

March 24, 2010

Bank Hapoalim reports its 2009 Financial Results

Continued growth in ROE and profitability in the fourth quarter

Tel Aviv, Israel -- Bank Hapoalim (TASE: POLI) (LSE: BKHD)

Highlights of the financial statements:

- **Net Profit continued to improve** in the fourth quarter of 2009 and totaled NIS 467 million compared with a profit of NIS 425 million in the previous quarter and a loss of NIS 363 million in the same quarter last year.

Net profit totaled NIS 1,316 million in 2009 compared with a loss of NIS 895 million in 2008.

- **Return on equity also improved** in the fourth quarter of 2009 and reached 9.4%, compared with 8.8% in the previous quarter and a negative return in the same quarter last year.

Return on equity for 2009 reached 6.7%, compared with a negative return in 2008.

- **Profit from financing activity before provision for doubtful debts** totaled NIS 2,012 million in the fourth quarter of 2009 compared with a profit of NIS 1,779 million in the previous quarter and NIS 1,242 million in the same quarter last year.

Profit from financing activity before provision for doubtful debts totaled NIS 6,718 million in 2009, compared with NIS 3,256 million 2008.

- **Operating and other income** totaled NIS 1,499 million for the fourth quarter of 2009 compared with NIS 1,359 million in the previous quarter and NIS 1,013 million in the same quarter last year.

Operating and other income totaled NIS 5,251 million in 2009 compared with NIS 4,655 million in 2008.

- **The Bank's capital adequacy** (according to Basel II) was 13.67% at the end of 2009. The capital adequacy ratio, according to Basel I, reached 13.68% at the end of 2009 compared with 13.33% in the third quarter and 10.92% at the end of 2008. This rate exceeds the Board of Director's year-end 2009 objective of 12%.

Chairman of the Board, Mr. Yair Seroussi said:

"2009 began with severe concerns over the resilience of the world's financial systems and a possible slide into global recession, but governments and central banks in most of the developed countries took decisive, coordinated action that led to stabilization. The slow emergence from the recession is still accompanied by worries due to the increase in deficits and in the ratio of debt to GDP, as well as the high unemployment rates in the US and Europe.

As we move toward 2011, we expect the global economy to face continued challenges as the governments of the developed countries confront a growing need to wean their economies off the large-scale stimulus plans.

Israel was one of the only western economies to sustain relatively minor damage throughout the current crisis. In the second quarter of 2009, a positive growth rate resumed in Israel, ending what turned out to be a relatively short recession. In fact, the overall economy has actually improved in relative terms, and Israel is now considered an increasingly attractive investment target, ahead of its scheduled accession to the OECD and the MSCI Developed Markets Index.

The year 2009 was a year of change at Bank Hapoalim.

I was named Chairman in August, and led the process of appointing Zion Kenan to the position of CEO.

Together, we brought the bank back to a course of profitability and growth and built a new management team combining the best managerial talents at Bank Hapoalim with outstanding executives who have joined us from other organizations.

We stressed the role our core values play in the bank's day-to-day activity, the importance of credibility and transparency, and the teamwork that is the key to the maximization of synergies and the success of the bank.

We acted rapidly to raise capital and strengthen the bank's capital adequacy. We ended the year with a capital adequacy ratio of 13.7%, significantly higher than the 12% target set by the Board of Directors, and a Tier I capital ratio of 8.6%.

The Board of Management and the Board of Directors formulated a three-year strategic plan for the Bank designed to create the infrastructure necessary to achieve our long-term profit and return objectives, while maintaining appropriate risk levels. The plan is based on the strategic course which I outlined: a "back to basics" strategy - returning to Bank Hapoalim's historical sources of strength, combined with a focus on initiative and innovation.

I am confident that this plan will lead us to new achievements while maintaining and cultivating our existing accomplishments, solidifying the leadership of Bank Hapoalim in the Israeli economy.

As a leading bank, we are committed to all of our stakeholders: our shareholders; our customers, from households to the largest companies in the Israeli economy; the employees of Bank Hapoalim, which we are proud to say continues to be the top-rated workplace in the financial sector; and the community in which we operate, from which we draw our strength, and to which we continue to contribute by promoting a wide range of social and environmental efforts, as exemplified by our leadership in financing the solar energy industry in Israel. "

CEO Mr. Zion Kenan said:

"The global crisis that began in late 2008 raised concerns that a severe worldwide downturn would have implications for Israel as well, impairing the financial stability of some of our clients, and damaging the bank's profitability and the quality of its credit portfolio.

Yet we, at Bank Hapoalim, the largest lender in the Israeli economy, believe that it is in such times of crisis that adhering to our vision and values is exceptionally important. We therefore stood by our clients during these difficult times, helping them through the crisis. Of course, this was done while strictly maintaining our principles of risk management, professionally and resolutely leading complex debt arrangements when necessary.

Immediately after taking office some eight months ago, Yair and I worked to return the bank to "business as usual." Within a short time period we put together an elite, cohesive management team, and launched several key strategic processes. I am proud to say that we achieved significant breakthroughs in a number of areas and the financial statements for 2009 reflect our success in terms of the continued improvement in net profit and return on equity from quarter to quarter.

The Bank has also attracted thousands of new customers in the last few months, and we have seen a significant increase in our market share in mortgages, to over 21%. We have invested extensive efforts in encouraging a culture of long-term savings in Israel, including through the legendary "Dan Haschan" brand; over 70 thousand customers have already signed up for savings accounts under this brand.

We have maintained our leading position in corporate credit, financing some of the largest deals carried out during this period. Nevertheless, we continued to develop new markets, e.g. by leading about 50% of the financing deals for solar energy facilities, an area that perfectly combines our business capabilities with an important contribution to sustainability and preservation of the environment.

Concurrently, we launched a process of comprehensive strategic planning for the next 3-5 years, encompassing all divisions of the bank. This detailed plan includes several elements, which together are designed to re-stabilize the leadership of Bank Hapoalim in the Israeli financial system. These measures include:

- Solidifying our retail leadership while continuing dynamic expansion of the network of branches tailored to customers' needs;
- Continually reinforcing the bank's leadership in corporate credit to large companies, alongside rapid growth in commercial activity (small businesses and middle market clients), relying on our network of Business Branches;
- Strengthening our existing international platform while further enhancing our Global Private Banking offerings;
- Focusing on deposits and encouragement of long-term savings;
- Investing in information technology, in order to maintain the bank's technological and business leadership;
- Striving continually to improve processes and achieve operational excellence as we work to realize our range of business development plans based on existing resources;

- Maximizing existing synergies between the divisions of the bank and in the Bank Group as a whole.

In addition, we will continue to invest in the cultivation of the bank's human capital, its most valuable resource, and maintain the excellent labor relations that have always existed at the bank and are one of our essential assets.

I have the utmost confidence that Bank Hapoalim is on course for continued success, growth and leadership of the Israeli banking sector.

Main developments in the financial statements for the fourth quarter of 2009:

Profit from financing activity before provision for doubtful debts totaled NIS 2,012 million in the fourth quarter of 2009 compared with a profit of NIS 1,779 million in the previous quarter and NIS 1,242 million in the same quarter last year.

Profit from regular financing activity (excluding one-off and other irregular items) totaled NIS 1,761 million in the fourth quarter of 2009, compared with a profit of NIS 1,716 million in the previous quarter. Profits from investments in asset backed securities and credit derivatives, and an increase in interest income from debts that were written off in the past also contributed to the improvement in financing profit.

Profit from financing activity before provision for doubtful debts totaled NIS 6,718 million in 2009, compared with NIS 3,256 million in 2008. The increase is mainly a reflection of the significant losses recorded with respect to asset-backed securities and credit derivatives in 2008.

Financial margin from regular activity stood at 2.43% in the fourth quarter of 2009, compared with 2.35% in the previous quarter. This data reflects the initial influence of the rise in interest rates in Israel.

The provision for doubtful debts was NIS 536 million in the fourth quarter of 2009 compared with NIS 629 million in the previous quarter and NIS 765 million in the same quarter last year.

In 2009, provisions for doubtful debts totaled NIS 2,017 million compared with NIS 1,520 million in 2008.

The rate of the specific provision to total credit to the public, net of the reduction in provisions and the collection of debts written off in the past, was 0.90%, in 2009, compared with 0.69% in 2008.

Operating and other income totaled NIS 1,499 million in the fourth quarter of 2009 compared with NIS 1,359 million in the previous quarter and NIS 1,013 million in the same quarter last year. The increase was mainly due to an increase in income from capital market related activities, income from credit cards, increased fees, as well as profits from the sale of Bezeq and Hot shares, which also affected the previous quarter.

In 2009, operating and other income totaled NIS 5,251 million compared with NIS 4,655 million in 2008. The increase in 2009 was mainly due to an increase in income from capital market related activities, increased income from credit cards, a transition to profit from investment in shares and an increase in other income, which was partially offset by the consequences of the Fee Law reform.

Operating and other expenses totaled NIS 2,134 million in the fourth quarter of 2009 compared with NIS 1,683 million in the previous quarter and NIS 2,008 million in the same quarter last year. The increase in expenses in the fourth quarter mainly results from the comparison to the third quarter wherein effects of the wage agreement contributed to a significant decrease in salary expenses of approximately NIS 247 million. The increase was also a result of an increase in other expenses and expenses recorded with respect to share-based payments, as a result of increases in the price of the Bank's shares during 2009.

In 2009, operating and other expenses totaled NIS 7,647 million compared with NIS 8,147 million in 2008. The decrease in expenses mainly resulted from the effects of the wage agreement and negative one-time elements in 2008.

Net operating profit for the fourth quarter of 2009 totaled NIS 465 million compared with a profit of NIS 422 million in the previous quarter and a loss in the same quarter last year. Net operating profit totaled NIS 1,288 million in 2009 compared with a loss of NIS 1,469 million in 2008.

Net return of operating profit on equity for the fourth quarter of 2009 was 9.4%, on an annualized basis, compared with 8.8% in the previous quarter and a negative return in the same quarter last year. In 2009, net return of operating profit on equity totaled 6.6%, compared with a negative return in 2008.

Developments in Balance-Sheet Items

The consolidated balance sheet as at December 30, 2009 totaled NIS 309.6 billion, compared with NIS 306.8 billion at the end of 2008.

Credit to the public totaled NIS 215.8 billion compared with NIS 222.1 billion at the end of 2008, a decrease of 2.8%. The decrease is mainly due to a decline in the volume of credit activity in overseas offices, a decline in the demand for corporate credit in Israel in the first half of the year and the settlement of a short-term debt of a large borrower. It should be noted that an increase in consumer credit offset the decrease in demand for corporate credit.

Deposits from the public totaled NIS 232.0 billion compared with NIS 227.0 billion at the end of 2008, an increase of 2.2%. This increase results from an increase in shekel deposits in Israel.

Shareholder's equity totaled NIS 20,598 million as at December 30, 2009, compared with NIS 18,795 million at the end of 2008, an increase of 9.6%.

On December 31, 2009, the Bank adopted the Basel II directives, as published by the Supervisor of Banks. The directive imposes new capital

allocation requirements for various types of risks. The directive also changes the manner of calculation of regulatory capital.

Capital adequacy ratio (according to Basel II) was 13.67% at the end of 2009. The Capital adequacy ratio (according to Basel I) reached 13.68% at the end of 2009, compared with 13.33% in the third quarter and 10.92% at the end of 2008. This rate exceeds the Board of Director's year-end 2009 objective of 12%.

Tier 1 Capital (according to Basel II) stood at 8.52% at the end of 2009. Tier 1 Capital (according to Basel I) rose to 8.60% at the end of 2009 compared with 7.44% at the end of 2008. Tier 1 capital grew in 2009 mainly from retained earnings as well as a private issue of hybrid capital in the amount of NIS 300 million.

About Bank Hapoalim

Bank Hapoalim is Israel's leading financial group. In Israel, the Bank Hapoalim Group has over 270 branches, eight regional business centers, a growing network of business branches and specialized industry relationship managers for major corporate customers.

The Bank Hapoalim Group includes financial companies involved in investment banking, credit cards, trust services and portfolio management. The Group also has holdings in non-banking sectors.

Internationally, Bank Hapoalim operates through 42 branches, subsidiaries and representative offices, in North and Latin America, Europe, the Far East, Turkey and Australia. In these markets, the Bank is engaged in trade, corporate finance, private banking and retail banking.

Bank Hapoalim is the only Israeli Bank listed on both the Tel Aviv and London Stock Exchange. In addition, a Level-1 ADR is traded "over-the-counter" in New York, under ticker BKHYY.

For further information please contact the Bank's Spokesperson:

Tel: +972-3-567-3635; Fax: +972-3-567-3500

spokesperson@bnhp.co.il

Principal Data of the Bank Hapoalim Group

Profit and profitability

in NIS millions

	12/31/2009	9/30/2009	6/30/2009	3/31/2009	12/31/2008
Profit (loss) from financing activities before provision for doubtful debts	2,012	1,779	1,955	972	1,242
Operating and other income	1,499	1,359	1,231	1,162	1,013
Total income	3,511	3,138	3,186	2,134	2,255
Provision for doubtful debts	536	629	538	314	765
Operating and other expenses	2,134	1,683	1,890	1,940	2,008
Net Operating profit (loss)	465	422	380	21	(393)
Net profit from extraordinary transactions, after taxes	2	3	2	21	30
Net profit (loss)	467	425	382	42	(363)

Balance Sheet – Principal Items

	12/31/2009	9/30/2009	6/30/2009	3/31/2009	12/31/2008
Total balance sheet	309,555	301,894	302,844	305,156	306,847
Credit to the public	215,788	215,638	215,973	220,859	222,100
Deposits from the public	231,993	225,196	228,136	232,442	226,953
Debentures and subordinated notes	23,112	23,307	22,162	18,967	20,818
Shareholders' equity	20,598	20,316	19,733	18,986	18,795
Overall Credit risk -Problematic Debts	16,630	18,687	17,693	17,558	16,082
Of which: Non-income bearing debt	3,976	4,152	4,396	4,187	4,108

Principal financial ratios

	12/31/2009	9/30/2009	6/30/2009	3/31/2009	12/31/2008
Loan to Deposit Ratio*	93.0%	95.8%	94.7%	95.0%	97.9%
Shareholders' equity to total assets	6.7%	6.7%	6.5%	6.2%	6.1%
Core Tier I capital to risk assets (Basel I)	7.7%	7.4%	7.1%	6.9%	6.8%
Tier I capital to risk assets (Basel I)	8.6%	8.2%	7.8%	7.6%	7.4%
Total capital to risk assets (Basel I)	13.7%	13.3%	12.8%	11.3%	10.9%
Cost-Income Ratio	60.8%	53.6%	59.3%	90.9%	89.0%
Financing margin from regular activity (a)(b)	2.43%	2.35%	2.34%	2.36%	2.28%
Ratio of specific provision to total credit to the public (a)	1.12%	1.21%	0.80%	0.49%	1.49%
Return of operating profit (loss) on equity, net(a)	9.4%	8.8%	8.2%	0.4%	(7.9%)
Return of net profit (loss) on equity(a)	9.4%	8.8%	8.3%	0.9%	(7.3%)
Net earnings (loss) per share	0.35	0.32	0.29	0.03	(0.29)

(a) Quarterly figures on an annualized basis

(b) Calculated –Financing profit from regular activity divided by financial assets which generated financing income.

Profit and profitability

in NIS millions

	For the year ended			Change from	
	2009	2008	2007	2008	2007
Profit (loss) from financing activities before provision for doubtful debts	6,718	3,256	6,933	106.3%	(3.1%)
Operating and other income	5,251	4,655	5,250	12.8%	-
Total income	11,969	7,911	12,183	51.3%	(1.8%)
Provision for doubtful debts	2,017	1,520	513	32.7%	293.2%
Operating and other expenses	7,647	8,147	7,940	(6.1%)	(3.7%)
Net Operating profit (loss)	1,288	574	2,328		(44.7%)
Net profit from extraordinary transactions, after taxes	28	(1469)	351	(95.1%)	(92.0%)
Net profit (loss)	1,316	(895)	2,679		(50.9%)

Balance Sheet – Principal Items

	As of December 31			Change from	
	2009	2008	2007	2008	2007
Total balance sheet	309,555	306,847	302,991	0.9%	2.2%
Credit to the public	215,788	222,100	204,725	(2.8%)	5.4%
Deposits from the public	231,993	226,953	231,750	2.2%	0.1%
Debentures and subordinated notes	23,112	20,818	18,812	11.0%	22.9%
Shareholders' equity	20,598	18,795	18,778	9.6%	9.7%
Overall Credit risk -Problematic Debts	16,630	16,082	15,157	3.4%	9.7%
Of which: Non-income bearing debt	3,976	4,108	3,820	(3.2%)	4.1%

Principal financial ratios

	2009	2008	2007
Loan to Deposit Ratio*	93.0%	97.9%	88.3%
Shareholders' equity to total assets	6.7%	6.1%	6.2%
Core Tier I capital to risk assets (Basel I)	7.7%	6.8%	6.8%
Tier I capital to risk assets (Basel I)	8.6%	7.4%	7.5%
Total capital to risk assets (Basel I)	13.7%	10.9%	10.3%
Total capital to risk assets (Basel II)	13.7%		
Cost-Income Ratio	63.9%	103.0%	65.2%
Financing margin from regular activity (a)	2.36%	2.54%	2.54%
Ratio of specific provision to total credit to the public	0.90%	0.69%	0.27%
Return of operating profit (loss) on equity, net	6.6%	(7.8%)	12.3%
Return of net profit (loss) on equity	6.7%	(4.8%)	14.1%
Net earnings (loss) per share (Basic)	1.00	(0.69)	2.13
Net earnings (loss) per share (Diluted)	0.99	(0.69)	2.11

(a) Calculated – Financing profit from regular activity divided by financial assets which generated financing income.