761
Net change in fair value of financial assets classified as available-for-sale carried over to income statement	**(100,023)**	(33,796)	(185,029)
Loss from impairment of available-for-sale financial assets carried over to income statement	**350**	3,184	11,751
Foreign currency translation differences for foreign activity	**(38,318)**	5,705	37,383
Taxes on income for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss	**(66,028)**	(67,072)	(85,008)
Total other comprehensive income for the period that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax	**85,990**	115,248	149,858
Other items of comprehensive income that will not be transferred to profit or loss			
Remeasurement of a defined benefit plan	**(10,957)**	(480)	15,160
Taxes on income for other items of comprehensive income that will not be transferred to profit or loss	**4,036**	100	(6,108)
Other comprehensive income (loss) for the period that will not be transferred to profit or loss, net of tax	**(6,921)**	(380)	9,052
Total other comprehensive income for the period	**79,069**	114,868	158,910
Total comprehensive income for the period	**154,943**	281,188	533,141
Attributed to:			
Shareholders of the Company	**154,894**	280,728	532,823
Non-controlling interests	**49**	460	318
Total income for the period	**154,943**	281,188	533,141

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

Condensed consolidated interim statements of changes in equity

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three-month period ended March 31, 2015 (unaudited)											
Balance as at January 1, 2015	338,849	437,951	3,475	20,040	(173,231)	(48,908)	39,313	4,100,371	4,717,860	5,721	4,723,581
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	-	75,938	75,938	(64)	75,874
Total other comprehensive income (loss)	-	115,285	(29,407)	-	-	-	-	(6,922)	78,956	113	79,069
Total comprehensive income for the period	-	115,285	(29,407)	-	-	-	-	69,016	154,894	49	154,943
Transactions with shareholders recognized directly in equity											
Share-based payment	-	-	-	356	-	-	-	-	356	-	356
Purchase of Treasury shares	-	-	-	-	(4,665)	-	-	-	(4,665)	-	(4,665)
Re-issuance of Treasury shares	(2,390)	-	-	-	9,619	-	-	-	7,229	-	7,229
Exercising of options	119	-	-	(119)	-	-	-	-	-	-	-
Balance as at March 31, 2015	336,578	553,236	(25,932)	20,277	(168,277)	(48,908)	39,313	4,169,387	4,875,674	5,770	4,881,444

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

Condensed consolidated interim statements of changes in equity

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the three-month period ended March 31, 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
Total comprehensive income (loss) for period											
Profit for the period	-	-	-	-	-	-	-	165,963	165,963	357	166,320
Total other comprehensive income (loss)	-	111,105	4,040	-	-	-	-	(380)	114,765	103	114,868
Total comprehensive income for the period	-	111,105	4,040	-	-	-	-	165,583	280,728	460	281,188
Transactions with shareholders recognized directly in equity											
Declared dividend	-	-	-	-	-	-	-	(106,338)	(106,338)	-	(106,338)
Share-based payment	-	-	-	887	-	-	-	-	887	-	887
Purchase of Treasury shares	-	-	-	-	(6,920)	-	-	-	(6,920)	-	(6,920)
Re-issuance of Treasury shares	458	-	-	-	2,760	-	-	-	3,218	-	3,218
Balance as at March 31, 2014	317,053	424,742	(18,035)	35,059	(167,618)	(48,908)	39,313	4,096,338	4,677,944	5,863	4,683,807

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

Condensed consolidated interim statements of changes in equity

	Attributed to shareholders of the Company										
	Share capital and premium	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for share-based payment	Treasury shares	Capital reserve for transactions with non-controlling interests	Capital reserve for revaluation of fixed assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
For the year ended December 31, 2014 (audited)											
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
Total comprehensive income (loss) for year											
Profit for the period	-	-	-	-	-	-	-	373,907	373,907	324	374,231
Total other comprehensive income (loss)	-	124,314	25,550	-	-	-	-	9,052	158,916	(6)	158,910
Total comprehensive income for year	-	124,314	25,550	-	-	-	-	382,959	532,823	318	533,141
Transactions with shareholders recognized directly in equity											
Dividend paid	-	-	-	-	-	-	-	(319,681)	(319,681)	-	(319,681)
Share-based payment	-	-	-	2,401	-	-	-	-	2,401	-	2,401
Purchase of Treasury shares	-	-	-	-	(19,243)	-	-	-	(19,243)	-	(19,243)
Re-issuance of Treasury shares	5,721	-	-	-	9,470	-	-	-	15,191	-	15,191
Exercising of options	16,533	-	-	(16,533)	-	-	-	-	-	-	-
Balance as at December 31, 2014	338,849	437,951	3,475	20,040	(173,231)	(48,908)	39,313	4,100,371	4,717,860	5,721	4,723,581

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

Condensed consolidated interim statements of cash flows

	Appendix	For the three-month period ended March 31		For year ended December 31
		2015	2014	2014
		(Unaudited)	(Unaudited)	(Audited)
		NIS thousand	NIS thousand	NIS thousand
Cash flows from operating activities				
Before taxes on income	A	**(493,922)**	(1,087,424)	(2,276,722)
Income tax paid		**(47,937)**	(75,463)	(208,264)
Net cash used for operations		**(541,859)**	(1,162,887)	(2,484,986)
Cash flows from investing activity				
Investment in investees, net		**(122,678)**	981	(102,903)
Investment in fixed assets		**(63,563)**	(15,366)	(71,109)
Investment in intangible assets		**(31,672)**	(23,643)	(122,164)
Dividend received from an investee		**4,070**	2,761	35,032
Proceeds from sale of fixed assets		**-**	-	1,598
Net cash used for investment activity		**(213,843)**	(35,267)	(259,546)
Cash flows from financing activities				
Proceeds from issuance of promissory notes		**(1,100)**	106,724	190,466
Purchase of Treasury shares		**2,564**	(3,702)	(4,052)
Proceeds of issuance of ETNs and covered warrants		**549,837**	914,815	2,716,733
Short-term credit from banks, net		**144,876**	(88,562)	148,741
Long-term loans received from financial institutions		**-**	-	250,014
Repayment of loans from banks and others		**(28,028)**	(28,297)	(170,441)
Dividend paid to the Company's shareholders		**-**	-	(319,681)
Net cash provided by financing activity		**668,149**	900,978	2,811,780
Effect of exchange rate fluctuations on cash balances and cash equivalents		**21,901**	1,656	53,579
Increase (decrease) in cash and cash equivalents		**(65,652)**	(295,520)	120,827
Retained cash and cash equivalents at beginning of period	B	**2,598,536**	2,477,709	2,477,709
Retained cash and cash equivalents at end of period	C	**2,532,884**	2,182,189	2,598,536

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

Condensed consolidated interim statements of cash flows

	For the three-month period ended March 31		For year ended December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Appendix A - Cash flows from operating activities before taxes on income (1), (2), (3)			
Profit for the period	**75,874**	166,320	374,231
Items that do not involve cash flows:			
Company's share of profits of equity accounted investees	**(23,063)**	(36,288)	(184,655)
Net profit from financial investments for yield-dependent insurance policies and investment contracts	**(1,165,857)**	(590,538)	(898,622)
Losses (profits) net, from other financial investments			
Marketable debt assets	**24,604**	(34,777)	(262,276)
Non-marketable debt assets	**111,825**	46,514	(40,448)
Shares	**(28,684)**	(21,697)	(48,694)
Other investments	**(124,036)**	27,130	320,752
Financing expenses for financial liabilities	**476,814**	164,544	557,213
Change in fair value of investment property for yield-dependent contracts	**3,143**	1,662	(2,315)
Change in fair value of other investment property	**(10,044)**	(980)	(76,039)
Depreciation and amortization			
Fixed assets	**13,763**	12,098	49,754
Intangible assets	**34,617**	36,223	150,977
Change in liabilities for non yield-dependent insurance policies and investment contracts	**668,280**	446,995	808,401
Change in liabilities for yield-dependent insurance policies and investment contracts	**2,098,446**	1,452,448	4,714,702
Change in reinsurance assets	**6,915**	(62,701)	(73,942)
Change in DAC	**(99,504)**	(112,218)	(209,858)
Payroll expenses for share-based payment	**356**	887	2,401
Income tax expenses	**26,130**	91,653	194,698
Changes in other statement of financial position items:			
Financial investments and investment property for yield-dependent insurance policies and investment contracts			
Purchase of investment property	**(4,072)**	(6,076)	(188,331)
Net acquisitions of financial investments	**(1,037,587)**	(1,097,036)	(3,483,435)
Other financial investments and investment property			
Purchase of investment property	**(4,800)**	(17,196)	(64,069)
Net acquisitions of financial investments	**(128,225)**	(448,137)	(582,705)
Premiums due	**(41,912)**	(79,044)	(37,843)
Trade and other receivables	**(15,596)**	24,144	(134,050)
Financial investments for holders of ETNs	**675,572**	(1,884,266)	(2,041,597)
Cash and cash equivalents pledged for holders of ETNs	**(1,931,372)**	876,222	(1,371,391)
Trade and other payables	**(100,889)**	(45,080)	241,778
Liabilities for employee benefits, net	**5,380**	1,770	8,641
Total adjustments required to present cash flows from operating activity	**(569,796)**	(1,253,744)	(2,650,953)
Total cash flows from operating activity before taxes on income	**(493,922)**	(1,087,424)	(2,276,722)

(1) Cash flows from operating activities include net purchases and sales of financial investments and real estate investment resulting from activities in insurance contracts and investment contracts.

(2) In the framework of operating activities, interest received was presented of NIS 341 million (for the three months ended March 31, 2014 an amount of NIS 408 million and for 2014 an amount of NIS 1,585 million) and interest was paid in the amount of NIS 8 million (for the three months ended March 31, 2014 an amount of NIS 11 million and for 2014 an amount of NIS 114 million).

(3) As part of the ongoing activity, a dividend received from other financial investments was presented in the amount of NIS 73 million (for the three months ended March 31, 2014 an amount of NIS 43 million and for 2014 an amount of NIS 173 million).

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

Condensed consolidated interim statements of cash flows

	For the three-month period ended March 31		For year ended December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Appendix B - Cash and cash equivalents at beginning of period			
Cash and cash equivalents for yield-dependent contracts	**1,153,223**	1,088,024	1,088,024
Other cash and cash equivalents	**1,445,313**	1,389,685	1,389,685
Retained cash and cash equivalents at beginning of the period	**2,598,536**	2,477,709	2,477,709
Appendix C - Cash and cash equivalents at end of period			
Cash and cash equivalents for yield-dependent contracts	**1,187,167**	844,950	1,153,223
Other cash and cash equivalents	**1,345,717**	1,337,239	1,445,313
Retained cash and cash equivalents at end of the period	**2,532,884**	2,182,189	2,598,536

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 main holdings are in subsidiaries comprising insurance and finance companies. The condensed consolidated interim financial statements, as at March 31, 2015, include those of the Company and its subsidiaries ("the Group"), the Company's rights in jointly controlled entities and the Group's rights in affiliated companies.

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

Note 2 - Basis of preparation

A. Statement of compliance with International Financial Reporting Standards

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 - Financial Reporting for Interim Periods and in accordance with the requirements of the Pronouncements issued by the Commissioner of Insurance and in accordance with the Supervision of Financial Services (Insurance) Law, 1981 ("the Supervision Law"), and they do not include all the information required in full annual financial statements. They should be read them together with the financial statements as at and for the year ended December 31, 2014 ("the Annual Financial Statements"). Moreover, these statements were prepared in accordance with the provisions of Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970.

The condensed consolidated interim financial statements were approved for publication by the Company's Board of Directors on March 20, 2015.

B. Use of estimates and discretion

1. Preparation of the condensed consolidated interim financial statements in accordance with IFRS and in accordance with the Supervision Law and subsequent regulations requires the Group's management to use its discretion in evaluations, estimates and assumptions, including actuarial assumptions and estimates ("Estimates") which affect application of the accounting policy, the value of assets and liabilities, and amounts of revenues and expenses. It should be clarified that actual results are liable to be different from these estimates. The main estimates included in the financial statements are based on actuarial assessments and external evaluations.

   When formulating the 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 involve considerable uncertainty. In applying its discretion in determining the estimates, the Company's management bases itself on past experience, various factors, external factors, and reasonable assumptions based on the appropriate circumstances for each estimate.

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

   The evaluations and discretion that management uses to apply the accounting policy in preparing the condensed consolidated interim financial statements are mainly consistent with those used in the preparation of the consolidated financial statements as at December 31, 2014. In this context, see also Note 11 concerning the revised discounting interest used calculating the insurance liabilities.

Note 3 - Significant accounting principles

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

A. Seasonality

1. Life and health insurance and Finance

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

2. Non-life insurance

   The turnover of revenues from premiums gross in non-life insurance is characterized by seasonality, stemming mainly from motor insurance of various groups of employees and vehicle fleets of businesses, where the date of renewal is generally in January, and from various policies of businesses where the renewal dates are generally in January or in April. The effect of this seasonality on reported profit is neutralized through the provision for unearned premiums.

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

Note 4 - Operating segments

Segment performance is measured based on the profits of the segments before taxes on income. The results of inter-company transactions are eliminated in the framework of the adjustments for preparation of the condensed consolidated interim financial statements.

The Group operates in the following segments:

1. Life assurance and long-term savings

This segment 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 segment includes the Group's insurance activities in illness and hospitalization branches, personal accidents, dental and long-term care. The policies sold in the framework of these insurance branches cover the range of losses incurred by the insured as a result of illness and/or accidents, including long-term care and dental treatments. Health insurance policies are offered to individuals and to groups.

3. Non-life insurance

This segment comprises five sub-segments:

Motor property (CASCO): includes the Group's activities in the sale of insurance policies in the motor vehicle insurance branch ("motor property"), which covers loss sustained by a vehicle owner due to an accident, and/or theft and/or 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 insurance sector pursuant to 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 under the Compensation for Road Accident Victims Law, 1975.

Other liabilities branches: includes the Group's activities in the sale of policies covering the insured’s liability to a third party (excluding cover for liabilities in the compulsory motor sector, as described above). This includes, inter alia, the following insurance branches: employers’ liability, third-party liability, professional liability, directors' and officers' liability (D&O), and insurance against liability for defective products.

Note 4 - Operating segments (contd.)

3. Non-life insurance (contd.)

Property and other branches: this sector includes the Group's insurance activities in all property branches excluding motor property (e.g. liabilities, homeowners, etc.).

Mortgage insurance business: this sector includes the Group's insurance activities in the residential mortgage credit branch (monoline branch). The purpose of this insurance is to provide indemnity for loss caused as a result of non-payment of loans (default) given against a first mortgage on a single real estate property for residential purposes only, and after disposing of the property that serves as collateral for the loans.

4. Insurance companies overseas

The overseas segment consists of the activity of Interasco and Turk Nippon, insurance companies abroad that are wholly owned by the Company.

5. Financial services

The Group's activities in the capital and financial services market take place through Harel Finance. Harel Finance is engaged through companies controlled by it, in the following activities:

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

6. Not attributed to operating segments

Activities that are not attributed to operating segments include mainly activities of insurance agencies and of capital activities by the consolidated insurance companies.

Note 4 - Operating segments (contd.)

A. Information about reportable segments

	For the three-month period ended March 31, 2015 (unaudited)							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation	Adjustments and offsets	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	1,206,682	955,353	763,170	62,154	-	-	(1,809)	2,985,550
Premiums earned by reinsurers	35,804	52,284	319,966	24,568	-	-	(1,809)	430,813
Earned premiums in retention	1,170,878	903,069	443,204	37,586	-	-	-	2,554,737
Profit from investments, net, and financing income	1,403,001	102,944	37,917	9,785	21,682	67,117	(2,029)	1,640,417
Income from management fees	336,298	2,144	-	-	58,969	1,753	(99)	399,065
Income from commissions	543	18,178	54,740	5,760	457	33,232	(23,165)	89,745
Total income	2,910,720	1,026,335	535,861	53,131	81,108	102,102	(25,293)	4,683,964
Payments and changes in liabilities for insurance policies and investment contracts, gross	2,692,992	875,512	561,815	27,654	-	-	(490)	4,157,483
Reinsurers' share of payments and change in liabilities for insurance policies	28,855	35,319	252,110	7,658	-	-	(490)	323,452
Payments and changes in liabilities for insurance policies and investment contracts in retention	2,664,137	840,193	309,705	19,996	-	-	-	3,834,031
Commissions, marketing expenses and other purchasing expenses	179,440	170,338	125,809	19,918	-	2,143	(23,165)	474,483
General and administrative expenses	117,715	60,143	7,327	3,342	54,831	39,355	(99)	282,614
Other expenses	9,505	-	-	128	2,730	831	-	13,194
Financing expenses (income), net	(4,550)	(4,071)	11,145	-	686	(1,570)	(939)	701
Total expenses	2,966,247	1,066,603	453,986	43,384	58,247	40,759	(24,203)	4,605,023
Share of profits of equity accounted investees	8,135	2,269	4,449	-	2	8,208	-	23,063
Profit (loss) before taxes on income	(47,392)	(37,999)	86,324	9,747	22,863	69,551	(1,090)	102,004
Other comprehensive income (loss) before taxes on income	19,989	18,510	44,515	(8,359)	101	66,305	-	141,061
Total comprehensive income (loss) before taxes on income	(27,403)	(19,489)	130,839	1,388	22,964	135,856	(1,090)	243,065
Liabilities for non yield-dependent insurance policies and investment contracts	11,447,747	3,713,466	10,282,488	253,272	-	-	(5,479)	25,691,494
Liabilities for insurance contracts and yield-dependent investment contracts	34,265,679	3,548,131	-	-	-	-	-	37,813,810

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (contd.)

	For the three-month period ended March 31, 2014 (unaudited)							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation	Adjustments and offsets	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	957,356	844,887	775,531	48,550	-	-	(1,847)	2,624,477
Premiums earned by reinsurers	34,466	50,871	337,420	20,267	-	-	(1,847)	441,177
Earned premiums in retention	922,890	794,016	438,111	28,283	-	-	-	2,183,300
Profit from investments, net, and financing income	856,560	72,792	26,670	960	9,635	54,979	(2,098)	1,019,498
Income from management fees	248,718	2,539	-	-	59,792	1,763	(107)	312,705
Income from commissions	10,577	18,901	59,846	5,318	307	23,507	(14,614)	103,842
Total income	2,038,745	888,248	524,627	34,561	69,734	80,249	(16,819)	3,619,345
Payments and changes in liabilities for insurance policies and investment contracts, gross	1,681,116	701,978	545,761	21,335	-	-	(997)	2,949,193
Reinsurers' share of payments and change in liabilities for insurance policies	12,867	51,997	231,503	7,899	-	-	(997)	303,269
Payments and changes in liabilities for insurance policies and investment contracts in retention	1,668,249	649,981	314,258	13,436	-	-	-	2,645,924
Commissions, marketing expenses and other purchasing expenses	172,452	152,002	132,135	16,914	-	1,324	(14,614)	460,213
General and administrative expenses	110,311	53,723	6,933	3,251	54,326	34,071	(107)	262,508
Other expenses	9,852	-	238	74	3,650	1,160	-	14,974
Financing expenses (income), net	(884)	(6)	1,898	-	929	12,268	(164)	14,041
Total expenses	1,959,980	855,700	455,462	33,675	58,905	48,823	(14,885)	3,397,660
Share of profits of equity accounted investees	7,921	2,560	20,164	-	22	5,621	-	36,288
Profit before taxes on income	86,686	35,108	89,329	886	10,851	37,047	(1,934)	257,973
Other comprehensive income before taxes on income	56,723	23,560	57,779	1,555	-	42,223	-	181,840
Total comprehensive income before taxes on income	143,409	58,668	147,108	2,441	10,851	79,270	(1,934)	439,813
Liabilities for non yield-dependent insurance policies and investment contracts	10,963,331	3,094,722	10,396,690	235,364	-	-	(7,524)	24,682,583
Liabilities for insurance contracts and yield-dependent investment contracts	29,354,996	3,098,114	-	-	-	-	-	32,453,110

Note 4 - Operating segments (Contd.)

A. Information about reportable segments (contd.)

	For the year ended December 31, 2014							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation	Adjustments and offsets	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	3,797,466	3,571,159	3,205,322	213,750	-	-	(7,020)	10,780,677
Premiums earned by reinsurers	125,228	216,180	1,433,089	90,708	-	-	(7,020)	1,858,185
Earned premiums in retention	3,672,238	3,354,979	1,772,233	123,042	-	-	-	8,922,492
Profit from investments, net, and financing income	2,051,727	212,391	142,009	9,938	57,375	241,989	6,189	2,721,618
Income from management fees	848,059	9,829	-	-	245,335	6,813	(348)	1,109,688
Income from commissions	14,531	82,072	267,234	24,380	1,524	123,675	(86,597)	426,819
Total income	6,586,555	3,659,271	2,181,476	157,360	304,234	372,477	(80,756)	13,180,617
Payments and changes in liabilities for insurance policies and investment contracts, gross	5,611,057	2,921,320	2,403,133	100,996	-	-	(3,653)	11,032,853
Reinsurers' share of payments and change in liabilities for insurance policies	148,267	184,165	1,062,591	32,964	-	-	(3,653)	1,424,334
Payments and changes in liabilities for insurance policies and investment contracts in retention	5,462,790	2,737,155	1,340,542	68,032	-	-	-	9,608,519
Commissions, marketing expenses and other purchasing expenses	673,396	618,260	620,599	71,275	-	5,107	(86,597)	1,902,040
General and administrative expenses	431,826	218,380	31,861	12,955	221,839	148,098	(348)	1,064,611
Other expenses	40,277	-	967	213	15,276	4,654	-	61,387
Financing expenses, net	5,440	6,970	37,264	-	3,226	106,997	(111)	159,786
Total expenses	6,613,729	3,580,765	2,031,233	152,475	240,341	264,856	(87,056)	12,796,343
Share of profits of equity accounted investees	77,974	22,513	68,827	-	9	15,332	-	184,655
Profit before taxes on income	50,800	101,019	219,070	4,885	63,902	122,953	6,300	568,929
Other comprehensive income (loss) before taxes on income	112,960	38,953	67,726	(78)	90	30,375	-	250,026
Total comprehensive income before taxes on income	163,760	139,972	286,796	4,807	63,992	153,328	6,300	818,955
Liabilities for non yield-dependent insurance policies and investment contracts	11,245,932	3,541,937	10,003,024	263,037	-	-	(6,265)	25,047,665
Liabilities for insurance contracts and yield-dependent investment contracts	32,324,416	3,390,948	-	-	-	-	-	35,715,364

Note 4 - Operating segments (Contd.)

b. Additional information about the non-life insurance segment

	For the three-month period ended March 31, 2015 (unaudited)					
	Compulsory motor	Motor property (CASCO)	Property and other branches*	Other liabilities branches**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Gross premiums	228,418	362,941	231,945	276,129	(7,205)	1,092,228
Reinsurance premiums	23,589	39,436	169,843	117,708	-	350,576
Premiums in retention	204,829	323,505	62,102	158,421	(7,205)	741,652
Change in outstanding unearned premiums, in retention	104,240	158,442	(2,525)	59,006	(20,715)	298,448
Earned premiums in retention	100,589	165,063	64,627	99,415	13,510	443,204
Profit from investments, net, and financing income	15,680	3,411	1,226	14,338	3,262	37,917
Income from commissions	2,787	8,445	29,537	13,971	-	54,740
Total income	119,056	176,919	95,390	127,724	16,772	535,861
Payments and changes in liabilities for insurance policies and investment contracts, gross	63,398	161,370	133,850	209,574	(6,377)	561,815
Reinsurers' share of payments and change in liabilities for insurance policies	10,369	24,282	103,018	114,441	-	252,110
Payments and changes in liabilities for insurance policies and investment contracts in retention	53,029	137,088	30,832	95,133	(6,377)	309,705
Commissions, marketing expenses and other purchasing expenses	11,865	28,503	52,841	32,600	-	125,809
General and administrative expenses	1,909	2,567	1,094	998	759	7,327
Financing expenses (income), net	5,062	1,101	396	4,629	(43)	11,145
Total expenses	71,865	169,259	85,163	133,360	(5,661)	453,986
Share of profits of equity accounted investees	1,959	426	153	1,791	120	4,449
Profit (loss) before taxes on income	49,150	8,086	10,380	(3,845)	22,553	86,324
Other comprehensive income before taxes on income	15,783	3,434	1,234	14,431	9,633	44,515
Total comprehensive income before taxes on income	64,933	11,520	11,614	10,586	32,186	130,839
Liabilities in respect of insurance policies, gross, at March 31, 2015	2,603,762	723,550	987,744	5,437,012	530,420	10,282,488
Liabilities in respect of insurance policies, gross, at March 31, 2015	2,201,858	611,573	185,140	2,093,879	530,420	5,622,870

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 81% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 81% of total premiums in these branches.

Note 4 - Operating segments (Contd.)

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

	For the three-month period ended March 31, 2014 (unaudited)					
	Compulsory motor	Motor property (CASCO)	Property and other branches*	Other liabilities branches**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Gross premiums	204,347	462,679	248,347	254,952	(5,674)	1,164,651
Reinsurance premiums	41,220	97,781	179,639	121,307	-	439,947
Premiums in retention	163,127	364,898	68,708	133,645	(5,674)	724,704
Change in outstanding unearned premiums, in retention	72,911	179,683	17,449	35,883	(19,333)	286,593
Earned premiums in retention	90,216	185,215	51,259	97,762	13,659	438,111
Profit from investments, net, and financing income	10,520	2,312	716	8,454	4,668	26,670
Income from commissions	4,139	11,335	32,208	12,164	-	59,846
Total income	104,875	198,862	84,183	118,380	18,327	524,627
Payments and changes in liabilities for insurance policies and investment contracts, gross	77,957	183,532	102,490	183,212	(1,430)	545,761
Reinsurers' share of payments and change in liabilities for insurance policies	15,736	34,190	83,275	98,302	-	231,503
Payments and changes in liabilities for insurance policies and investment contracts in retention	62,221	149,342	19,215	84,910	(1,430)	314,258
Commissions, marketing expenses and other purchasing expenses	11,855	37,928	52,893	29,459	-	132,135
General and administrative expenses	1,690	2,343	773	869	1,258	6,933
Other expenses	-	-	-	-	238	238
Financing expenses (income), net	914	201	62	735	(14)	1,898
Total expenses	76,680	189,814	72,943	115,973	52	455,462
Share of profits of equity accounted investees	9,480	2,083	645	7,619	337	20,164
Profit before taxes on income	37,675	11,131	11,885	10,026	18,612	89,329
Other comprehensive income before taxes on income	23,789	5,228	1,624	19,113	8,025	57,779
Total comprehensive income before taxes on income	61,464	16,359	13,509	29,139	26,637	147,108
Liabilities in respect of insurance policies, gross, as at December 31, 2014	2,702,868	818,024	1,002,431	5,271,763	601,604	10,396,690
Liabilities in respect of insurance policies, gross, as at December 31, 2014	2,292,475	653,439	177,006	1,905,437	601,604	5,629,961

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

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

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 2014 (audited)					
	Compulsory motor	Motor property (CASCO)	Property and other branches*	Other liabilities branches**	Mortgage insurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Gross premiums	454,232	922,601	981,463	787,051	(23,718)	3,121,629
Reinsurance premiums	93,823	197,390	743,565	405,613	-	1,440,391
Premiums in retention	360,409	725,211	237,898	381,438	(23,718)	1,681,238
Change in outstanding unearned premiums, in retention	(13,281)	(18,731)	9,100	(53)	(68,030)	(90,995)
Earned premiums in retention	373,690	743,942	228,798	381,491	44,312	1,772,233
Profit from investments, net, and financing income	56,174	10,508	4,339	46,522	24,466	142,009
Income from commissions	21,789	52,299	132,885	60,261	-	267,234
Total income	451,653	806,749	366,022	488,274	68,778	2,181,476
Payments and changes in liabilities for insurance policies and investment contracts, gross	359,479	721,278	432,948	885,292	4,136	2,403,133
Reinsurers' share of payments and change in liabilities for insurance policies	77,783	142,084	330,939	511,785	-	1,062,591
Payments and changes in liabilities for insurance policies and investment contracts in retention	281,696	579,194	102,009	373,507	4,136	1,340,542
Commissions, marketing expenses and other purchasing expenses	78,912	191,516	215,238	134,933	-	620,599
General and administrative expenses	7,256	10,267	5,035	4,656	4,647	31,861
Other expenses	-	-	-	-	967	967
Financing expenses, net	17,786	3,327	1,374	14,730	47	37,264
Total expenses	385,650	784,304	323,656	527,826	9,797	2,031,233
Company's share of profits of equity accounted investees	31,862	5,961	2,461	26,387	2,156	68,827
Profit (loss) before taxes on income	97,865	28,406	44,827	(13,165)	61,137	219,070
Other comprehensive income before taxes on income	30,889	5,778	2,386	25,582	3,091	67,726
Total comprehensive income before taxes on income	128,754	34,184	47,213	12,417	64,228	286,796
Liabilities in respect of insurance policies, gross, at December 31, 2014	2,584,998	571,239	954,340	5,334,810	557,637	10,003,024
Liabilities in respect of insurance policies, in retention, at December 31, 2014	2,176,162	457,244	178,467	1,997,873	557,637	5,367,383

* Property and other branches primarily include results of property loss insurance and comprehensive homeowners insurance, operations of which account for 77% of total premiums earned from these branches.

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 79% 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 three-month period ended March 31, 2015 (unaudited)				For the three-month period ended March 31, 2014 (unaudited)			
	Provident	Pension	Life assurance	Total	Provident	Pension	Life assurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	-	-	1,206,682	1,206,682	-	-	957,356	957,356
Premiums earned by reinsurers	-	-	35,804	35,804	-	-	34,466	34,466
Premiums in retention	-	-	1,170,878	1,170,878	-	-	922,890	922,890
Profit (loss) from investments, net, and financing income	(467)	(246)	1,403,714	1,403,001	38	471	856,051	856,560
Income from management fees	54,721	63,276	218,301	336,298	52,356	56,983	139,379	248,718
Income from commissions	-	-	543	543	-	-	10,577	10,577
Total income	54,254	63,030	2,793,436	2,910,720	52,394	57,454	1,928,897	2,038,745
Payments and changes in liabilities for insurance policies and investment contracts, gross	492	2,767	2,689,733	2,692,992	467	2,550	1,678,099	1,681,116
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	28,855	28,855	-	-	12,867	12,867
Payments and changes in liabilities for insurance policies and investment contracts in retention	492	2,767	2,660,878	2,664,137	467	2,550	1,665,232	1,668,249
Commissions, marketing expenses and other purchasing expenses	18,757	24,827	135,856	179,440	18,152	23,478	130,822	172,452
General and administrative expenses	19,764	16,919	81,032	117,715	18,839	15,179	76,293	110,311
Other expenses	3,350	841	5,314	9,505	4,030	508	5,314	9,852
Financing expenses (income), net	59	(2)	(4,607)	(4,550)	26	(1)	(909)	(884)
Total expenses	42,422	45,352	2,878,473	2,966,247	41,514	41,714	1,876,752	1,959,980
Share of profits of equity accounted investees	-	-	8,135	8,135	-	-	7,921	7,921
Profit (loss) before taxes on income	11,832	17,678	(76,902)	(47,392)	10,880	15,740	60,066	86,686
Other comprehensive income before taxes on income	1,049	1,598	17,342	19,989	615	1,421	54,687	56,723
Total comprehensive income (loss) before taxes on income	12,881	19,276	(59,560)	(27,403)	11,495	17,161	114,753	143,409

Note 4 - Operating segments (Contd.)

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

	For the year ended December 31, 2014			
	Provident	Pension	Life assurance	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Premiums earned, gross	-	-	3,797,466	3,797,466
Premiums earned by reinsurers	-	-	125,228	125,228
Premiums in retention	-	-	3,672,238	3,672,238
Profit from investments, net, and financing income	1,115	4,328	2,046,284	2,051,727
Income from management fees	220,316	246,644	381,099	848,059
Income from commissions	-	-	14,531	14,531
Total income	221,431	250,972	6,114,152	6,586,555
Payments and changes in liabilities for insurance policies and investment contracts, gross	1,875	10,407	5,598,775	5,611,057
Reinsurers' share of payments and change in liabilities for insurance policies	-	-	148,267	148,267
Payments and changes in liabilities for insurance policies and investment contracts in retention	1,875	10,407	5,450,508	5,462,790
Commissions, marketing expenses and other purchasing expenses	72,658	106,304	494,434	673,396
General and administrative expenses	75,133	64,336	292,357	431,826
Other expenses	16,977	2,045	21,255	40,277
Financing expenses, net	118	3	5,319	5,440
Total expenses	166,761	183,095	6,263,873	6,613,729
Share of profits of equity accounted investees	-	-	77,974	77,974
Profit (loss) before taxes on income	54,670	67,877	(71,747)	50,800
Other comprehensive income before taxes on income	596	539	111,825	112,960
Total comprehensive income before taxes on income	55,266	68,416	40,078	163,760

Note 5 - Taxes on income

The tax rates applicable to income of the Group companies

The statutory tax rates applicable to financial institutions, including the Company's subsidiaries which are financial institutions in all the periods presented in the financial statements are 37.71%.

Note 6 - Contingent liabilities and commitments

A. Contingent Liabilities

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

New interpretations of the information in insurance policies and long-term term pension products may, in some instances, affect the Group's future profits in respect of the existing portfolio, in addition to the exposure inherent in requirements to compensate customers for past activity. Likewise, there is an element of exposure due to regulatory changes and instructions issued by the Commissioner, in circulars that are in force and in draft circulars that are still under discussion, as well as in the Commissioner’s Position Papers and Decisions in Principle on various topics, some of which have far-reaching legal and operational ramifications. So for example, during the Reporting Period a Commissioner’s Position Paper was published on the subject of the defining an insurance event in long-term care insurance, as a result of which the insurance liabilities were increased in 2014 on account of the revised morbidity assumptions (for additional information see Note 21 to the 2014 annual financial statements). This exposure is particularly strong in pension savings and long-term insurance, including health insurance. In these sectors, agreements with the policyholders, members and customers are over a period of many years during which there may be policy changes, regulatory changes and changes in the law, including in case law.

These rights are managed through complex automated systems, and in view of these changes they must be constantly adjusted. All these create considerable operational and mechanization exposure in these areas of activity. Among these regulatory changes, on December 21, 2011, the Commissioner published a circular concerning data optimization of the rights of members of financial institutions. The circular details the activity framework that a financial institution must carry out to ensure that members' rights are reliably, and fully recorded in the information systems, and that they are available and retrievable. The circular defines the stages of implementation of the optimization project as follows: (1) a gap study of the existing information at product, members and employers level - by March 31, 2013; (2) formulation of a mapping model and rating of the gaps found - by March 31, 2013; (3) a work plan is to be prepared to deal with any failure/s that are found - by September 30, 2013. The work plan will address the arrangement and saving of the existing information - by September 30, 2014. The company operates in accordance with the provisions of the circular. The optimization project is to be completed by June 30, 2016.

In addition, there is a general exposure due to complaints issued from time to time to the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance against institutional bodies in the Group, regarding the rights of insured relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division within the financial institutions. The Commissioner’s rulings on these complaints, if and to the extent that any decision is made, are liable to be given across the board and apply to large groups of insureds. Sometimes, the complaining entities even threaten to take action regarding their complaints in the form of class actions. At this time, it is impossible to estimate whether there is any

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

exposure for such complaints and it is not possible to estimate whether the Commissioner will issue an across-the-board decision on these complaints and/or if class actions will be filed as a result of such processes, and it is impossible to estimate 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 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.

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, long-term care insurance sectors, information and claims systems. During the course of an audit of long-term care claims in Dikla, an audit report was received which includes requests to rectify several subjects, outlining a work plan for implementation of the changes, and a review of claims that have been settled. Dikla is working to implement the Commissioner’s instructions given in connection with the report findings.

Following are details of the exposure to class actions and applications to recognize claims as class actions filed against the Company and/or companies in the Group.

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

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

Concerning applications to approve actions as class actions under Sections 30, 31, 32, 33 and 37 below, it is not possible at this early stage to estimate the chances that the applications will be approved as a class action and therefore no provisions have been included in the financial statements for these claims.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

1. In April 2006, a claim was filed against Harel Insurance (subsidiary) and five insurance companies in the Tel Aviv-Jaffa District Court. The court was asked to certify the claim as a class action. The cause of claim was that the defendants had collected insurance fees from the plaintiffs for coverage of work disability. The plaintiffs claim that the defendants collected insurance premiums during the last three months of the insurance period, regardless of the fact that for this period, the plaintiffs were not eligible to receive insurance compensation even if they suffered loss of ability to work (because of the waiting period defined in the policy). The plaintiffs claimed that the defendants did not provide them with the information that it was their intention to collect insurance premiums for the last three months of the insurance period according to the policy. According to the plaintiffs, the damage caused to all plaintiffs by the defendants is estimated, in accordance with an expert opinion, at NIS 47.61 million. The damage claimed by the plaintiffs from Harel Insurance, totals, in their estimation NIS 1.54 million. On February 3, 2009, the court certified the petition as a class action. Harel insurance submitted a request for the right to appeal this decision. On April 11, 2013, the court accepted the application for permission to appeal and returned hearing of the action to the District Court for a decision on the question of whether the action should be treated as a class action, whether payment during the last three months of the policy is consideration for service which the insureds will never be entitled to receive or whether it is a form of payments in installments which is the result of an actuarial calculation, whether the defendants were in violation of their proper disclosure obligations and whether prescription applies under the circumstances of the matter at hand**.**

2. In April 2007, a petition and a request for certification as a class action were filed in the Tel Aviv-Jaffa District Court against Bank Hapoalim Ltd., Bank Leumi le-Israel Ltd., Israel Discount Bank Ltd., First International Bank of Israel Ltd. ("The Banks"), Clal Finance, Batucha Investment Management Ltd., Migdal Capital Markets Ltd., and Harel Investment House (these last three will henceforth be called: "Fund Managers"). The cause for the claim is a reimbursement of brokerage commissions allegedly paid by the plaintiffs from the beginning of 2004, in respect of their holdings of units of various mutual trust funds, as specified in the statement of claim, for the charges of brokerage commissions and commissions associated with trading in foreign currency at a rate higher than the rate ostensibly supposed to be charged from the claimants. According to the petitioner, from 2004, the respondents charged a number of private bodies, commissions at lower rates than those charged in relation to mutual trust funds that the banks controlled.

   According to the statement of claim, the period relevant to Harel Investment House is from November 15, 2006 up to the end of March 2007. It is also claimed, that within the context of the sale by the banks of control of the mutual funds to the mutual fund managers, it was determined that the banks would ostensibly continue to provide the fund managers with share trading services on the Tel-Aviv Stock Exchange and / or banking services (buying/selling foreign currency), and charge the same high commission charged up to the time of sale, where this is expressed, allegedly, in the reduced price that was paid for acquiring the control of the mutual funds, to prevent the mutual fund managers from profiting by the collection of brokerage commissions. The plaintiffs estimate the sum of the claim against Harel Investment House at NIS 5,676 thousand.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

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 1,683.54 for each insurance year. The plaintiffs estimate that the total claim for the entire class that they wish to represent against all defendants is about NSI 2.3 billion, of which about NIS 307 million is against Harel Insurance. On February 1, 2010, the court approved a request for a procedural arrangement between the parties, according to which the plaintiff will strike out the claim that Harel Insurance collected a sub-annual factor fee exceeding the rate permitted in policies that were issued before 1992 as well. As instructed by the court, the plaintiff submitted an amended claim and request for its certification as a class action. On December 29, 2013 the Insurance Commissioner filed a position that supports the position of the defendants that there is no reason to charge sub-annual policy factor, on the savings component of life insurance combined savings and other risk policies, including nursing, work disability and accidental disability.

4. In April 2008 an action was filed in the Jerusalem District Labor Court against the subsidiary Harel Insurance and against three other insurance companies ("the Defendants"), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants generally credit women policyholders, when they reach the age of retirement, for old managers' insurance policies that were sold until 2000, with a lower monthly benefit than the benefit received by male insureds with the same data, for the reason that women have a higher life expectancy. In contrast, the Defendants collect the same term (pure life) assurance premiums from the women as they collect from the men, despite the fact that the mortality rate for women, during the risk period, is ostensibly lower. The Plaintiffs argue that this conduct discriminates against female policyholders, in contravention of the statutory provisions. On August 17, 2014, the Jerusalem District Labor Court certified the action as a class action. The group that was certified for the class action consists of women who have or had an insurance policy with the four Defendants, and for whom no distinction was made between the tariff for men and women in the calculation of the risk premium. In December 2014, the Defendants filed an application for permission to appeal this ruling in the Jerusalem National Labor Court. Concurrently, the District Labor Court accepted the Defendants' application for a stay of proceedings until a decision is made on the application for permission to appeal. In April 2015, the National Labor Court decided to grant the Defendants permission to appeal the decision, and to determine that the appeal will be heard before a panel of judges.

5. In July 2008, a claim and a request to certify the claim as a class action were 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.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

6. In April 2010 a legal action and an application for its certification as a class action was filed in the Petach Tikva Central Region Distict Court against the subsidiary Harel Insurance and against four additional insurance companies ("the Defendants"). 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. In December 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. In November 2014, the opinion of the Commissioner of Insurance was submitted to the court, that the provisions of the policy are binding with respect to the manner of collecting the premium after the death of the insured or in the period following cancellation of the policy, and that the actuarial opinion submitted to the court by the Defendants is insufficient to confirm that the Defendants priced the policy in such a way as provides evidence that they took into account the fact that the premiums would not be returned to the insureds for the period after the death of the insured or after the policy cancellation.

7. In May 2011, a claim was filed at the Central Region District Court against the subsidiary Harel Insurance and three other insurance companies, together with an application for recognition as a class action. The subject of the claim is an allegation that the respondents allegedly unlawfully collect a payment called a "policy factor" and/or "other management fees" at a considerable rate of the premium paid without their consent or knowledge and without compliance with a condition that enables such collection in the policy instructions. The claimants allege that according to instructions issued by the Commissioner of Insurance in the Capital Market, Insurance and Savings Division ("the Commissioner"), companies may charge a policy factor under certain conditions; however they also claim that in addition to the Commissioner's authorization, the respondents must stipulate collection of the policy factor in a contractual agreement with the policyholder. According to the claimants, the total loss claimed for all members of the group against all the respondents' amounts to NIS 2,325 million, and against Harel Insurance, consistent with its share of the market, to NIS 386 million. According to the parties' notifications to the court, they are conducting a mediation process.

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

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

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

10. In May 2012, a claim was filed against the subsidiary Harel Insurance and the subsidiary Dikla along with four other insurance companies and one insurance agency ("the Defendants") in the Jerusalem District Court, together with an application for certification as a class action. The subject of 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 Equal Rights for Persons with Disabilities Law, 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 934 million. The parties are conducting a mediation process.

11. 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 subjectof the class action claim is that in health insurance policies stipulating that the premium will change once every five years, Harel Insurance raises the premiums when the insured reaches the age of 65, even if five years have not yet passed from the time the policy was purchased. The plaintiff alleges that this is a breach of contract, an intention to mislead and unjust enrichment. The plaintiff estimates that the amount of the claim for all group members is NIS 160 million. On October 16, 2013 Application submitted to court to approve the compromise settlement. Court instructed the parties to file an amended in the compromise settlement and define the Group. On November 24, 2013 an amended application was filed in the court for approval of the compromise settlement. The court appointed a reviewer for the compromise settlement.

12. In July 2012, a claim was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with an application for its certification as a class action against the subsidiary Harel Insurance and against the IDF Disabled Veterans Organization. The subject of the class action claim is that in a group life insurance policy issued to members of the IDF Disabled Veterans Organization a certain insurance coverage ostensibly exists which was intended for cases where the insurance event takes place in the year between the age of 75 and 76 in the life of the insured, while Harel Insurance only provides insurance coverage for insurance events occurring up to the age of 75. The plaintiff estimates the amount of the claim for all group members he wishes to represent at NIS 46 million. On June 5, 2014, the Tel Aviv District Court certified hearing 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 Defendants filed an application for permission to appeal this decision in the Supreme Court. In November 2014, the Supreme Court ordered a stay of proceedings in the Tel Aviv District Court until another decision is made.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

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

14. In December 2012, a claim was filed against the subsidiary Harel Insurance and six other insurance companies ("the Defendants") in the Central District Court, with an application for certification as a class action. The contention of the class action claim is that in the context of the reforms implemented in the vehicle licensing branch by the Ministry of Transportation in 2007, the 1961 Transportation Regulations were amended, thereby changing the classification of leisure ATVs and mini-vans ("the Vehicles") to private vehicles. The plaintiffs claim that the defendants chose to continue to define the Vehicles as commercial vehicles, ostensibly in contravention of the provisions of the law. It is also claimed that in respect of vehicles manufactured after the reform was in place, i.e. from the year 2008 and on, the defendants changed their conduct and insured the Vehicles as private vehicles, thus, ostensibly creating discrimination. The plaintiffs claim that by classifying the Vehicles as commercial vehicles, even though they are classified by the Ministry of Transportation as private vehicles (M-1), the defendants allegedly collect higher insurance premiums than they do for private vehicles. The plaintiffs estimate the amount of the claim for all group members at a sum exceeding NIS 189 million.

15. In December 2012, a claim was filed against the subsidiary Harel in the Aviv District Court, together with an application for 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 all members of the group. The parties are conducting a mediation process.

16. 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. The total loss claimed for all members of the group amounts to sums varying from NIS 168 million to NIS 807 million. The parties are conducting a mediation process.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

17. 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.

18. 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.

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. 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 total loss claimed for all members of the group amounts to NIS 14 million.

20. 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).

21. 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. In January 2015, the position of the Commissioner of Insurance was submitted, according to which the court's suggestion that a limitation should be added in the insurance certificates so that the final date for payment of the certificate is the date on which the insurance takes effect or seven days after the insurance certificate is issued, whichever is later, is impossible under present legislative conditions and that regulation of such practice is undesirable.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

22. 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. In January 2015, the applicant filed an application to replace his attorney together with an application to amend the motion to certify the claim as a class action.

23. 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.

24. 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 health insurance for the diagnosis of critical illness ("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 Plaintiff, 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 Plaintiff has made no estimate of the loss claimed for all members of the Group that it wishes to represent.

25. 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. Based on the action, the Plaintiffs estimate that the total loss claimed for all members of the Group that they wish to represent amounts to NIS 50 million against Harel Insurance.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

26. In May 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 in a manner different from the way in which it was supposed to calculate the benefits under the Tender conditions. The total loss claimed for all members of the Group that the applicant wishes to represent amounts to NIS 15.75 million. The court sought to accept the position of the Commissioner of Insurance and the Accountant General in connection with the application for certification of the claim as a class action. The Commissioner's position, as expressed verbally during the hearing is that insofar as it did not do so, Hare must supplement the shortfall in insurance benefits for policyholders, although it does not have to refund premiums to policyholders and it would appear (subject to further review of the facts) that there is no room to obligate it to send amended policies to the policyholders. The Commissioner was asked to submit her opinion in writing as well.

27. 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.

28. 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.

29. 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.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

30. 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 holders of its travel insurance policies, 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 converting 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.

31. 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, 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.

32. 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 Defendants") 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 Defendants in order to activate an overseas travel insurance policy that they are entitled to receive free of charge ("the Basic Policy"), the Defendants ostensibly then sell 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 deducting 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.

33. In December 2014, an application was filed in the Haifa District Court to certify a claim as a class action against the subsidiary Dikla and against Clalit Health Services (hereinafter together: "the Defendants"). The subject of the action is an allegation that Clalit Health Services allegedly gives Dikla the personal details of its members without their prior consent, and that Dikla uses this information to contact Clalit members to enroll them in the group long-term care insurance for members of Clalit Health Services. The Defendants thus, ostensibly, as argued by the applicant, operate in contravention of the Protection of Privacy Law, 1981, the Freedom of Information Law, 1998, and the Patient's Rights Law, 1996. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 24 million.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

34. In December 2014 an application was filed in the Tel Aviv District Court (Economic Department) to certify an action as a class action against Harel-Pia Mutual Funds Ltd. ("Harel-Pia"), against 8 other fund management companies and against 6 trust companies that served as trustees for the mutual funds (hereinafter together: "the Defendants"). The subject of the action is the allegation that before Amendment no. 14 to the Joint Investment Trust Law, 1994 ("the Investment Law") entered into force, the Defendants that are mutual fund management companies, performed transactions for the holders of participation units in the funds ("the Investors"), ostensibly without making any effort to reduce the brokerage fee that is paid by the Investors, and that the Defendant trust funds allegedly refrained from fulfilling their duty as trustee by not operating for the good of the Investors in the funds and they did not oversee the activity in the mutual funds. The Plaintiffs argue that the Defendants were therefore ostensibly in breach of their fiduciary obligation and/or the duty of caution towards the investing public, they operated contrary to the provisions of the Investment Law and statutory provisions, were in breach of a legislated obligation, practiced unjust enrichment, and acted so as to mislead and take advantage of the Investors monies. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 45 million against Harel-Pia and a total of NIS 220 million against all the Defendants.

35. In March 2015, a claim was filed in the Rehovot Magistrate's Court against the subsidiary Harel Insurance, with an application for its certification as a class action. The subject of the action is the allegation that Harel Insurance ostensibly does not allow the recipients of advertising material sent by SMS to reply by SMS that they do not wish to receive any more advertising material from Harel Insurance and they must "opt out" through the Harel Insurance website. The Plaintiff argues that Harel Insurance therefore operates in contravention of the statutory provisions. The Plaintiff has made no estimate of the loss claimed for all members of the Group that it wishes to represent, but limits it to the limit of the Magistrate Court's authority, which is NIS 2.5 million.

36. In March 2015, an action was filed in the Rishon LeZion Magistrate's Court together with an application for its recognition as a class action against the subsidiary Harel Insurance. The subject of the action is an allegation that Harel Insurance does not cover aesthetic disability for athletes in the personal accident policy, and this ostensibly, contrary to the provisions of the Sport Law, 1988, and the Sports (Insurance) Regulations, 1994. The Plaintiff has made no estimate of the loss claimed for all members of the Group that it wishes to represent, but limits it to the limit of the Magistrate Court's authority, which is NIS 2.5 million.

Actions filed after the Reporting Period

37. In April 2015, an action was filed in the Tel Aviv-Jaffa District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against Pelephone Communications Ltd. The subject of the action is the allegation that Harel Insurance allegedly practices prohibited discrimination on the basis of gender and sexual orientation between men who are not in a spousal relationship with a woman and men who are in a spousal relationship with a woman and women with respect to providing insurance cover for pregnancy and birth as part of health insurance policies. The Plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 52 million.

Note 6 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

Summary table:

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

Type	Number of claims	Amount claimed NIS thousand
Actions certified a class action:		
Amount pertaining to the Company and/ or subsidiaries is specified	2	117,731
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	-	-
Claim amount is not specified	1	
Pending requests for certification of actions as class actions:		
Amount pertaining to the Company and/ or subsidiaries is specified	22	2,842,939
Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries	8	3,130,290
Claim amount is not specified	4	
Other significant claims	1	18,782

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

The total provision for claims filed against the Company as noted above amounts to NIS 43 million (at December 31,2014, an amount of NIS 46 million).

Note 6 - Contingent liabilities and commitments (contd.)

B. Other contingent liabilities

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

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

3. In February 2014, a claim was filed in the Tel Aviv District Court (Economic Department) together with an application for its certification as a derivative claim against the subsidiary Harel Insurance, against four other insurance companies and against Clalit Health Services, in which the hearing was consolidated with a claim and application on the same subject that was filed in March 2014 against the subsidiary Harel Insurance, against four other insurance companies, and against Maccabi Healthcare Services (Clalit Health Services and Maccabi Healthcare Services, together - "the HMOs"). The applications to recognize the actions as derivative claims, after they were amended pursuant to a request which was accepted by the court, are the argument that the HMOs allegedly 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 as part of the supplementary health services ("SHS") in those instances where, ostensibly, the liabilities in the SHS overlap with those in the health insurance policies sold by the insurance companies, and in respect of expenses incurred by the HMOs as part of the services they render under the National Health Insurance Law, 1994 ("the Basic Basket of Services") in relation to those instances where there is such overlap between the Basic Basket of Services and the health insurance policies sold by the insurance companies. The Plaintiffs argue that most of the overlap is in respect of performing surgery (choice of surgeon and any related costs) and for medical consultations. The applications were filed after the HMOs made it clear to the Plaintiffs, subsequent to their request, that they refuse to file such an action against the insurance companies after explaining to the claimants that the action is unfounded both with respect to the provisions of the law and from other perspectives, and that as long as the present provisions of law remain unchanged, there is no place for such an action. The Plaintiffs estimate the amount of the claim against all the insurance companies being sued to be about NIS 5.2 billion. Based on the opinion of its legal advisors, the management of Harel Insurance is of the opinion that the action is more likely to be rejected than accepted and it therefore did not include provision in the financial statements for this action.

Note 6 - Contingent liabilities and commitments (contd.)

C. Claims that were settled during the Reporting Period

1. 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 the right to receive a survivors pension, 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.
   On January 8, 2015, the Plaintiff filed an amended statement of claim against Manof Pension Fund Management Ltd. and against the Superintendent of the Capital Market, Insurance and Savings, replacing the application to certify the action as a class action. The amended claim requests declarative relief to instruct that the relevant clause in the pension fund's articles should be repealed and to repeal similar clauses in the articles of the pension funds, including the standard articles of the old pension funds. In its ruling on that date, the Regional Labor Court ordered a change in the categorization of the case so that it will no longer be defined as an application for certification as a class action. The hearing on the application for certification as a class action was therefore concluded.

2. 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. The Plaintiff asked to include the motion for certification as a class action in a previous motion to certify a class action on a similar subject (as noted in Section A (25) ("the Previous Application"). On February 23, 2015, 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 fact that the previous application is broader and contains all the arguments and necessary information in this application.

3. In January 2008, an action was filed against the subsidiary Harel Insurance and four other insurance companies in the Tel Aviv District Court, together with an application for its certification as a class action. The subject of the action is a claim that the Defendants 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. The Plaintiffs claim that the Defendants collected management fees at a monthly rate higher than the permitted rate and also collected variable management fees on a monthly basis, instead of collecting them at the end of the year. On June 30, 2013, the parties filed an application to approve a compromise settlement in the class action. The parties submitted a motion to the court to approve an amended compromise settlement, following the court's comments in a hearing that took place after the State Attorney had submitted his opinion objecting to some of the elements in the compromise settlement. On March 18, 2015, the Tel Aviv-Jaffa District Court validated the amended compromise settlement as a court ruling. Pursuant to the compromise settlement, Harel Insurance will reimburse its insureds, members of the relevant group who held relevant policies (one or more) during the relevant period (all or part thereof) with fifty three percent (53%) of the difference between the methods of calculation - the difference between the accrued amount of savings actually credited to the insured in the policy and the amount that would have been accrued to that insured's credit in the policy, had Harel Insurance acted according to the Plaintiffs' method. Additionally, Harel will pay the Plaintiff and his attorney compensation and lawyers' fees of an insignificant amount.

Note 6 - Contingent liabilities and commitments (contd.)

C. Claims that were settled during the Reporting Period (contd.)

4. In October 2013, an action was filed in the Central District Court in Lod, together with an application for its recognition as a class action, against the subsidiary Harel Insurance and against Maccabi Israel ("the Defendants"). The subject of the action is the 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, 1994. Subsequent to the class applicant's motion to withdraw from the application for certification of the claim as a class action, on November 10, 2014, the court approved the request of the applicant's attorney to replace the class plaintiff as a result of which a claim and application for its certification as amended class actions were filed. In December 2014, the Defendants filed an application to strike out, in limine, the amended application for certification of the action as a class action. On March 19, 2015, the court accepted the Company's application to strike out the application for certification of the action as a class action, in limine.

Note 7 - Capital requirements and management

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

	As at March 31, 2015			As at December 31, 2014		
	Harel Insurance	EMI	Dikla	Harel Insurance	EMI	Dikla
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Amount required according to regulations and Commissioner's directives (A)	**5,442,586**	**118,804**	**526,318**	5,240,766	127,770	498,368
Present amount calculated in accordance with the Capital Regulations:						
Tier-1 capital						
Basic Tier-1 capital	**3,810,540**	**464,120**	**613,865**	3,780,737	471,918	591,975
Hybrid tier-1 capital	**350,517**	**-**	**-**	350,813	-	-
Total tier-1 capital	**4,161,057**	**464,120**	**613,865**	4,131,550	471,918	591,975
Tier-2 capital						
Subordinated tier-2 capital (B)	**223,642**	**-**	**-**	501,192	-	-
Hybrid tier-2 capital (C)	**1,213,578**	**-**	**99,879**	939,355	-	99,871
Total tier-2 capital	**1,437,220**	**-**	**99,879**	1,440,547	-	99,871
Hybrid tier-3 capital	**742,442**	**-**	**-**	753,816	-	-
	2,179,662	**-**	**99,879**	2,194,363	-	99,871
Total existing equity calculated in accordance with the Capital Regulations	**6,340,719**	**464,120**	**713,744**	6,325,913	471,918	691,846
Surplus at report date	**898,133**	**345,316**	**187,426**	1,085,147	344,148	193,478
Events after the balance sheet date						
Obsolescence of tier-2 capital	**(24,665)**	**-**	**-**	(71,325)	-	-
Replacement of Series 1	**-**	**-**	**-**	(202,150)	-	-
Issue of hybrid tier-2 capital after balance sheet date	**-**	**-**	**-**	283,264	-	-
Dividend distribution	**-**	**(15,000)**	**-**	(100,000)	(25,000)	-
Total events after the report date	**(24,665)**	**(15,000)**	**-**	(90,211)	(25,000)	-
Amount retained taking into account events after the balance sheet date	**873,468**	**330,316**	**187,426**	994,936	319,148	193,478

Note 7 - Management and capital requirements (contd.)

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

	As at March 31, 2015			As at December 31, 2014		
	Harel Insurance	EMI	Dikla	Harel Insurance	EMI	Dikla
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Activity in non-life insurance	653,211	118,804	88,745	653,248	127,770	90,185
Activity in long-term care insurance (LTC)	85,052	-	208,360	83,950	-	194,196
Capital requirements for yield-guaranteed plans	49,924	-	-	47,726	-	-
Investment assets and other assets (D)	1,321,846	-	46,535	1,205,688	-	37,117
Catastrophe risks in non-life insurance	78,293	-	-	79,439	-	-
Operating risks	306,820	-	48,542	299,951	-	47,039
Deferred acquisition costs in life assurance and insurance against illness and hospitalization	1,281,910	-	125,222	1,251,448	-	122,318
Investment in consolidated management companies, insurers and Taurus	1,254,701	-	-	1,218,426	-	-
Extraordinary risks in life assurance (E)	345,416	-	8,218	338,531	-	6,844
Unrecognized assets as defined in the Capital Regulations (F)	65,413	-	696	62,359	-	669
	5,442,586	118,804	526,318	5,240,766	127,770	498,368
Relief in capital requirements for cost of acquiring provident funds *	202,500	-	-	203,827	-	-

* The supplement, which is included in the calculation 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 119 million at March 31, 2015.

b. Including subordinated promissory notes in the amount of NIS 308,426 thousand that were issued until December 31, 2006 and constitute subordinated tier-2 capital.

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

d. The capital requirements for assets of a total value of NIS 1,123 million in Harel Insurance and NIS 61 million in Dikla, which were rated in an internal rating was determined in accordance with the capital requirement which is consistent with their defined rating level, based on the internal rating plus 50% of the difference between the capital requirement for the aforesaid rating and the capital requirement for unrated assets.

   The additional capital requirement for these assets amounts to NIS 65 million in Harel Insurance and NIS 3.5 million in Dikla.

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

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

2. For information about the undertaking of Harel Investments to supplement the required equity of the subsidiaries that are financial institutions (insurers, provident fund management companies and pension fund management companies), see Note 8 to the annual financial statements. At the date of the financial statements, the Group's financial institutions are in compliance with the capital requirements that apply to them.

Note 7 - Management and capital requirements (contd.)

3. In March 2012, the ISA published draft Joint Investment Trust (Backing Account) Regulations, 2012 ("Backing Account Regulations"), which regulate the amount that an ETN manager is required to deposit in a backing account as a cushion 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 amended to legislation initiated by the ISA to regulate the ETN market, as part of the Joint Investment 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.

4. Harel Investments provided 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 is due to the increase in the scope of its operations and to ISA instructions concerning a backing account. At the date of the financial statements, Harel Sal is in compliance with the capital requirements and has utilized NIS 5 million of the credit facility provided by Harel Investments

5. Subsidiaries which manage mutual funds and investment portfolios are obligated to hold minimum equity in accordance with the directives of the Israel Securities Authority. The companies work continuously to comply with this requirement. At March 31, 2015, the subsidiaries are in compliance with these requirements.

6. On March 18, 2015, the Board of Directors of Harel Insurance approved the distribution of a cash dividend in the amount of NIS 100 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, 2014, presenting the distributable surplus of Harel Insurance at December 31, 2014, and examining the capital surplus and capital requirements of Harel Insurance as consistent with its equity management policy. The dividend was paid on March 29, 2015.

7. On March 15, 2015, the Board of Directors of EMI approved the distribution of a dividend in the amount of NIS 25 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 as at December 31, 2014; the distributable surplus of EMI as at December 31, 2014 was presented, and the capital surpluses and equity requirements of EMI were tested, based on the equity management policy of EMI. The dividend was paid on March 26, 2015.

8. On May 17, 2015, the Board of Directors of EMI approved the distribution of a dividend in the amount of NIS 15 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 insurers). The Board of Directors reached its decision after taking into account the financial results of EMI as at March 31, 2015; the distributable surplus of EMI as at March 31, 2015 was presented, and the capital surpluses and equity requirements of EMI were tested, based on the equity management policy of EMI.

9. To enable Turk Nippon to comply with the capital regulations as an insurer operating in Turkey, on April 26, 2015 the Company's Board of Directors approved a capital injection of about NIS 13 million for 2015.

Note 7 - Management and capital requirements (contd.)

10. Information about the progress made for implementing Solvency II

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

In the Solvency II deployment circular, 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 organizational 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 directive's requirement, a steering committee has been established under the leadership of a risk manager responsible for preparing the Company for the implementation of Solvency II. Each quarter, the steering committee and the Board of Directors' committee monitor the Company's preparations for the implementation of the directive.

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

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

The last study which was conducted on data for the end of 2012 was submitted to the Commissioner of Insurance on February 16, 2014.

The study also included a special CPA report as required.

On April 30, 2014, revised instructions were published in Europe for calculating the first pillar of Solvency II. These instructions update 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 directives in Europe by June 2015, based on the European directives with the relevant adjustments for Israel, during the course of 2016 the Commissioner intends to publish directives for computing a new solvency ratio which will replace the present directives. 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. Until a new solvency ratio is applied, any further exercises will be performed on the basis of the new instructions. These exercises are designed to examine the model’s quantitative effects on insurance companies and to calibrate and adjust the model.

On April 19, 2015, the Commissioner’s office published an instruction for performing an exercise for 2014 (IQIS4). The exercise is based on the revised guidelines from Europe with adjustments to the Israeli market. The results of the exercise will be reported to the Commissioner by the end of August 2015, based on the instruction. A letter accompanying the instructions stated that the exercise reflects the Commissioner’s decision with respect to the required adjustments for the Israeli market, and they will be expressed in the new instructions. Furthermore, the letter stated that in preparation for an additional exercise (IQIS5), to be held at a later date, the Commissioner’s office will add and monitor developments in the European instructions, insofar as there are any, and will discuss the adjustments required for Israel.

Note 7 - Management and capital requirements (contd.)

10. Information about the progress made for implementing Solvency II (contd.)

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

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

11. Concerning the replacement of some of the Series 1 promissory notes that were issued by Harel Insurance, Finance and Share Issues, see Note 8.

Note 8 - Financial liabilities

A. Information about financial liabilities

	As at March 31 (Unaudited)		As at December 31 (Audited)	As at March 31 (Unaudited)		As at December 31 (Audited)
	Book value			Fair value		
	2015	2014	2014	2015	2014	2014
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Financial liabilities presented at amortized cost						
Loans from banks (1)	**552,600**	371,020	557,163	**556,478**	371,020	557,163
Loans from non-bank corporations (1)	**93,258**	98,627	98,141	**96,236**	100,832	97,914
Loans from interested parties	**958**	920	948	**958**	920	948
Short-term credit from banks and other corporations	**33,747**	26,810	33,649	**33,747**	26,810	33,649
Subordinated promissory notes (2)	**2,354,759**	2,385,583	2,406,280	**2,712,097**	2,706,543	2,679,536
	3,035,322	2,882,960	3,096,181	**3,399,516**	3,206,125	3,369,210
Financial liabilities stated at fair value through profit or loss						
Loans from banks (3)	**378,738**	5,904	238,862	**378,738**	5,904	238,862
Derivatives (4)	**764,292**	263,233	1,085,851	**764,292**	263,233	1,085,851
Short selling	**81,228**	14,060	54,872	**81,228**	14,060	54,872
	1,224,258	283,197	1,379,585	**1,224,258**	283,197	1,379,585
Total financial liabilities	**4,259,580**	3,166,157	4,475,766	**4,623,774**	3,489,322	4,748,795
Subordinated promissory notes that constitute tier-2 and tier-3 capital	**2,279,541**	2,225,834	2,294,234			

(1) Most of the loans are for short periods or with variable interest so that their fair value is close to their book value.

(2) The fair value of subordinated promissory notes was calculated according to the price on the stock exchange at March 31, 2015, March 31, 2014 and December 31, 2014. The average annual linked interest rates used to determine the fair value of the non-marketable promissory notes is 1.12%, 1.35% and 1.5% at March 31, 2015, March 31, 2014 and December 31, 2014, respectively.

(3) Harel Financial Products has arbitrage activity that is performed as part of the ETNs 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 March 31, 2015 the outstanding financial liability for this activity was NIS 308 million.

(4) Derivative financial instruments held against insurance liabilities as part of the Group's asset liability management policy ("ALM"). Of the above, NIS 517 million as at March 31, 2015, NIS 195 million as at March 31, 2014, and NIS 624 million as at December 31, 2014, are included in the non- yield dependent liabilities, and the balance is included in the Group's yield-dependent liabilities. Most of the amount stems from the management of exposure to foreign currency and the CPI by means of derivatives. Against these liabilities, the financial institutions deposited collateral in accordance with the conditions prescribed in the contract. The Group's financial institutions have approved credit facilities for their derivative activity. Furthermore, the Group's financial institutions deposited NIS 411 million as collateral to cover the liabilities arising from this activity.

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).

	As at March 31, 2015 (unaudited)		
	Level 1	Level 2	Total
	NIS thousand	NIS thousand	NIS thousand
Loans from banks	-	378,738	378,738
Derivatives	8,681	755,611	764,292
Short selling	81,228	-	81,228
Total financial liabilities stated at fair value through profit or loss	89,909	1,134,349	1,224,258

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

	As at December 31, 2014 (audited)		
	Level 1	Level 2	Total
	NIS thousand	NIS thousand	NIS thousand
Loans from banks	-	238,862	238,862
Derivatives	19,948	1,065,903	1,085,851
Short selling	54,872	-	54,872
Total financial liabilities stated at fair value through profit or loss	74,820	1,304,765	1,379,585

Note 8 - Financial liabilities (contd.)

C. Additional information

1. Pursuant to that stated in Note 25(G)(3) in the Company's 2014 annual financial statements, on March 11, 2015, 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 5 million, in parallel to an identical early repayment to the bank. This partial repayment was made on March 15.

2. Shelf offering report

   On December 23, 2014, a shelf offering report of Harel Share Issues was published, which was amended on January 4, 2015. Within the context of the shelf offering report, Harel Share Issues contacted the holders of Series 1 bonds of Harel Share Issues with an exchange purchase offer in return for Series 9 bonds and Series 10 bonds of Harel Share Issues.

3. Financial covenants

   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 25 to the annual financial statements. At March 31, 2015 the Company and its subsidiaries are in compliance with the financial covenants which were determined.

4. Replacement of Series 1 promissory notes

   On January 7, 2015, some of the Series 1 promissory notes that were issued in 2006 ("Promissory Notes") by Harel Insurance, Financing and Issuances, a wholly owned subsidiary of Insurance, were replaced with two new series of marketable promissory notes, Series 9 and 10. In December 2014, these series received a rating of 'ilAA-' from Standard & Poor's Maalot ("Maalot") in the total amount of up to NIS 700 million par value, and after receiving the Commissioner's approval that the proceeds of the issuance could be used as hybrid tier-2 capital by Harel Insurance.

   The promissory notes were replaced by way of an exchange purchase offer based on a shelf proposal report of Harel Share Issues dated December 23, 2014, which was amended on January 4, 2015, and by virtue of a shelf prospectus of Harel Share Issues dated February 11, 2014 as amended on December 22, 2014.

   As part of this replacement, a total of NIS 236,308 thousand par value Series 1 bonds was replaced, accounting for 57.1% of the total Series 1 bonds in circulation, by a total of NIS 170,142 thousand par value Series 9 bonds and NIS 170,142 thousand par value Series 10 bonds. The new series will serve as hybrid tier-2 capital for Harel Insurance.

   Series 9: CPI-linked bearing a fixed interest of 2.4%. The interest will be paid in semi-annual installments. The principal will be paid on December 31, 2028, which is the final maturity date for the series.

   Series 10: CPI-linked bearing a fixed rate of interest of 2.4%. The interest will be paid in semi-annual installments. The principal will be paid on December 31, 2029, which is the final maturity date for the series.

   The replacement ratio determined is: for each NIS 1 par value Series 1 bonds, the Company issued NIS 0.72 par value Series 9 bonds and NI 0.72 par value Series 10 bonds. The bonds include a condition whereby three years before the final maturity date of each series, the Company may perform early redemption of the series, or part thereof. The right may be exercised subject to obtaining the Commissioner's approval. Furthermore, the Company is entitled to perform early redemption of the bonds, without giving the holders of the bonds or the trustee the right to choose, fifteen years after their date of issue, as specified in the terms of the prospectus.

   The replacement described above was accounted for as a swap of debt instruments whose conditions are not significantly different, and there was therefore no effect on profit or loss The effective interest for Harel Insurance for the Series 9 and 10 promissory notes yield is 4.364% and 4.221% respectively.

5. Maalot Rating

   In January 2015, 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 by Harel Share Issues as part of the Series 2-10 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.

6. As part of the OTC transaction a subsidiary issued to a third party, in several transactions, non-marketable reverse debt certificates on certain shares. The value of the transaction in terms of the underlying asset is NIS 75 million. The transactions are to be completed one year from their execution date.

Note 9 - Investment property for yield-dependent contracts

A. Fair value compared with book value

Assets held against liabilities for yield-dependent insurance policies presented in accordance with the provisions of Circular 2009-9-2 at amortized cost, and non-marketable assets held against a yield-dependent group long-term care portfolio that were classified to loans and receivables and are present at amortized cost. The book value of these assets at March 31, 2015, is NIS 479,342 thousand (at March 31, 2014 and December 31, 2014 - NIS 409,746 thousand and NIS 432,357 respectively), while their fair value at March 31, 2015 is NIS 534,389 thousand (at March 31, 2014 and December 31, 2014 - NIS 456,047 and NIS 470,727 thousand respectively).

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 8B above.

	As at March 31, 2015 (unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	16,653,716	2,658	5,276	16,661,650
Non-marketable debt assets	-	4,953,163	160,065	5,113,228
Shares	5,075,590	-	1,266,462	6,342,052
Other	4,406,090	336,996	2,230,207	6,973,293
Total	26,135,396	5,292,817	3,662,010	35,090,223

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

	As at December 31, 2014 (audited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	16,584,929	2,582	5,332	16,592,843
Non-marketable debt assets	-	4,555,021	125,567	4,680,588
Shares	4,396,709	-	890,301	5,287,010
Other	4,502,812	179,398	1,965,032	6,647,242
Total	25,484,450	4,737,001	2,986,232	33,207,683

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

C. Level 3 assets measured at fair value

For the three-month period ended March 31, 2015

	Fair-value measurement on reporting date			
	Financial assets at fair value through profit or loss			
	Debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2015	**130,899**	**890,301**	**1,965,032**	**2,986,232**
Total profits (losses) that were recognized:				
In profit and loss	**9,243**	**14,181**	**84,882**	**108,306**
Interest and dividend receipts	**(1,750)**	**(24,055)**	**(46,237)**	**(72,042)**
Purchases	**24,889**	**319,994**	**358,977**	**703,860**
Sales	**(264)**	**(25,654)**	**(40,157)**	**(66,075)**
Redemptions	**(3,009)**	**(595)**	**-**	**(3,604)**
Transfers to Level 3 *	**5,333**	**-**	**-**	**5,333**
Classification of balances	**-**	**92,290**	**(92,290)**	**-**
Balance as at March 31, 2015	**165,341**	**1,266,462**	**2,230,207**	**3,662,010**
Total profit for period included in profit and loss for assets held correct to March 31, 2015	**9,243**	**14,082**	**89,545**	**112,870**

* In respect of securities whose rating changed.

For the three-month period ended March 31, 2014

	Fair-value measurement on reporting date			
	Financial assets at fair value through profit or loss			
	Debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2014	100,922	618,689	1,433,444	2,153,055
Total profits (losses) that were recognized:				
In profit and loss	7,902	15,052	75,654	98,608
Interest and dividend receipts	(1,526)	(3,729)	(16,140)	(21,395)
Purchases	9,705	2,806	192,244	204,755
Sales	(47)	(293)	(40,551)	(40,891)
Redemptions	(137)	(1,055)	(79)	(1,271)
Transfers from Level 3 *	-	(22,224)	-	(22,224)
Balance as at March 31, 2014	116,819	609,246	1,644,572	2,370,637
Total profit for period included in profit and loss for assets held correct to March 31, 2014	5,041	12,075	75,494	92,610

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

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

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

For the year ended December 31, 2014

	Fair-value measurement on reporting date			
	Financial assets at fair value through profit or loss			
	Debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2014	100,922	618,689	1,433,444	2,153,055
Total profits (losses) that were recognized:				
In profit and loss	31,226	125,332	235,793	392,351
Interest and dividend receipts	(8,546)	(31,764)	(75,935)	(116,245)
Purchases	51,049	248,115	564,531	863,695
Sales	(20,118)	(33,141)	(185,196)	(238,455)
Redemptions	(23,422)	(14,706)	(7,605)	(45,733)
Transfers to Level 3 *	13,450	-	-	13,450
Transfers from Level 3 **	(13,662)	(22,224)	-	(35,886)
Balance as at December 31, 2014	130,899	890,301	1,965,032	2,986,232
Total profit for year included in profit and loss for assets held correct to December 31, 2014	8,660	130,483	232,344	371,487

* Mainly for securities whose marketability changed or the price was determined by means of an individual quote.
** Mainly for securities that were issued for trade on the stock exchange.

D. Level 2 and 3 assets measured at fair value

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

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

	As at March 31, 2015 (unaudited)				
	Revalued at fair value through profit and loss	Available-for-sale	Held to maturity (*)	Loans and receivables	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets (1)	858,613	7,172,157	323,291	-	8,354,061
Non-marketable debt assets (2)	326	-	-	10,215,768	10,216,094
Shares (3)	-	724,628	-	-	724,628
Other (4)	307,595	2,000,448	-	-	2,308,043
Total	1,166,534	9,897,233	323,291	10,215,768	21,602,826

	As at March 31, 2014 (unaudited)				
	Revalued at fair value through profit and loss	Available-for-sale	Held to maturity (*)	Loans and receivables	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets (1)	1,166,648	7,291,279	361,888	-	8,819,815
Non-marketable debt assets (2)	782	-	-	9,672,154	9,672,936
Shares (3)	-	613,616	-	-	613,616
Other (4)	277,776	1,721,553	-	-	1,999,329
Total	1,445,206	9,626,448	361,888	9,672,154	21,105,696

	As at December 31, 2014 (audited)				
	Revalued at fair value through profit and loss	Available-for-sale	Held to maturity (*)	Loans and receivables	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets (1)	918,950	7,323,982	340,306	-	8,583,238
Non-marketable debt assets (2)	776	-	-	9,957,215	9,957,991
Shares (3)	116	673,791	-	-	673,907
Other (4)	300,575	1,976,472	-	-	2,277,047
Total	1,220,417	9,974,245	340,306	9,957,215	21,492,183

* Assets held to maturity are presented at amortized cost. The fair value of these assets at March 31, 2015, March 31, 2014 and December 31, 2014 is NIS 350,145, NIS 393,003, and NIS 360,775 thousand respectively.

Note 10 - Other financial investments (contd.)

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

(1) Marketable debt assets

	Book value as at March 31		Book value as at December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Government bonds			
Presented at fair value through profit or loss designated upon initial recognition	**304,643**	538,926	347,459
Available-for-sale	**2,623,872**	3,371,016	3,103,301
Total government bonds	**2,928,515**	3,909,942	3,450,760
Other debt assets			
non-convertible			
Presented at fair value through profit or loss designated upon initial recognition	**547,418**	615,319	562,865
Held to redemption	**323,291**	361,888	340,306
Available-for-sale	**4,548,285**	3,920,262	4,220,681
Total other non-convertible debt assets	**5,418,994**	4,897,469	5,123,852
Convertible			
Presented at fair value through profit or loss designated upon initial recognition	**6,552**	12,404	8,626
Total other convertible debt assets	**6,552**	12,404	8,626
Total marketable debt assets	**8,354,061**	8,819,815	8,583,238
Outstanding impairments recognized in profit or loss for debt assets presented as available-for-sale	**2,781**	1,138	7,268

Note 10 - Other financial investments (contd.)

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

(2) Non- marketable debt assets

	As at March 31 (Unaudited)		As at December 31 (Audited)	As at March 31 (Unaudited)		As at December 31 (Audited)
	Book value			Fair value		
	2015	2014	2014	2015	2014	2014
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Government bonds Accounted for as loans and receivables:						
Earmarked bonds	**4,480,530**	4,327,271	4,501,247	**5,956,896**	5,187,859	5,784,022
Total government bonds	**4,480,530**	4,327,271	4,501,247	**5,956,896**	5,187,859	5,784,022
Other non-convertible debt assets Accounted for as loans and receivables, excluding bank deposits	**4,841,640**	4,571,789	4,689,230	**5,738,710**	5,229,713	5,319,043
Bank deposits	**893,598**	773,094	766,738	**1,025,150**	885,451	864,590
Total other non-convertible debt assets	**5,735,238**	5,344,883	5,455,968	**6,763,860**	6,115,164	6,183,633
Other convertible debt assets Presented at fair value through profit or loss designated upon initial recognition	**326**	782	776	**326**	782	776
Total other convertible debt assets	**326**	782	776	**326**	782	776
Total non-marketable debt assets	**10,216,094**	9,672,936	9,957,991	**12,721,082**	11,303,805	11,968,431
Outstanding impairments recognized in profit or loss	**8,875**	62,225	8,987			

Note 10 - Other financial investments (contd.)

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

(3) Shares

	Book value as at March 31		As at December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Marketable			
Presented at fair value through profit or loss designated upon initial recognition	-	-	116
Available-for-sale	643,627	509,942	557,838
Total marketable shares	643,627	509,942	557,954
Non-marketable			
Available-for-sale	81,001	103,674	115,953
Total non-marketable shares	81,001	103,674	115,953
Total	724,628	613,616	673,907
Outstanding impairments recognized in profit or loss	41,958	56,116	48,944

(4) Other Financial Investments

	Book value as at March 31		As at December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Marketable			
Presented at fair value through profit or loss designated upon initial recognition	5,501	156,074	126,172
Available-for-sale	1,000,508	989,661	982,398
Derivative financial instruments	4,725	4,734	12,690
Total marketable financial investments	1,010,734	1,150,469	1,121,260
Non-marketable			
Presented at fair value through profit or loss designated upon initial recognition	143,958	73,322	72,265
Available-for-sale	999,940	731,892	994,074
Derivative financial instruments	153,411	43,646	89,448
Total non-marketable financial investments	1,297,309	848,860	1,155,787
Total other financial investments	2,308,043	1,999,329	2,277,047
Outstanding impairments for other financial investments presented as available-for-sale	70,631	81,743	70,943
Derivative financial instruments presented in financial liabilities	517,041	194,824	623,802

Note 10 - Other financial investments (contd.)

B. Fair value hierarchy of financial assets

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

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

	As at March 31, 2015 (unaudited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	8,030,770	-	-	8,030,770
Non-marketable debt assets	-	-	326	326
Shares	643,627	-	81,001	724,628
Other	1,010,734	153,411	1,143,898	2,308,043
Total	9,685,131	153,411	1,225,225	11,063,767

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

	As at December 31, 2014 (audited)			
	Level 1	Level 2	Level 3	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets	8,242,932	-	-	8,242,932
Non-marketable debt assets	-	-	776	776
Shares	557,953	-	115,954	673,907
Other	1,121,260	89,448	1,066,339	2,277,047
Total	9,922,145	89,448	1,183,069	11,194,662

Note 10 - Other financial investments (contd.)

C. Level 3 financial instruments measured at fair value

For the three-month period ended March 31, 2015

	Fair-value measurement on reporting date			
	Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Balance as at January 1, 2015	**776**	**115,954**	**1,066,339**	**1,183,069**
Total profits (losses) that were recognized:				
In profit and loss	**(148)**	**17,841**	**56,820**	**74,513**
In other comprehensive income	**-**	**(16,579)**	**(27,537)**	**(44,116)**
Interest and dividend receipts	**-**	**(3,549)**	**(20,936)**	**(24,485)**
Purchases	**-**	**-**	**202,233**	**202,233**
Sales	**(302)**	**(648)**	**(20,714)**	**(21,664)**
Transfers from Level 3 *	**-**	**(32,018)**	**(112,307)**	**(144,325)**
Balance as at March 31, 2015	**326**	**81,001**	**1,143,898**	**1,225,225**
Total profits (losses) for period included in profit and loss for assets held correct to March 31, 2015	**(148)**	**3,554**	**23,262**	**26,668**

* Classification of amounts retained for investees

For the three-month period ended March 31, 2014

	Fair-value measurement on reporting date			
	Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	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 and loss	-	4,707	7,575	12,282
In other comprehensive income	-	(533)	32,918	32,385
Interest and dividend receipts	-	(1,368)	(4,921)	(6,289)
Purchases	-	380	80,580	80,960
Sales	(6)	(141)	(11,738)	(11,885)
Transfers from Level 3 *	-	(6,583)	-	(6,583)
Balance as at March 31, 2014	782	103,674	805,214	909,670
Total profit for period included in profit and loss for assets held correct to March 31, 2014	-	1,378	7,690	9,068

* For securities whose marketability changed

Note 10 - Other financial investments (contd.)

C. Level 3 financial instruments measured at fair value

For the year ended December 31, 2014

	Fair-value measurement on reporting date			
	Financial assets at fair value through profit or loss and available-for-sale assets			
	Non-marketable debt assets	Shares	Other	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 and loss	(5)	1,546	36,511	38,052
In other comprehensive income	-	12,607	151,061	163,668
Interest and dividend receipts	-	(4,017)	(27,217)	(31,234)
Purchases	-	9,706	256,735	266,441
Sales	(7)	(4,517)	(47,881)	(52,405)
Redemptions	-	-	(3,670)	(3,670)
Transfers from Level 3 *	-	(6,583)	-	(6,583)
Balance as at December 31, 2014	776	115,954	1,066,339	1,183,069
Total profit (loss) for year included in profit and loss for assets held correct to December 31, 2014	(5)	(1,778)	35,532	33,749

* For securities whose marketability changed

D. Level 2 and 3 assets measured at fair value

Concerning 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. Effect of the continuing decline in interest on the reserves

   A. Liability Adequacy tests

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

   The parameters and assumptions used for the abovementioned tests include assumptions for cancellations, operating expenses, supplement for the difference between fair value and book value of non-marketable assets, capitalization rates, 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 group policies, according to the claims experience of the groups.

   Based on a test conducted by Harel Insurance at March 31, 2015, Harel Insurance included an increase of the insurance liabilities for reserves for personal lines life assurance policies and for reserves for personal lines long-term care policies. This increase was necessary mainly due to the continuing decline in yields, and the decline in the interest rates.

   B. Revision of the discounting interest rates used for calculating 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 by a real annual rate in the range of 0.25% to 0.5% depending on the characteristics of the liability.

   C. Effect of the revised discounting interest and LAT test on financial results in each of the operating segments

   (a) In the life assurance and long-term savings segment - Harel Insurance revised the discounting interest rates used for calculating the reserves for annuity, the interest used to calculate the liabilities for work disability, and the effect of the decrease in the discounting interest rates used for calculating the LAT, was included. Accordingly, an amount of NIS 222 million before tax and NIS 138 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 - Harel Insurance and Dikla revised the discounting interest rates used for calculating liabilities for long-term care claims in payment and the discounting interest rate used for calculating the LAT in the personal lines long-term care reserve. Accordingly, a total of NIS 61 million before tax and NIS 38 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 - Harel Insurance revised the discounting interest rates that used for calculating the insurance liabilities in the employers liability branch and third-party liability branch. Accordingly, a total of NIS 6 million before tax and NIS 4 million after tax, was included as an expense in the financial statements in the Reporting Period and reduced profit and comprehensive income by this amount.

2. Termination of the supply of outsourcing services - Harel Hamishmar Computers Ltd.

   On February 2, 2015, Harel Hamishmar Computers, a Company subsidiary, informed IBM Israel Ltd ("IBM") that it was terminating the agreement for the supply of outsourced services. Under the agreement, IBM provides most of the Group companies with some of the operating and hosting services for their computer systems for the main facility and the back-up site. Termination of the agreement will enter into force during the course of 2015. Concurrently, HHM entered into agreement with several service providers to provide operating and hosting services for the Company's computer systems and to provide a back-up site. Termination of the agreement and the new agreements are not expected to significantly affect the Company's financial performance.

Note 11 - Significant events during the Reporting Period (contd.)

3. Early retirement agreement

   On November 16, 2014, Harel Insurance entered into an agreement whereby part of the arrangement for early retirement of a large employer will be made through yield-dependent insurance policies that pay for annuity that are issued by Harel Insurance. The policies are paid for with one-time deposits on the date of the employee's early retirement or at age 60, whichever is later. During the Reporting Period, one-time deposits in the amount of NIS 216 million were received for this transaction. Over the next five years, deposits in the total amount of an additional NIS 200 million are expected to be received

4. On March 12, 2015 and March 18, 2015, the Company's Audit Committee and Board of Directors, respectively, determined that a transaction with a controlling shareholder shall be deemed negligible 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 transactions, 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 January 21, 2014 by the Board of Directors.

   c. The sum insured in the Company's self-retention in each policy is no more than NIS 10 million (1.6% of the normative gain) and the sum insured in each policy is no more than NIS 50 million). This limitation does not apply to savings policies.

   d. Other agreements, for which the cumulative annual cost to the Group is no more than NIS 100,000.

   It is stipulated that any transaction for services provided by a controlling shareholder or his relative will not be classified as a negligible transaction.

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

   Transactions that fall within the parameters of negligible transactions do not require special approval

5. Application to restructure Ormat Technologies Ltd.

   In December 2014 and January 2015, the audit committees and boards of directors of financial institutions in the Group approved a request to restructure Ormat Technologies Ltd. ("Ormat Technologies"), by virtue of an agreement in which the financial institutions of Harel Group provided a loan to Ormat Technologies. Under the agreement, the parent company (Ormat Industries) will continue to control Ormat Technologies and any change in control which does not have Harel's advance consent will be grounds for immediate recall of the loan. The agreement was submitted for the approval of the audit committees and boards of directors due to the fact that Mr. David Granot, who chairs the Credit Committee, is a member of the non-yield dependent investments committee (nostro) and an external director in the Group's financial institutions, is also a director in Ormat Technologies. Pursuant to the recommendation of the credit and investment committees, the audit committees and boards of directors determined that the restructuring of Ormat Technologies does not harm the Group's financial institutions.

6. Revised management and operating agreements - Harel Pension

   On January 26, 2015, the Board of Directors of Harel Insurance approved an extension through 2015 of the agreement between Harel Insurance and Harel Pension and Manof with respect to operating services rendered by Harel Insurance, in consideration of operating fees at an annual rate of 0.1% of the assets of the pension funds, excluding the assets of members covered by the IDF pension arrangement, as long as they are active members through this arrangement and are entitled to the fixed management fees prescribed therein.

   The agreement between Harel Pension and the Company, according to which Harel Pension pays management fees at an annual rate of 0.5% of the annual benefit contributions received by the pension funds managed by Harel Pension, excluding contributions received form the IDF, remains in force in accordance with its conditions.

7. Extension of a special reinsurance treaty with National Indemnity

   In December 2014, Harel Insurance renewed a special agreement for Quota Share reinsurance in the non-life insurance sectors with National Indemnity Company (NICO), a leading company in the insurance arm of Berkshire Hathaway, for 2015. Under the Quota Share reinsurance treaty, NICO insures 10% of the retention for 2015. For 2009 through 2014, NICO will continue to insure 20% of the retention in all the non-life insurance sectors, based on the agreements signed in the past.

Note 12 - Significant events after the Reporting Period

1. Building rights in Harel House, Ramat Gan

   In May 2015, the Regional Planning and Construction Committee approved the addition of 30 floors to Harel House, a property wholly owned by Harel Insurance. The final approval for the additional floors and publication in the Official Gazette is expected to be received in July 2015. The additional floors constitute 22,000 sq.m. of floor space, which will include commercial areas, offices and public areas ("the Additional Building Rights"). Harel House is an office building located at 3 Abba Hillel Road, Ramat Gan, which consists of 21 floors of office space and a 5-storey underground car park. At present, Harel Insurance uses the building for its own purposes. At this stage, Harel Insurance does not intend to begin building the additional floors, and the designation of these floors has not yet been determined. The additional value for obtaining the building rights is expected to be recognized in the Company's financial results when the zoning of the relative share of the land changes from owner-occupied use to investment property, which will take place when the construction work actually begins. Nevertheless, this additional value (the difference between the fair value and the book value) may be used by the Company for calculating the due diligence of the reserves, and as a consequence, it may have a positive impact on the financial performance of Harel Insurance.

2. Dividend distribution by Harel Investments

   On April 28, 2015, the Board of Directors of the Company approved distribution of a cash dividend in the amount of NIS 128 million (NIS 0.6 per share). The Board of Directors' resolution was passed after taking into account the Company's financial results for 2014. The Board of Directors was presented with the distributable profits, capital surpluses of the Company's subsidiaries, the Group's cash requirements, in different scenarios. The Board of Directors tested the Company's compliance with the profit test and solvency test as prescribed in Section 203(A) of the Companies Law. After this test, the Board of Directors approved the Company's compliance with the distribution test. The dividend will be paid on May 17, 2015.

3. Decline in the risk-free interest rate curve

   After the Reporting Period, the risk-free interest rate curve continued to decline. The decline in the interest rate may cause the insurance liabilities to increase. Such a change in the interest curve may positively affect the value of the Group's financial assets in a manner that might reduce this aforesaid impact. In this context, see also Note 38C2 in the 2014 consolidated annual financial statements.

4. Formation of a trade union in Dikla

   On April 16, 2015, the Company announced that Dikla, a subsidiary of the Company, had received a letter from the New Labor Federation ("the Histadrut"), whereby more than one third of Dika's employees had elected to join the Histadrut. After the parties exchanged correspondence, as a result of which the Histadrut signed additional employees on the registration forms, on May 6, 2015, Dikla informed the Histadrut that after examining the information submitted to Dikla by the Histadrut, the Histadrut should in fact be recognized as the representative union of Dikla's employees.

5. Merger of Dikla's insurance activity

   On May 6, 2015, the boards of directors of Harel Insurance and Dikla gave their approval in principle to merging the insurance operations of Dikla into Harel Insurance. Implementation of the merger is subject to the signing of a detailed agreement between Harel Insurance and Dikla, which will regulate all aspects of the merger and will be submitted for the court's approval. Approval must also be obtained from the Commissioner of the Capital Market in the Ministry of Finance, the tax authority, various third parties whose approval is required, and the separate approval of the boards of directors of both companies.

   After the merger, all the insurance activity of Dikla will become part of Harel Insurance. From that date, Dikla will cease to be an insurer and will continue to manage the operations relating to the rendering of operating services for Clalit Health Services, which include the management of existing and new claims and the sale of products.

   The merger of the insurance activity is likely to have a positive impact on the capital requirements of Harel Insurance and the results of Harel Insurance and the Company, due to the calculation of the consolidated capital requirements and insurance liabilities of Dikla and Harel Insurance. Other than this, no effect is expected on the reports of Harel Insurance and the Company, mainly due to the fact that Dikla is a wholly owned subsidiary of Harel Insurance.

   The actual impact of the merger might differ from the foregoing, and will be measured on the date of the merger and depend on the financial data and capital requirements as they may be at that time.

   Completion of the merger of the insurance operations of Dikla into Harel Insurance is forward-looking information, the materialization of which is dependent on the materialization of the aforesaid conditions. There is therefore no certainty as to the actual completion of the merger, if and insofar as it is completed, and to the date of completion, which the Company believes will not be before the beginning of 2016.

6. Concerning the announcement of a dividend by EMI after the Reporting Period, see Note 7.

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

ANNEXES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

a. Assets for yield-dependent contracts

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

	As at March 31		As at December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand
Investment property	**1,332,111**	1,144,950	1,331,182
Financial investments			
Marketable debt assets	**16,661,650**	14,967,455	16,592,843
Non-marketable debt assets	**5,113,228**	4,793,646	4,680,588
Shares	**6,342,052**	4,760,788	5,287,010
Other financial investments	**6,973,293**	5,635,119	6,647,242
Total financial investments	**35,090,223**	30,157,008	33,207,683
Cash and cash equivalents	**1,187,167**	844,950	1,153,223
Accounted for as loans and receivables including bank deposits			
Non-marketable debt assets *	**479,342**	409,744	432,357
Other	**428,607**	500,714	401,234
Total assets for yield-dependent policies	**38,517,450**	33,057,366	36,525,679
Trade and other payables	**21,123**	6,654	16,640
Financial liabilities **	**179,319**	41,792	439,636
Financial liabilities for yield-dependent contracts	**200,442**	48,446	456,276

* Assets held against liabilities for yield-dependent insurance policies presented in accordance with the provisions of Circular 2009-9-2 at amortized cost, and non-marketable assets held against a yield-dependent group long-term care portfolio that were classified to loans and receivables and are presented at amortized cost. The book value of these assets at March 31, 2015, is NIS 479,342 thousand (at March 31, 2014 and December 31, 2014 - NIS 409,746 thousand and NIS 432,357 respectively), while their fair value at March 31, 2015 is NIS 534,389 thousand (at March 31, 2014 and December 31, 2014 - NIS 456,047 and NIS 470,727 thousand respectively).

** Mainly derivatives and forward contracts.

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

b. Information about other financial investments

	As at March 31, 2015 (unaudited)				
	Revalued at fair value through profit and loss	Available-for-sale	Held to maturity (*)	Loans and receivables	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets (1)	856,746	7,136,262	323,291	-	8,316,299
Non-marketable debt assets (2)	326	-	-	10,185,187	10,185,513
Shares (3)	-	724,621	-	-	724,621
Other (4)	272,768	1,617,971	-	-	1,890,739
Total	1,129,840	9,478,854	323,291	10,185,187	21,117,172

	As at March 31, 2014 (unaudited)				
	Revalued at fair value through profit and loss	Available-for-sale	Held to maturity (*)	Loans and receivables	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets (1)	1,164,502	7,248,146	361,888	-	8,774,536
Non-marketable debt assets (2)	782	-	-	9,643,718	9,644,500
Shares (3)	-	613,609	-	-	613,609
Other (4)	266,715	1,246,178	-	-	1,512,893
Total	1,431,999	9,107,933	361,888	9,643,718	20,545,538

	As at December 31, 2014 (audited)				
	Revalued at fair value through profit and loss	Available-for-sale	Held to maturity (*)	Loans and receivables	Total
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable debt assets (1)	917,722	7,279,903	340,306	-	8,537,931
Non-marketable debt assets (2)	776	-	-	9,922,651	9,923,427
Shares (3)	-	645,371	-	-	645,371
Other (4)	284,624	1,700,322	-	-	1,984,946
Total	1,203,122	9,625,596	340,306	9,922,651	21,091,675

* The fair value of these assets at March 31, 2015 is NIS 350,145 thousand (as at March 31, 2014 and December 31, 2014 - NIS 393,003 thousand and NIS 360,775 thousand respectively).

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

b. Information about other financial investments (contd.)

1. Marketable debt assets

	Book value			Amortized cost (**)		
	As at March 31		As at December 31	As at March 31		As at December 31
	2015	2014	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Government bonds	**2,908,723**	3,887,281	3,428,853	**2,673,434**	3,727,646	3,284,084
Other debt assets						
Other non-convertible debt assets	**5,401,024**	4,874,851	5,100,452	**5,102,117**	4,566,885	4,900,162
Other convertible debt assets (*)	**6,552**	12,404	8,626	**5,445**	10,971	6,949
Total marketable debt assets	**8,316,299**	8,774,536	8,537,931	**7,780,996**	8,305,502	8,191,195
Outstanding impairments recognized in profit or loss for debt assets presented as available-for-sale	**2,781**	1,138	7,268			

* Convertible bonds were presented at cost and not on the basis of amortized cost.

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

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

b. Information about other financial investments (contd.)

2. Non-marketable debt assets

	Book value			Fair value		
	As at March 31		As at December 31	As at March 31		As at December 31
	2015 (Unaudited) NIS thousand	2014 (Unaudited) NIS thousand	2014 (Audited) NIS thousand	2015 (Unaudited) NIS thousand	2014 (Unaudited) NIS thousand	2014 (Audited) NIS thousand
Government bonds						
Earmarked bonds	**4,480,530**	4,327,271	4,501,247	**5,956,896**	5,187,859	5,784,022
Other debt assets						
Accounted for as loans and receivables, excluding bank deposits	**4,818,387**	4,543,353	4,665,886	**5,715,072**	5,201,493	5,295,436
Bank deposits	**886,270**	773,094	755,518	**1,014,718**	885,451	853,370
Presented at fair value through profit or loss designated upon initial recognition	**326**	782	776	**326**	782	776
Total non-marketable debt assets	**10,185,513**	9,644,500	9,923,427	**12,687,012**	11,275,585	11,933,604
Fixed impairments recognized in aggregate in profit and loss	**8,875**	62,225	8,987			

3. Shares

	Book value			Cost		
	As at March 31		As at December 31	As at March 31		As at December 31
	2015 (Unaudited) NIS thousand	2014 (Unaudited) NIS thousand	2014 (Audited) NIS thousand	2015 (Unaudited) NIS thousand	2014 (Unaudited) NIS thousand	2014 (Audited) NIS thousand
Marketable shares	**643,627**	509,942	529,424	**496,619**	391,099	436,603
Non-marketable shares	**80,994**	103,667	115,947	**59,479**	78,713	77,853
Total shares	**724,621**	613,609	645,371	**556,098**	469,812	514,456
Outstanding impairments recognized in profit or loss for shares presented as available-for-sale	**41,958**	56,116	48,944			

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

b. Information about other financial investments (contd.)

4. Other financial investments

	Book value			Cost		
	As at March 31		As at December 31	As at March 31		As at December 31
	2015	2014	2014	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand	NIS thousand
Marketable financial investments	**631,712**	693,642	833,179	**529,739**	632,985	735,323
Non-marketable financial investments	**1,259,027**	819,251	1,151,767	**929,371**	686,807	839,875
Total other financial investments	**1,890,739**	1,512,893	1,984,946	**1,459,110**	1,319,792	1,575,198
Fixed impairments recognized in aggregate in profit and loss	**70,631**	81,743	70,943			
Derivative financial instruments presented in financial liabilities	**517,041**	194,824	621,564			

Other financial investments include mainly investments in ETNs, notes participating in trust 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 March 31, 2015

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arbaa Street, P.O. Box 609
Tel-Aviv 61006

Telephone: 03-684 8000
Fax: 03-684 8444
Internet: www.kpmg.co.il

To:

The shareholders of Harel Insurance Investments and Financial Services Ltd.

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

Introduction

We 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 March 31, 2015 and for the three-month period ended on that date. The separate interim financial information is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for this interim period, based on our review.

We did not review the separate interim financial information from the financial statements of investee companies, in which the investment amounts to NIS 636,567 thousand as at March 31, 2015, and where the Company's profit from these investee companies amounts to NIS 10,751 thousand for the three-month periods ended on that date. The financial statements of those companies was reviewed by other auditors whose review reports were furnished to us, and our conclusion, to the extent that it relates to amounts included for those companies, is based on the review reports of the other auditors.

Scope of the review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods performed by the entity's auditor". 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 more limited in scope than an audit conducted in accordance with generally accepted auditing standards, and it therefore does not enable us to obtain assurance that we have become aware of all the 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
Certified Public Accountants

May 20, 2015

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

	March 31		December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Assets			
Intangible assets	**3,308**	3,050	2,688
Fixed assets	**1,999**	1,797	2,072
Investments in investee companies	**4,744,765**	4,664,625	4,713,384
Loans to investee companies	**350,517**	50,000	350,812
Real estate for investment	**18,275**	18,215	18,275
Other receivables	**14,749**	15,416	19,095
Other financial investments			
Non marketable debt assets	**23,253**	28,436	23,344
Others	**302,009**	396,473	217,585
Total financial investments and others	**325,262**	424,909	240,929
Cash and cash equivalents	**62,212**	61,145	30,071
Total assets	**5,521,087**	5,239,157	5,377,326
Capital			
Share capital and premium on shares	**336,578**	317,053	338,849
Treasury stock	**(168,277)**	(167,618)	(173,231)
Capital reserves	**537,986**	432,171	451,871
Retained earnings	**4,169,387**	4,096,338	4,100,371
Total capital	**4,875,674**	4,677,944	4,717,860
Liabilities			
Liabilities for deferred taxes	**-**	-	-
Liabilities for benefits to employees, Net	**23,242**	20,069	22,128
Other payables	**25,233**	144,481	36,890
Liabilities for current taxes	**8,704**	9,155	5,124
Financial liabilities	**588,234**	387,508	595,324
Total liabilities	**645,413**	561,213	659,466
Total liabilities and capital	**5,521,087**	5,239,157	5,377,326

Yair Hamburger	Michel Siboni	Shimon Elkabetz	Ronen Agassi
Chairman of the Board of Directors	Co-CEO	Co-CEO	VP Finance (CFO)

Date of approval of the financial statements: May 20, 2015

Financial information from the condensed consolidated interim statements of income

	For the three months ended March 31		For the year ended December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profits from investments, net, and financing revenues	11,107	1,819	9,021
Revenues from management fees	23,066	24,060	83,814
Total revenues	34,173	25,879	92,835
General and administrative expenses	5,978	5,543	22,518
Other expenses	-	-	178
Financing expenses	3,650	2,482	14,190
Total expenses	9,628	8,025	36,886
Company's shares in profits of investee companies	57,922	152,898	331,916
Income before taxes on income	82,467	170,752	387,865
Taxes on income	6,529	4,789	13,958
Income for period ended March 31 relating to the Company's shareholders	75,938	165,963	373,907

Financial information from the condensed consolidated interim statements of comprehensive income

	For the three months ended March 31		For the year ended December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profit for the year	**75,938**	165,963	373,907
Other items of comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss			
Net changes in fair value of financial assets available for sale	**601**	(97)	2,309
Net changes in fair value of financial assets available for sale transferred to statement of income	**(1,806)**	(172)	(3,046)
Foreign currency transaction's difference in respect of overseas operations	**(9,795)**	362	(711)
The Group share in the comprehensive income of investee companies	**90,315**	114,623	160,861
Tax on income for items of other comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss	**319**	71	196
Total other comprehensive income for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	**79,634**	114,787	159,609
Other items of comprehensive income which will not be transferred to profit or loss			
Remeasurement of a defined benefit plan	**(922)**	(30)	(931)
Taxes on income for other items of comprehensive income which will not be transferred to profit or loss	**244**	8	238
Other comprehensive loss for the period which will not be transferred to profit or loss, net of tax	**(678)**	(22)	(693)
Other comprehensive income for the year	**78,956**	114,765	158,916
Total income for the year Attributed to the company's owners	**154,894**	280,728	532,823

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

	Share capital and premium	Capital reserve for financing assets available for sale	Transactions with non-controlling interests	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of investment Fixed assets	Balance of retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
For the three months ended March 31 (Unaudited)									
Balance as at January 1, 2015	338,849	437,951	(48,908)	3,475	20,040	(173,231)	39,313	4,100,371	4,717,860
Comprehensive income for year									
Profit for year	-	-	-	-	-	-	-	75,938	75,938
Total other comprehensive income (loss)	-	115,285	-	(29,407)	-	-	-	(6,922)	78,956
Total comprehensive income (loss) for year	-	115,285	-	(29,407)	-	-	-	69,016	154,894
Transactions with owners credited directly to equity									
Share-based payment	-	-	-	-	356	-	-	-	356
Purchase of Treasury shares	-	-	-	-	-	(4,665)	-	-	(4,665)
Re-issuance of Treasury shares	(2,390)	-	-	-	-	9,619	-	-	7,229
Exercising of options	119	-	-	-	(119)	-	-	-	-
Balance as at March 31, 2015	336,578	553,236	(48,908)	(25,932)	20,277	(168,277)	39,313	4,169,387	4,875,674

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

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

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

	Share capital and premium	Capital reserve for financing assets available for sale	Transactions with non-controlling interests	Translation reserve from overseas operations	Capital reserve for share based payments	Treasury stock	Capital reserve for revaluation of investment Fixed assets	Balance of retained earnings	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as at December 31, 2014 (Audited)									
Balance as at January 1, 2014	316,595	313,637	(48,908)	(22,075)	34,172	(163,458)	39,313	4,037,093	4,506,369
Comprehensive income for year									
Profit for year	-	-	-	-	-	-	-	373,907	373,907
Total other comprehensive income	-	124,314	-	25,550	-	-	-	9,052	158,916
Total comprehensive income for year	-	124,314	-	25,550	-	-	-	382,959	532,823
Transactions with owners credited directly to equity									
Dividends paid	-	-	-	-	-	-	-	(319,681)	(319,681)
Share based payment	-	-	-	-	2,401	-	-	-	2,401
Purchase of treasury stock	-	-	-	-	-	(19,243)	-	-	(19,243)
Reissuing of treasury stock	5,721	-	-	-	-	9,470	-	-	15,191
Exercising of options	16,533	-	-	-	(16,533)	-	-	-	-
Balance as at December 31, 2014	338,849	437,951	(48,908)	3,475	20,040	(173,231)	39,313	4,100,371	4,717,860

Financial information from the condensed consolidated interim statement of cash flows

	Appendix	For the three months ended March 31		For the year ended December 31
		2015	2014	2014
		(Unaudited)	(Unaudited)	(Audited)
		NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities				
Before taxes on income	A	**10,015**	17,783	54,016
Income tax paid		**(3,318)**	(2,337)	(14,730)
Net cash provided by operating activities		**6,697**	15,446	39,286
Cash flows from investing activities				
Investment in investee companies		**210**	-	(26,834)
investment in fixed assets		**(39)**	-	(1,376)
Proceeds from realizing fixed assets		**-**	-	1,280
Dividends from investee companies		**100,000**	85,000	285,350
Net Financial investments		**(80,464)**	(53,517)	134,059
Loans to investee companies		**-**	(50,000)	(355,000)
Repayment of loans given to investee companies		**9,100**	4,772	11,115
Net cash provided by (used for) investing activities		**28,807**	(13,745)	48,594
Cash flows from financing activities				
Dividends paid		**-**	-	(319,681)
Loans from banks and others		**-**	-	250,014
Repayment of loans to banks and others		**(3,363)**	(3,379)	(50,965)
Net cash provided by financing activities		**(3,363)**	(3,379)	(120,632)
Increase (Decrease) in cash and cash equivalents		**32,141**	(1,678)	(32,752)
Cash and cash equivalents at beginning of year		**30,071**	62,823	62,823
Cash and cash equivalents at end of the period		**62,212**	61,145	30,071

Financial information from the condensed consolidated interim statement of cash flows

Appendix A – Cash flows from operating activities before taxes on income

	For the three months ended March 31		For the year ended December 31
	2015	2014	2014
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Profit for year	75,938	165,963	373,907
Items which are not connected with cash flows			
Company's shares in revenues of investee companies	(57,922)	(152,898)	(331,916)
Net profits from financing activities	(7,310)	(793)	(2,561)
loss from sale of fixed assets	-	-	(60)
Financing expenses, net	(7,376)	3,120	448
Taxes on income	6,529	4,789	13,958
Depreciation and amortization	112	119	-
Share-based payment	356	887	625
Changes in other balance sheet items			
Other receivables	4,346	(437)	(4,116)
Other payables	(5,772)	(3,198)	1,441
Liabilities for benefits to employees, net	1,114	231	2,290
Total adjustments required to present cash flows from operating activities	(65,923)	(148,180)	(319,891)
Total cash flows from operating activities, before taxes on income	10,015	17,783	54,016

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 March 31, 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 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 reports are fully consolidated, directly or indirectly with those of the Company.
Investee companies	-	Subsidiaries, including partnerships, in which the Company's investment is included, directly or indirectly, in the financial statements based on the equity method (equity accounted investees).
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 principles detailed in Note 1 to the separate annual financial statements of the Company.

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

1. The Company provided 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 is due to the increase in its scope of operations and to ISA instructions concerning a backing account. At the date of the financial statements, Harel Sal is in compliance with the capital requirements and has utilized NIS 5 million of the credit facility provided by the Company.
2. To enable Turk Nippon to comply with the capital regulations as an insurer operating in Turkey, on April 26, 2015 the Company's Board of Directors approved a capital injection of about NIS 13 million for 2015.
3. Concerning the partial repayment of a capital note to Harel Investments from a subsidiary, see Note 8(C) to the consolidated financial statements.
4. Concerning the distribution of a dividend to the Company by Harel Insurance, see Note 7 to the consolidated financial statements.

Note 3 - Significant events during the reporting period

1. Concerning compliance with defined financial covenants, see Note 8(C) to the consolidated financial statements.
2. Concerning termination of the supply of outsourcing services to Harel Hamishmar Computers, see Note 11 to the consolidated financial statements.

Note 4 - Significant events after the reporting period

Dividend distribution

1. On April 28, 2015, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 128 million (NIS 0.6 per share). The Board of Directors made its decision after taking into account the Company's financial performance for 2014. The Board of Directors was presented with information about 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.

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

In this instance, management consists of:

(a) Co-CEOs:

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

Mr. Shimon Elkabetz, who also serves as Chairman of the Board of Directors of Harel Finance Holdings Ltd., Chairman of the Board of Directors of Harel-Pia Mutual Funds Ltd., Chairman of the board of EMI - Ezer Mortgage Insurance Company Ltd.

(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, General Counsel to the Cormpany and the Group's companies, Deputy CEO of Harel Insurance Company Ltd.

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

(h) Ms. Osnat Manor Zisman, Internal Auditor of the Company and the Group's companies.

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

Among other things, the internal control consists of controls and procedures designed to ensure that the information that the Company is required to disclose, as noted, is accumulated and submitted to the Company's management, including to the CEO and most senior financial officer, or to the person who actually performs these functions, so as to ensure that decisions are made in a timely manner, 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 that are governed by the instructions of the Commissioner of the Capital Market, Insurance and Savings Division in the Ministry of Finance, with respect to assessing the effectiveness of the internal control over financial reporting

In relation to the internal control by the aforementioned subsidiaries, the Corporation applies the following provisions:

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

In the annual report concerning effectiveness of the internal control over financial reporting and disclosure which was included in the Periodic Report for the period ended December 31, 2014 (hereinafter – the annual report concerning the last internal control), the Board of Directors and management evaluated the Corporation’s internal control; based on this assessment, the Company's Board of Directors and management concluded that the said internal control over financial reporting as at December 31, 2014, is effective.

Up to the date of the report, the Board of Directors and management received no information about any event or matter that might change the assessment of the effectiveness of the internal control, as presented in the annual report concerning the last internal control;

At the date of the report, based on the assessment of the effectiveness of the internal control in the annual report concerning the last internal control, and based on information which was brought to the attention of management and the Board of Directors, as stated above, the internal control is effective.

Attestation

I, Michel Siboni, hereby attest that:

(1) I have reviewed the quarterly report of Harel Insurance Investments & Financial Services Ltd. ("the Company") for Q1 2015 ("the Reports").

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

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

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

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

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

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

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

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

(c) No event or matter that 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, that might alter the conclusions of the Board of Directors and management in relation to the effectiveness of the Company's internal control over financial reporting and disclosure.

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

May 20, 2015

Michel Siboni

Co-CEO

Attestation

I, Shimon Elkabetz, hereby attest that:

(1) I have reviewed the quarterly report of Harel Insurance Investments & Financial Services Ltd. ("the Company") for Q1 2015 ("the Reports").

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

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

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

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

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

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

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

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

(c) No event or matter that 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, that might alter the conclusions of the Board of Directors and management in relation to the effectiveness of the Company's internal control over financial reporting and disclosure.

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

May 20, 2015

Shimon Elkabetz

Co-CEO

Attestation

I, Ronen Agassi, hereby attest that:

(1) I have reviewed the Interim Financial Statements and other financial information included in the Interim Reports of Harel Insurance Investments and Financial Services Ltd. ("the Company") for Q1 2015 ("the Reports" or "the Interim Reports").

(2) Based on my knowledge, the Interim Financial Statements and other financial information included 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 included therein, in light of the circumstances under which such statements were included, shall not be misleading with respect to the period covered in the Reports;

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

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

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

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

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

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

(b) I defined controls and procedures, or ensured that controls and procedures under my supervision are in place, to provide a reasonable measure of certainty that the financial reports are reliable 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 that took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report, in relation to the Interim Financial Statements and to any other financial information included in the Interim Financial Statements, was brought to my attention, that might alter, in my opinion, the conclusions of the Board of Directors and management in relation to the effectiveness of the Company's internal control over financial reporting and disclosure.

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

May 20, 2015

Ronen Agassi

CFO

Report Regarding Embedded Value Of

Harel Insurance Company Ltd.

(Including Pension Fund Management Companies and Dikla)

as at 31.12.2014

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Addendum A – External Reviewer's Report

1. General

1.1. Background and extent of disclosure

According to the Commissioner for Insurance's circular dated 12 August 2007 (insurance circular 1-11-2007) ("**the circular**"), together with financial reports for the first quarter, insurance companies must publish annual information regarding embedded value (**EV** or **embedded value**) of long term insurance policies (life and medical insurance) for the end of the previous year. In accordance with the circular, Harel Insurance Co. Ltd. ("**the company"**) hereby publishes the embedded value of company long term insurance business as at 31 December 2014.

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

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

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

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

On May 6, 2015, the boards of directors of Harel Insurance and Dikla gave their approval in principle to merging the insurance operations of Dikla into Harel Insurance. Implementation of the merger is subject to the signing of a detailed agreement between Harel Insurance and Dikla, which will regulate all aspects of the merger and will be submitted for the court's approval. Approval must also be obtained from the Commissioner of the Capital Market in the Ministry of Finance, the tax authority, various third parties whose approval is required, and the separate approval of the boards of directors of both companies.

Completion of the merger of the insurance operations of Dikla into Harel Insurance is forward-looking information, the materialization of which is dependent on the materialization of the aforesaid conditions. There is therefore no certainty as to the actual completion of the merger, if and insofar

as it is completed, and to the date of completion, which the Company believes will not be before the beginning of 2016.

This report does not give expression to the future impact of the possible merger activity since at this stage it is not possible to assess its impact.

The insurance liabilities were calculated in accordance with generally accepted actuarial practice, and with the assumptions and methods that the Company uses for its calculations. Except for future profit from the insurance portfolio purchased from Eliyahu Insurance Company, which was subtracted from the amount of the reserve, no other adjustments were made in the insurance liabilities. Accordingly, calculation of the Value in Force was based on the outstanding insurance liabilities after the deduction of the aforementioned future profit.

1.2. Clarification regarding forward looking information

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

1.3. Major chapters in the document

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

1.4. Definitions

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

Present value of future profits (PVFP)	Capitalization of the future anticipated flow of profit, emanating from the existing portfolio on the date of the included business' report (see paragraph 2.5.2 hereunder).
Adjusted Net Worth (ANW)	The company equity, after adaptation in order for same to be consistent with the in force portfolio value (see paragraph 2.5.1).
Cost of required capital	The influence on the embedded value – from company shareholders point of view – following the minimal equity holding requirement imposed on the company (see paragraph 2.5.3 hereunder).
Value In Force (VIF)	Current value of future profits, less the required capital cost.
Embedded value (EV)	Comprised of a combination of the in force portfolio value (VIF) and the adjusted equity. It is to be clarified that the adjusted equity is the company equity relating to the array of the activities of the entire company and not only in respect of the businesses included in the embedded value. It should also be clarified that the in force portfolio value does not include: General (elementary) insurance business. . Other company fields of operation controlled by the company, such as insurance agencies and provident fund management. The ability to generate future business (reputation).
Value of new business (VNB)	Current value of profits of businesses sold during the 12 months preceding the report date.
Included businesses	Businesses included in calculation of in force portfolio value: Long term personal policies in life and medical insurance portfolios, valid on 31 December 2014, including increases in premium and one-time future deposits emanating from an increase in wages in respect of the aforementioned policies. . Group life and medical insurance policies valid on 31 December 2014. According to the rules and principles in the committee report, the profits of these policies have only been valued until the next renewal date of these policies.

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

1.5. Comments, clarifications and exceptions

1.5.1. General

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

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

1. Financial factors (e.g. – capitalization interest, yields)
2. Demographic factors (e.g. – changes in mortality and morbidity)
3. Legislation and legislative arrangements on relevant matters
4. Pending liabilities (see Note 38 of the Harel Insurance Investments and Financial Services Ltd 2014 Annual Report)
5. Taxation
6. Changes in the business environment

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

1.5.2. Reforms and legislation

Reform to Encourage Competition

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

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

The reform described above should lead to a significant reduction in the management fees collected by the Company due to a reduction in the management fees that will be collected on insurance products which are sold from January 1, 2014, and to a reduction in the management fees to be collected for existing and new policyholders with whom the Company has no contact. Likewise, the entering into force of the reform may cause an increase in the cancellation rate of existing policies, with high management fees that were sold in the past, instead of which new policies with lower management fees will be purchased. As a direct result of the foregoing, the management fee reform may also affect the value of new business (VNB) to be sold in the future, and the embedded value (EV) in respect of its life assurance and pension fund activity. The embedded value calculations relate to the aforementioned reforms in that the calculations include assumptions related to reduction in future management fees.

Circular concerning guaranteed annuity coefficients in life assurance policies

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

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

Circular concerning Individual Health Insurance Plans

On April 1, 2015, the Commissioner published a circular concerning individual health insurance plan whereby the insurance policy period will be two years. At the end of two years the policy will be renewed automatically with the possibility of updated pricing and policy conditions, but without re-examination of previous medical conditions and without any further qualification period.

An insurer shall send to all persons insured in his policy on the eve of the effective date of this circular, notice of the possibility to transfer to a policy that is consistent with the contents of the circular, said notice will include the

differences in periods and premiums, the policy which is insured and the proposed replacement policy, as well as the main coverage of the replacement policy.

The report does not give expression to the future impact of this circular, which may affect the rate of cancellations of these programs, given that at this stage one cannot predict the behavior of policyholders regarding the exercise of this transition.

Commissioner Position Concerning the Definition of an LTC Insurance Event

On January 25, 2015 the Commissioner publicized a position concerning the definition of an LTC insurance event. The position makes clear that the purpose underlying the use of the ADL tests is the determination of the ability of the insured to carry out daily functions. The position states that at the time of claim settlement, the insurance company is to examine whether the insured is unable to perform the essential part of the function, in such a way that the examination will be carried out consistent with the main purpose, as above.

In light of this position, morbidity assumptions were increased for LTC insurance, which caused an increase in the Company's liabilities and reduced the value of the portfolio. The morbidity assumptions will be evaluated in the as experience develops.

Commissioner position concerning Financial Institution Payments to a Licensee

On January 18, 2015 the Commissioner publicized a position concerning payment of a financial institution to a licensee and on March 30, 2015 a clarification was published. According to the position, commission payments to licensees derived from management fees charged by the financial institution to the customer, in such a way that higher management fees will mean higher commissions paid to the licensee, is inconsistent with the obligations imposed on companies managing the financial institutions and licensees under the Supervision of Financial Services (Provident Funds) Law, 2015 and the Supervision of Pension Services (Consulting, Marketing and Pension Clearing System) Law, 2005.

This report does not give expression to the position, given that at this stage one cannot estimate its impact.

Circular on Joining a pension fund or provident fund

On March 24, 2015 a circular, "Joining a pension fund or provident fund", was issued. The circular prescribes a uniform application form for joining a pension fund or a provident fund, the information that the management company is required to provide the joining member, as well as rules for the transfer of funds from pension funds in which the member is not active to an active pension fund in order to ensure the preservation of continuity of

insurance rights of the member in transit between jobs and concentration of accounts in a single pension fund.

This report does not give expression to this circular, given that at this stage one cannot estimate the behavior of members regarding this option.

1.5.3. Risk handling

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

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

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

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

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

market price of these risks –the EV in respect of these risks was not reduced

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

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

1.5.4. Asset revaluation by fair value

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

1.5.5. Pension fund governmental subsidization arrangements

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

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

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

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

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

2. Embedded value calculation methodology

2.1. General

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

2.2. Handling risks

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

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

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

2.3. Financial assumptions

2.3.1. Yield, interest, capitalization and inflation

Future yield and capitalization interest were determined according to the yield curve of the index linked risk-free interest. The risk free (spot) interest rates at the end of 2014 were:

End of	Interest Rate	End of	Interest Rate	End of	Interest Rate
2015	1.42%	2025	0.89%	2035	1.47%
2016	-0.12%	2026	0.99%	2036	1.50%
2017	0.04%	2027	1.07%	2037	1.53%
2018	0.09%	2028	1.14%	2038	1.56%
2019	0.18%	2029	1.20%	2039	1.59%
2020	0.29%	2030	1.26%	2040	1.62%
2021	0.40%	2031	1.31%	2041	1.64%
2022	0.53%	2032	1.35%	2042	1.67%
2023	0.65%	2033	1.39%	2043	1.69%
2024	0.78%	2034	1.43%	2044	1.71%

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

2.3.2. Taxation

Statutory tax applied to financial institutions (including profit tax)

Year	2014	2015	2016	2017	2018	2019	2020	2021+
Tax rate	37.71%	37.71%	37.71%	37.71%	37.71%	37.71 %	37.71%	37.71%

2.4. Demographic and operational assumptions

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

2.4.1. Demographic assumptions

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

2.4.2. Future management and general expenses

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

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

2.5. Calculation method

2.5.1. Adjusted equity (ANW)

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

2.5.2. Present value of future profits (PVFP)

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

2.5.3. Cost of capital (CoC)

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

2.5.4. Value of new business (VNB)

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

VNB was calculated for the following populations:

- All the policies which were issued in 2014
- New coverage issued in 2014 as an addition to policies which were issued before 2014.
- Group policies which were renewed in 2014.

- One-time premiums on existing policies which do not emanate from a wage increase.
- New members of the pension funds during 2014.

It should be clarified that the present value of future profits (PVFP) includes the value of profits from the end of 2014 onwards in respect of new businesses as aforementioned.

2.6. Handling options and financial guarantees

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

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

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

1. Adjustments to embedded value as at 31 December 2013 – this paragraph includes corrections in respect of the opening data.

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

    1. Life insurance: a increase arising from a revision of the assumptions for expenses and a decrease arising from a revision of the lapse assumption.

    2. Health insurance: an increase arising from a revision of the assumptions for expenses and a decrease arising from a revision of the lapse assumption.

    3. Long Term Care insurance: an increase arising from a revision of the assumptions for expenses

    4. Pension: a decrease stemming from a revision of the assumption for future management fees.

3. Anticipated profit which is included in the embedded value – the embedded value includes profits which the company is anticipated to gain, even if it does not sell new businesses and does not operate in

additional spheres which are not included in the embedded value. These profits emanate from three sources:

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

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

3. Profit anticipated to transfer from the in force portfolio value to the adjusted equity during 2014 – during 2014the anticipated profit for the year 2014 was removed from the portfolio value and added to the adjusted capital so that in total, this source did not influence the sum of the embedded value in its entirety, but rather brought about a transfer from the in force portfolio value component to the adjusted capital component. In accordance with the method of determining the adjusted equity, this profit did not include the influence of reduction of the DAC.

4. The influence of the deviations from the operational and demographic assumptions during this period the actual experience regarding the rate of claims, cancellations, expenses, etc. were different than the assumptions based on section 2 above for the purpose of calculating the embedded value. These deviations also influence the anticipated profits from the end of the year and the profits of the year itself. The influences are presented separately in this paragraph in respect of the in force portfolio value and the adjusted capital respectively. In addition, this paragraph includes the influence from a number of causes, each of which is immaterial in the company estimate which include inter alia, changes in existing insurance policies, reinsurance conditions or commission agreements with agents. In 2014, most of the deviations in insurance business were in the increase in claims payments for amounts that were higher than expected and an increase in the reserves that were higher than anticipated and led to a reduction in ANW. In pension business, the main cause of the deviation is a lower than anticipated cancellations and withdrawals.

5. Profit from new businesses – the embedded value does not include the value which is anticipated to be added from new businesses which will be sold in the future. Therefore, this paragraph presents the addition to the embedded value as at the end of the previous period, following the sale of new insurance policies during the year and the joining of new

members to the pension funds. The addition is distributed into actual influence of new businesses on profits during the period itself (presented in the framework of the adjusted capital) and anticipated profits from new businesses in the future (presented in the framework of the in force portfolio value).

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

6. Development expenses not included in the embedded value – the influence on the actual profits during the year is reflected due to extraordinary expenses which were not included in the embedded value but rather were attributed to future sales. During 2014, there were no expenses which were not included in the embedded value.

7. Profit from special items – there were no special items in 2014

8. Influence of inflation during 2014 – this paragraph includes the influence of inflation during 2014 (-0.1%) on the opening balance of the embedded value. The influence of inflation was mainly in respect of linking the policies to the index, a fact which influences the in force value of the portfolio and the influence of the expected yield in the index rate on the adjusted capital.

9. Profit resulting from deviation from the economic assumptions during 2014 and changes in the economic assumptions – this paragraph includes three components:

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

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

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

an increase in the special LAT reserve reduced this effect.

ii. In the value of the portfolio – due to the changes in the anticipated profits from the portfolio caused by the change in the risk free yield curve. However, an increase in the special LAT reserve reduced this effect.

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

Profit from non-included businesses – the embedded value sum includes the company's entire equity and therefore a part of the increase/ decrease of the embedded value is explained by the profits/ losses of spheres of activity which are not included in the portfolio value. Also included in this paragraph (increase to capital adapted) are financing expenses in a sum of NIS 59 million (after taxes).

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

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

2.8. Sensitivity tests

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

1. Unless stated otherwise, the sensitivity relates to all included businesses.
2. The sensitivity tests relate to each assumption separately without measuring accumulating or offsetting influences or derivative changes on other factors, etc.
3. The sensitivity in respect of the value of new businesses relates to changes from the end of 2014 onwards, not to the period from the time of sale until the end of 2014.
4. Mortality before retirement age – mortality rate sensitivity tests (including death by accident) not including mortality of insureds that are receiving retirement pensions or monthly restitution for loss of ability or nursing.

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

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

7. Interest – sensitivity test results include:

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

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

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

9. Changes in Salary - sensitivity test in the pension businesses relates to changes in the rates of salary increases.

2.9 Embedded value report review

Annexed to this report is an external reviewer's report that performed a review of the report regarding the embedded value as at December 31, 2014 and value of new businesses for the year ending on that date, as well as the sensitivity analysis presented in this report.

3. Results

3.1. Embedded value on 31.12.2014 (in NIS millions)

	Included businesses in life and health insurance	**Pension fund management businesses**	**Adjustment to joinder of pension fund management businesses into the company's Embedded Value**	**Total Embedded Value of life and health insurance and pension fund management businesses**
Adjusted equity	3,326	139	(407)	3,058
Present value of future profits, less taxes	6,763	2,701	0	9,464
Less cost of required capital	(225)	(27)	0	(252)
Embedded value	9,864	2,813	(407)	12,270

3.2. Value of new businesses for sales during 2014 (in NIS millions)

	VNB for included life and health insurance businesses	**VNB for pension fund management businesses**	**Total VNB for insurance and pension**
Value of new businesses before required capital cost	1,052	279	1,331
Value of required capital in respect of new businesses	(24)	(3)	(27)
Total value of new businesses	1,028	276	1,304

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

Table 3.3a – Insurance Business

	NIS millions
Equity (company's balance)	3,781
Reevaluation of overlapping assets of included businesses and displayed in financial reports by cost of fair value, less taxes	410
Less deferred acquisition costs (DAC)	(1,383)
Plus reserves for deferred tax on DAC	518
Adjusted equity in respect of long-term insurance included businesses	3,326

Table 3.3b – Pension fund management companies

	NIS millions
Equity (company's balances)	260
Less deferred acquisition costs (DAC)	(166)
Plus reserves for deferred tax and future tax benefits on DAC	46
Less reputation in respect of purchased pension funds, appearing in the company's balance sheet of the pension fund management company	(1)
Adjusted equity in respect of pension businesses	139

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

	NIS millions
Adjusted equity in respect of long-term insurance policies (life and health insurance), from table 3.3a above	3,326
Less deferred acquisition costs (balance sheet DAC) in respect of pension	(166)
Plus reserves for deferred tax and future tax benefits on DAC, Pension	46
Less the value of purchased pension fund management companies and reputation in respect thereof included in the equity	(148)
Adjusted equity of Harel Insurance, taking pension fund management businesses into account	3,058

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

Table 3.4a –Insurance business

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2013 (opening balance)		3,131	6,110	9,241
Adjustment to embedded value in respect of the opening balance	2.7.1	0	50	50
Embedded value adjusted to the opening balance		3,131	6,160	9,291
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	(137)	(10)	(147)
- Anticipated profit on the value in force	2.7.3	81	318	399
- Inclusive profit predicted in 2014, transferred from portfolio value to equity	2.7.3	703	(703)	0
- Influence of deviations from the operational and demographic assumptions during 2014, plus other changes to the inforce portfolio	2.7.4	(146)	(58)	(204)
Total operational profit from the in-force portfolio 31.12.2013		501	(453)	48
Profit from new businesses	2.7.5	(299)	1,327	1,028
Real operational profit according to embedded value		202	874	1,076
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	0	0
Influence of inflation in 2014	2.7.8	(2)	(6)	(8)
Profit (loss) from deviations from the economic assumptions during 2014 and amendments of the economic assumptions	2.7.9	136	(490)	(354)
Total real profit on an embedded value basis		336	378	714
Profit from pension businesses		32	0	32
Profit from non-included businesses	2.7.10	111	0	111
Total real profit on an embedded value basis - including all business of the company		479	378	857
Capital Movements		(284)	0	(284)
Embedded value as at 31.12.2014		3,326	6,538	9,864

Table 3.4b - Pension fund management businesses

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2013 (opening balance)		116	2,106	2,222
Adjustment to embedded value in respect of the opening balance	2.7.1	0	48	48
Embedded value adjusted to the opening balance		116	2,154	2,270
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	0	(85)	(85)
- Anticipated profit on the value in force	2.7.3	3	42	45
- Inclusive profit predicted in 2014, transferred from portfolio value to equity	2.7.3	51	(51)	0
- Influence of deviations from the operational and demographic assumptions during 2014, plus other changes to the inforce portfolio	2.7.4	(1)	88	87
Total operational profit from the in-force portfolio 31.12.2013		53	(6)	47
Profit from new businesses	2.7.5	(31)	307	276
Real operational profit according to embedded value		22	301	323
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	0	0
Influence of inflation in 2014	2.7.8	0	(2)	(2)
Profit (loss) from deviations from the economic assumptions during 2014 and amendments of the economic assumptions	2.7.9	0	221	221
Total real profit on an embedded value basis		22	520	542
Capital Movements		1	0	1
Embedded value as at 31.12.2014		139	2,674	2,813

Table 3.4c - Total Insurance and Pension fund management businesses

	Reference	Adjusted Net Worth	Value In Force	Embedded Value
Embedded value as at 31.12.2013 (opening balance)		2,906	8,216	11,122
Adjustment to embedded value in respect of the opening balance	2.7.1	0	98	98
Embedded value adjusted to the opening balance		2,906	8,314	11,220
Operational profit from the in-force portfolio to the opening balance				
- Changes in operational and demographic assumptions	2.7.2	(137)	(95)	(232)
- Anticipated profit on the value in force	2.7.3	75	360	435
- Inclusive profit predicted in 2014, transferred from portfolio value to equity	2.7.3	754	(754)	0
- Influence of deviations from the operational and demographic assumptions during 2014, plus other changes to the inforce portfolio	2.7.4	(147)	30	(117)
Total operational profit from the in-force portfolio 31.12.2013		545	(459)	86
Profit from new businesses	2.7.5	(330)	1,634	1,304
Real operational profit according to embedded value		215	1,175	1,390
Development expenses not included in the embedded value	2.7.6	0	0	0
Profit from special items	2.7.7	0	0	0
Influence of inflation in 2014	2.7.8	(2)	(8)	(10)
Profit (loss) from deviations from the economic assumptions during 2014 and amendments of the economic assumptions	2.7.9	144	(269)	(125)
Total real profit on an embedded value basis		358	898	1,256
Profit from non-included businesses		111	0	111
Capital Movements		(317)	0	(317)
Total Change in EV		152	898	1,050
Embedded value as at 31.12.2014		3,058	9,212	12,270

3.5. Adjustment between the changes in adjusted equity and the net profit of the company for 2014 (in NIS millions)

a. Insurance business

	NIS millions
Net profit for 2014	287
Items attributed directly to equity	160
Total After-Tax Profit	447
Changes in DAC, before tax	(175)
Tax in respect of changes in DAC not included in the in force portfolio value	88
Changes in the difference of fair value, less tax	119
Total Profit Adjusted to EV Basis	479
Opening Adjustment to Adjusted Equity	0
Capital Movements	(284)
Total Change in Adjusted Equity	195

b. Pension management businesses

	NIS millions
Net profit for 2014	34
Items attributed directly to equity	0
Total After-Tax Profit	34
Changes in DAC, before tax	(11)
Tax in respect of changes in DAC not included in the in force portfolio value	(1)
Changes in the difference of fair value, less tax	0
Total Profit Adjusted to EV Basis	22
Capital Movements	1
Total Change in Adjusted Equity	23

3.6. Sensitivity analysis for included businesses as at 31.12.2014

a. Insurance businesses

	Change in embedded value		Change in value of new business	
	NIS millions	%	NIS millions	%
Base result	9,864		1,028	
0.5% reduction in risk-free interest	(162)	(1.6%)	0	0.0%
10% increase in administration and general expenses	(349)	(3.5%)	(43)	(4.2%)
Relative 10% increase in cancellation rate (including redemptions and settlements)	(443)	(4.5%)	(132)	(12.8%)
10% increase in mortality rates among pre-retired insured's	(75)	(0.8%)	(29)	(2.9%)
10% increase in morbidity rates	(676)	(6.9%)	(79)	(7.7%)
Relative 10% decrease in mortality rate among recipients of old-age pensions	(343)	(3.5%)	(2)	(0.2%)
Relative 10% increase in annuity utilization rate	(120)	(1.2%)	0	(0.0%)
Relative 0.5% increase in risk-free interest	124	1.3%	(13)	(1.3%)
10% decrease in administration and general expenses	349	3.5%	43	4.2%
Relative 10% decrease in cancellation rate (including redemptions and settlements)	519	5.3%	165	16.1%
10% decrease in mortality rates among pre-retired insureds	66	0.7%	26	2.5%
10% decrease in morbidity rates	641	6.5%	81	7.9%
Relative 10% increase in mortality rate among recipients of old-age pensions	248	2.5%	3	0.3%

b. Pension businesses

	Change in embedded value		Change in value of new business	
	NIS millions	%	NIS millions	%
Base result	2,813		276	
0.5% reduction in risk-free interest	159	5.7%	21	7.7%
10% increase in administration and general expenses	(177)	(6.3%)	(21)	(7.8%)
Relative 10% increase in cancellation rate (including redemptions and freezing)	(202)	(7.2%)	(39)	(14.2%)
1% decrease in wages rises	(156)	(5.6%)	(31)	(11.1%)
Increase in governmental interest by 0.5%	(144)	(5.1%)	(19)	(7.0%)
10% decrease in administration and general expenses	177	6.3%	21	7.8%
10% decrease in cancellation rate (including redemptions and freezing)	225	8.0%	45	16.4%
1% increase in wages rises	169	6.0%	31	11.2%

Michel Siboni
CEO

Ronen Agassi
Deputy CEO and CFO

Arie Wurtzburger
Deputy CEO and Chief Actuary

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To:
The Board of Directors
Harel Insurance Company Ltd.

Dear Madam/Sir,

Subject: Review of embedded value report as of December 31, 2014

Introduction

We have reviewed the information prepared by Harel Insurance Company Ltd. regarding its embedded value as of December 31, 2014, value of new business for the year then ended, analysis of movement in embedded value and sensitivity tests regarding them, relating to long term life and health insurance policies and pension fund management businesses (hereinafter: "Embedded Value Report"). The Board of Directors and Management are responsible for the preparation and presentation of the Embedded Value Report. Our responsibility is to express a conclusion on the embedded value based on our review.

Scope of the Review

Our review included the following procedures: reading the Embedded Value Report, holding discussions and inquiries with the staff and professionals within the Company who were responsible for and involved in preparing the above report, examination of the methodology and presentation according to which the Embedded Value Report was prepared and their compliance with the guidelines set forth in Circular No. 2007-1-11 issued by the Supervisor of Insurance and its appendices (hereinafter: "Supervisor's circular"). In addition, the review included performing analytical procedures relating to the results displayed in the Embedded Value Report, comparison between the calculated results and other relevant financial data of the Company and an assessment of the reasonableness of the assumptions.

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, nothing has come to our attention that would indicate the need of making significant changes in the Embedded Value Report so that it may be considered a report prepared in accordance with the methodologies and assumptions described in the Embedded Value Report, subject to that mentioned in Paragraph 1.5 of the Embedded Value Report and that stated hereunder. Furthermore, nothing has come to our attention that would indicate the need of making significant changes in the manner and format of the report, and our review did not reveal anything that would indicate that the demographic and operational assumptions that were presented to us during the review are unreasonable based on the Company's past and present experience and Management's expectations regarding the future, subject to that mentioned in Paragraphs 1 and 2 hereunder.

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

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We draw attention to the following issues:

1. The Embedded Value Report was prepared on the basis of assumptions which are derived from the projection of existing experience to the future. With reference to the environment in which the Company operates and the nature of the matters, when dealing with long term future assessments, actual results are likely to be different from those assumed when calculating the embedded value. The aforesaid has significant importance in view of the uncertainty regarding the ramifications of the reforms in the long-term savings and health insurance markets. The embedded value calculation does not include the full range of possible effects.
2. One should carefully read all the exceptions described in Paragraph 1.5 of the Embedded Value Report regarding the treatment of risks and other issues.
3. The embedded value also includes the embedded value of the pension fund management businesses owned by the Company that its publication is not required by the Supervisor's directives.

Sincerely,

Somekh Chaikin
Certified Public Accountants.

May 20, 2015

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