

March 31, 2011

## **Bank Hapoalim Reports 2010 Financial Results**

### **A year of business momentum and impressive achievements: Net profit increased by almost 70% to NIS 2.2 billion and return to double-digit ROE of 10.3%**

Tel Aviv, Israel -- Bank Hapoalim (TASE: POLI) (ADR: BKHYY), Israel's leading financial group, today announced financial results for the fourth quarter and full year ended December 31, 2010.

#### **Highlights of the 2010 financial statements:**

- **Net Profit** increased an impressive 70% to NIS 2,228 million in 2010 compared with NIS 1,316 million in 2009.  
In the fourth quarter of 2010, net profit totaled NIS 713 million compared with a profit of NIS 540 million in the previous quarter and NIS 467 million in the same quarter last year, an increase of 32% and 53%, respectively.
- **Return on equity** rose sharply to 10.3% in 2010, compared with 6.7% in 2009.
- **Return on equity** rose in the fourth quarter of 2010 to 13.2%, compared with 10.2% in the previous quarter and 9.4% in the same quarter last year.
- **Profit from financing activity before provision for doubtful debts** totaled NIS 7,775 million in 2010, compared with NIS 6,718 million in 2009, an increase of 16%.
- Profit from financing activity before provision for doubtful debts totaled NIS 2,133 million in the fourth quarter of 2010, compared with a profit of NIS 2,053 million in the previous quarter and NIS 2,012 million in the same quarter last year.
- **The Bank's total capital adequacy ratio** continued its trend of improvement and reached 14.1% at the end of 2010, compared with 13.7% at the end of 2009. The core Tier 1 capital ratio reached 8.2% at the end of 2010 compared with 7.7% at the end of 2009. These rates significantly exceed the minimum targets established by the Bank's Board of Directors.

**Mr. Yair Seroussi, Chairman of the Board of Bank Hapoalim, commented:**

"Bank Hapoalim's business results for 2010 reveal a robust bank with incredible business momentum. Over the last year, we regained a double-digit return on equity, while showing continuous growth and improvement from quarter to quarter. This was the first full year of the multi-year strategic plan we announced at the end of 2009 and the implementation of the plan has led to a turnaround in most key parameters, including profitability, capital adequacy, credit-portfolio quality, growth, and market share.

The outstanding performance was primarily the result of the leadership of the Board of Directors and the Board of Management, headed by CEO Zion Kenan, and the excellent, diligent, devoted work of the thousands of employees of the Bank who form the foundation of its competitive advantage, with their remarkable skill, service, and loyalty to our customers".

"As part of our 'back to basics' strategy, we focused on solidifying our leadership and status in each of the areas of core banking activity. We emphasized our Retail Business by expanding our mortgage activity with existing customers of the Bank. The Corporate Area continued to lead our work with the top tier of corporations in the Israeli economy. Meanwhile, we continued the drive to open new business branches as part of our commitment to improve service for corporate and commercial clients and reinforce our standing in the middle-market. We enhanced our proprietary activity and improved the efficiency of surplus liquidity and capital management at the Bank. As part of this process, we initiated measured investments, based on the philosophy of an investment portfolio designed to generate profit consistent with the risk appetite of the Bank.

We continued to bolster the Bank's resilience and increased shareholder equity, raising the capital-adequacy ratio to 14.1%, significantly higher than the 12.5% target set by the Board of Directors".

"Taking a broader view, 2010 was a year of growth for the global economy. Corporate profitability rebounded from the low point of the crisis and the Israeli economy continued to display great strength. We believe that in 2011 the global economy will grow and that Israel will continue to show growth as well. However, we are also aware of the increased uncertainty in the global arena, from the cumulative effects of the debt crisis, the geopolitical shifts in the Middle East, the increase in energy and food prices, and the earthquake in Japan.

The global economy is still far from economic equilibrium. We are seeing the beginnings of interest rate increases in several countries, and I expect this process to continue. In addition, many Western countries will be forced to embark on a process of fiscal consolidation, meaning a reduction of budget deficits with the aim of lowering the ratio of public debt to GDP.

The key challenge for economic policy-makers will be to preserve the competitive advantage of the Israeli economy, leading the economy to growth commensurate with its potential, while complying with budget limits".

"Last year, we defined long-term ROE targets for the Bank. This year, we made substantial progress towards the attainment of these objectives. We intend to return to a policy of dividend distribution by the Bank during 2011, subject to approval by the Bank of Israel.

We believe that following the turnaround in 2009 and the leap forward of 2010, we are well positioned to meet the challenges of the years ahead, in which we will continue to lead the banking industry and create value for our shareholders and for all of our stakeholders".

"We are proud of our consistently high contributions to the community – the largest in Israel's financial sector -- and we will continue to do so. We will

continue to support education, which I see as the most important key to the development of our economy and society and to securing Israel's position as one of the region's only developed economies. We will also continue to encourage our employees to volunteer and to harness our expertise to advance social and environmental causes".

**Mr. Zion Kenan, Chief Executive Officer of Bank Hapoalim, said:**

"2010 was a year of tremendous business momentum for Bank Hapoalim. The financial results we are presenting today leave no doubt that this is the case".

"As you know, 2008 and 2009 were crisis years for the global economy; although the downturn had a milder impact on the Israeli economy than on most of the developed countries, the consequences were evident here as well. I believe we can now assert that Israel, its banking industry, and Bank Hapoalim in particular, demonstrated commendable resilience during this crisis.

The world is now on a path of growth, but uncertainty remains, mainly in the short and medium term. Indeed, we should not imagine that the crisis is entirely in the past. Though the emerging markets continue to show rapid growth, the United States is experiencing a slow recovery and unemployment rates there remain high. Several European countries, such as Portugal, Greece, Ireland, and Spain, are suffering debt crises.

In the Israeli economy, 2010 was a year of growth. Gross national product grew by 4.6%, unemployment fell to 6.6%, and companies in most sectors of the economy showed improvements. As bankers working closely with our clients, we have a close-up view of the recovery process; we also feel the escalating competition over credit, both from banks and from the non-bank credit market".

"For Bank Hapoalim, it was the year in which we brought the Bank's engines back to full force. Bank Hapoalim's net profit grew by almost 70% in 2010, from NIS 1,316 million in 2009 to NIS 2,228 million for 2010. Quarterly data also reflects a substantial, consistent increase in profit. The rate of return of net profit on equity rose to 10.3% in 2010, from 6.7% in the preceding year. In the fourth quarter, we achieved a return on equity of 13.2%. These strong results, reflect our commitment to providing our shareholders with sustainable returns while balancing the Bank's risk appetite and macro-economic conditions in Israel and abroad".

"During the year, we continued to increase our shareholder equity, which grew by more than 12%, as the total capital-adequacy ratio rose to 14.1% and the core capital ratio reached 8.2%. These rates were above the required levels established by the Bank of Israel and the targets set by the Board of Directors of the Bank. Our ability to generate a double-digit return on equity while maintaining a significant 'capital cushion' beyond the regulatory requirements reflects the Bank's quality of earnings, which is based on the strength of our core banking business".

"The provision for doubtful debts, decreased by almost 50% in 2010, to a total of NIS 1,030 million. The decrease reflects both the continued upturn in the Israeli economy and the ongoing improvement of risk management at the Bank".

"In addition to the impressive financial results, it is important to note several strategic moves carried out over the last year that had a notable contribution to the Bank's strong performance. We increased our market share in the retail customer segment by emphasizing the increased variety of products, strengthening the direct channels, and enhancing the competitive capabilities of the branches. All of these processes were accompanied by the reinforcement of

client-centered service, as we continue to instill our service culture as a unique asset differentiating Bank Hapoalim within the Israeli banking industry".

"We continued to increase our market share in the housing segment. We focused on retail customers of the Bank, successfully adopting a campaign titled "Take your mortgage at home," that allowed us to achieve a significant expansion of our share of the mortgage market while maintaining our leadership in quality of risk and credit-portfolio parameters.

In the corporate sector, we successfully maintained our leadership position. Bank Hapoalim is the top provider of corporate credit in the Israeli banking industry, leading the most important deals in the economy while maintaining spreads and ensuring strict, prudent risk management.

In the area of global treasury, we established a unit dedicated to improving the management of the Bank's proprietary portfolio; this unit is in the process of examining the composition of the portfolio, with the aim of building an investment portfolio that will increase profitability in line with the risk appetite of the Bank.

The International Area of the Bank is undergoing a reorganization to better serve our clients in a changing global economy. We continue to view the development of our international operations as one of the key growth drivers for the Bank in the medium and long term, with a focus on our private-banking business, centered in Switzerland, and our international corporate-banking business, centered in New York and London, where we serve a large number of Israeli companies operating globally. We believe that China and Asia will account for a growing proportion of the economic activity of Israeli companies, and our representative offices and the relationships we have developed in Singapore and in other Asian capitals will allow the Bank to play an important part in this trend.

Along with our plans for the business development of the Bank, we have formulated a detailed, organized plan for the cultivation of the Bank's human resources, from the development of employee capabilities, through career-track management, to the foundation of an internal center for human-capital development to enable the Bank to realize strategic initiatives without increasing headcount. We continued to cultivate our strong employee relations, a strategic asset of the Bank for years".

"In the coming years, we will continue to implement our multi-year strategic plan, as we work to achieve our objectives. We will continue to stand by our clients on their path toward growth and prosperity, while offering them the best, most advanced banking services in Israel. For our employees, we will be the workplace of choice: secure, rewarding, and challenging".

"Our strong results were achieved thanks to the efforts of many. I would like to express my gratitude to my colleagues on the Board of Management of the Bank and to our Board of Directors, headed by Yair Seroussi, for their teamwork and partnership. I thank our controlling shareholder, Ms. Shari Arison, for her confidence and support. Thank you to our customers, who express their confidence in us anew each day. Special thanks to our employees' union for the excellent labor relations, which have enabled the Bank to continue to lead and achieve, and of course – immense thanks to all of the employees of the Bank, our most important asset, whose skill and dedication are the cornerstone of the excellent results we are presenting to you today".

## **Main developments in the Annual Report for the year 2010:**

**The implementation of the strategic plan enabled the Bank to return to double-digit ROE while maintaining steady progress during the course of the year, resulting in substantial improvement in comparison to the previous year.**

**Profit from financing activity before provision for doubtful debts** totaled NIS 7,775 million in 2010, compared with NIS 6,718 million in 2009, an increase of 15.7%. The improved performance resulted mainly from an increase in the profit from regular financing activity as a result of an increase in financial margins and the volume of assets. Likewise, the profit was positively influenced by an increase in income from bonds.

**Profit from regular financing activity** (excluding one-off and other irregular items) in 2010 totaled NIS 7,492 million, compared with NIS 6,861 million in 2009, an increase of 9.2%.

**Financial margin from regular activity** stood at 2.59% in 2010, compared with 2.36% in 2009.

**The provision for doubtful debts** totaled NIS 1,030 million in 2010 compared with NIS 2,017 million in 2009, a reduction of approximately 50%. Lower provisions in 2010 were positively influenced by the continuous improvement in domestic economic conditions, and stemmed mainly from a decrease in provisions in the corporate sector.

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 0.49% in 2010, compared with 0.90% in 2009.

**Operating and other income** totaled NIS 5,109 million in 2010, compared with NIS 5,107 million in 2009. The slight gain in 2010 was primarily driven by an increase in income from credit cards, credit handling (syndications) and capital market related activities and was offset by the one-time capital gains in 2009 from the sale of Bezeq and Hot shares.

**Operating and other expenses** totaled NIS 8,310 million in 2010, compared with NIS 7,503 million in 2009, an increase of 10.8%. The rise was related to higher salary expenses as a result of an increase in bonuses to employees reflecting the improved profitability of the Bank. Other expenses include a deduction of goodwill. The increase in expenses in 2010 was also influenced by the wage agreement with the Employees' Union, which contributed to a significant decrease in salary expenses in 2009.

**Contribution to the community** - The Bank continues to lead in the area of social responsibility, with a focus on education, culture and welfare. Employees were involved in a wide and extensive range of community-focused activities, including social involvement, monetary donations, and large-scale volunteer projects. The Bank Group's CSR activity in 2010 totaled a financial value of approximately NIS 44 million.

## Developments in Balance Sheet Items

**The consolidated balance sheet** as of December 31, 2010 totaled NIS 320.9 billion, compared with NIS 309.6 billion at the end of 2009.

**Credit to the public** totaled NIS 225.3 billion compared with NIS 215.8 billion at the end of 2009, an increase of 4.4%, mainly due to an increase in consumer credit.

**Deposits from the public** totaled NIS 234.0 billion compared with NIS 232.0 billion at the end of 2009, an increase of 0.9%.

**Shareholder equity** totaled NIS 23,089 million as of December 31, 2010, compared with NIS 20,598 million at the end of 2009, an increase of 12.1%.

**Total Capital adequacy ratio** was 14.1% at the end of 2010 compared with 13.7% at the end of 2009. **Core Tier 1 Capital** stood at 8.2% at the end of 2010 compared with 7.7% at the end of 2009. These rates exceed the Board of Directors' objectives wherein total capital adequacy ratio should be no less than 12.5% and the Bank's core Tier 1 capital should be no less than 7.5%.

### Conference Call Information

Bank Hapoalim will host a conference call today at 6:00 PM Israel Time / 4:00 PM Greenwich Mean Time / 12:00 PM Eastern Time to review 2010 financial results.

To access the call, please dial: 1-888-281-1167 in the U.S. and Canada or (972-3) 918-0685 for international participants. No password is required. The presentation slides, earnings release and the 2010 financial statement will be available at the Company's website, [www.bankhapoalim.com](http://www.bankhapoalim.com), under Investor Relations, Financial Information.

A replay of the teleconference will be made available approximately two hours after the conference call is completed, through April 7, 2011 by telephone at (972) 3-9255937 (international). A webcast replay will also be available by audio playback on [www.bankhapoalim.com](http://www.bankhapoalim.com), under Investor Relations, Financial Information.

### 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 Isracard Ltd, Israel's leading credit card company as well as financial companies involved in investment banking, trust services and portfolio management.

Internationally, Bank Hapoalim operates through 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.

For more information about Bank Hapoalim, please visit us online at [www.bankhapoalim.com](http://www.bankhapoalim.com).

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## Principal Data of the Bank Hapoalim Group

### Profit and profitability

in NIS millions

	For the year ended			Change from	
	2010	2009	2008	2009	2008
Profit from financing activities before provision for doubtful debts	7,775	6,718	3,256	15.7%	138.8%
Operating and other income	5,109	5,107	4,532	-	12.7%
Total income	12,884	11,825	7,788	9.0%	65.4%
Provision for doubtful debts	1,030	2,017	1,520	(48.9%)	(32.2%)
Operating and other expenses	8,310	7,503	8,024	10.8%	3.6%
Net Operating profit (loss)	2,212	1,288	(1,469)	71.7%	-
Net profit from extraordinary transactions, after taxes	16	28	574	(42.9%)	(97.2%)
Net profit (loss)	2,228	1,316	(895)	69.3%	-

### Balance Sheet – Principal Items

	As of December 31			Change from	
	2010	2009	2008	2009	2008
Total balance sheet	320,876	309,555	306,847	3.7%	4.6%
Credit to the public	225,288	215,788	222,100	4.4%	1.4%
Deposits from the public	233,965	231,993	226,953	0.9%	3.1%
Debentures and subordinated notes	27,608	23,112	20,818	19.5%	32.6%
Shareholders' equity	23,089	20,598	18,795	12.1%	22.8%
Overall Credit risk -Problematic Debts	14,895	16,636	16,085	(10.5%)	(7.4%)
Of which: Non-income bearing debt	3,632	3,976	4,108	(8.7%)	(11.6%)

### Principal financial ratios

	2010	2009	2008
Loan to Deposit Ratio*	<b>96.3%</b>	93.0%	97.9%
Shareholders' equity to total assets	<b>7.2%</b>	6.7%	6.1%
Core Tier I capital to risk assets (Basel II)	<b>8.2%</b>	7.7%	-
Tier I capital to risk assets (Basel II)	<b>9.1%</b>	8.5%	-
Total capital to risk assets (Basel II)	<b>14.1%</b>	13.7%	-
Financing margin from regular activity (a)	<b>2.59%</b>	2.36%	2.54%
Cost-Income Ratio	<b>64.5%</b>	63.5%	103.0%
Ratio of specific provision to total credit to the public	<b>0.49%</b>	0.90%	0.69%
Return of operating profit (loss) on equity, net	<b>10.2%</b>	6.6%	(7.8%)
Return of net profit (loss) on equity	<b>10.3%</b>	6.7%	(4.8%)
Basic Net earnings per share	<b>1.68</b>	1.00	(0.69)
Diluted Net earnings per share	<b>1.67</b>	0.99	(0.69)

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

**Profit and profitability**

in NIS millions

For the three months ended on

	31.12.2010	30.09.2010	30.6.2010	31.03.2010	31.12.2009
Profit from financing activities before provision for doubtful debts	2,133	2,053	1,837	1,752	2,012
Operating and other income	1,341	1,217	1,334	1,217	1,460
Total income	3,474	3,270	3,171	2,969	3,472
Provision for doubtful debts	100	290	341	299	536
Operating and other expenses	2,334	2,064	1,984	1,928	2,095
Net Operating profit	701	538	512	461	465
Net profit from extraordinary transactions, after taxes	12	2	1	1	2
Net profit	713	540	513	462	467

**Balance Sheet – Principal Items**

	31.12.2010	30.09.2010	30.6.2010	31.03.2010	31.12.2009
Total balance sheet	320,876	302,615	307,317	299,845	309,555
Credit to the public	225,288	220,665	217,749	213,203	215,788
Deposits from the public	233,965	217,554	225,237	223,216	231,993
Debentures and subordinated notes	27,608	25,920	22,555	21,395	23,112
Shareholders' equity	23,089	22,307	21,667	21,195	20,598
Overall Credit risk -Problematic Debts	14,895	16,145	16,755	15,458	16,636
Of which: Non-income bearing debt	3,632	3,719	3,730	4,052	3,976

**Principal financial ratios**

For the three months ended on

	31.12.2010	30.09.2010	30.6.2010	31.03.2010	31.12.2009
Loan to Deposit Ratio*	96.3%	101.4%	96.7%	95.5%	93.0%
Shareholders' equity to total assets	7.2%	7.4%	7.1%	7.1%	6.7%
Core Tier I capital to risk assets (Basel II)	8.2%	8.1%	7.9%	7.9%	7.7%
Tier I capital to risk assets (Basel II)	9.1%	8.9%	8.8%	8.8%	8.5%
Total capital to risk assets (Basel II)	14.1%	13.9%	13.6%	13.9%	13.7%
Cost-Income Ratio	67.2%	63.1%	62.6%	64.9%	60.3%
Financing margin from regular activity (a)(b)	2.61%	2.65%	2.67%	2.54%	2.43%
Ratio of specific provision to total credit to the public (a)	0.45%	0.47%	0.52%	0.57%	1.12%
Return of operating profit on equity, net(a)	13.0%	10.2%	9.9%	9.2%	9.4%
Return of net profit on equity(a)	13.2%	10.2%	9.9%	9.2%	9.4%
Basic Net earnings per share	0.54	0.41	0.39	0.35	0.35
Diluted Net earnings per share	0.54	0.40	0.38	0.35	0.35

(a) Calculated on an annualized basis

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