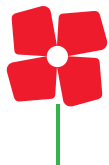


SUSTAINABILITY REPORT 2011

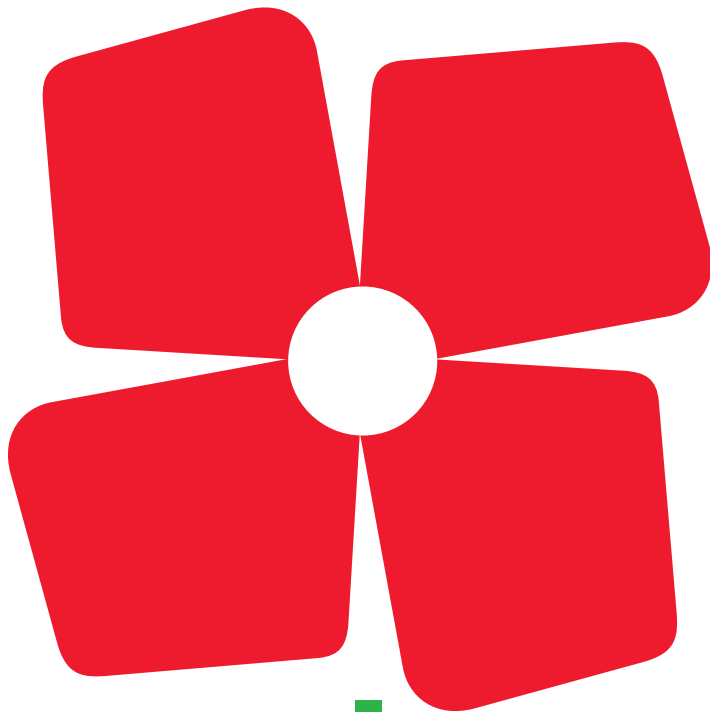
ECONOMIC, SOCIAL & ENVIRONMENTAL RESPONSIBILITY



**SOCIAL
RESPONSIBILITY**

IT'S IN OUR HANDS. BANK HAPOALIM

 **bank hapoalim**



SOCIAL RESPONSIBILITY

IT'S IN OUR HANDS. BANK HAPOLIM

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A MESSAGE FROM CHAIRMAN OF THE BOARD MR. YAIR SEROUSSI AND CEO MR. ZION KENAN



Bank Hapoalim, Israel's leading bank, has made the commitment to corporate social responsibility one of the cornerstones of its strategy. This commitment is reflected in business and operational practices through which the bank prioritizes sustainability as a value of the utmost importance and recognizes the needs of the environment; cultivates its human capital, based on a philosophy of dialogue and partnership; manages its customer relationships on a foundation of trust; empowers its customers and promotes financial freedom in a variety of ways, including financial education; and encourages volunteering, investment, and contribution to the Israeli community, with an emphasis on education.

This is the fifth consecutive year in which Bank Hapoalim has published an annual report on sustainability and corporate social responsibility. This publication, which has become an integral part of our organizational tradition, is designed to inform the stakeholders of the bank about the progress of the continued implementation of Bank Hapoalim's strategy for the promotion of sustainability and CSR issues. The current report describes the bank's achievements in these areas during 2011, and its fulfillment of its commitment during a period saturated with momentous events in both the global and local arenas.

Adopting corporate social responsibility as a strategic approach and absorbing its values into the core of our business have enabled us to attain significant achievements. Support for environmental causes continued this year, taking the form of financial advice for clients as well as financing solutions for projects that promote the use of renewable energy, water desalination, and the transition to natural gas. Concurrently, the gradual implementation of the environmental risk management methodology with respect to financing has proceeded.

In 2011, the bank continued to invest resources in the reinforcement of its relationship with customers and understanding of their needs, through the development of services for the full range of our customers and expansion of the use of innovative multi-channel technologies. The process of accessibilization of products, services, and branches to disabled persons has also expanded and progressed.

Thorough study and analysis of our customers' needs have led us to conclude that the path to financial freedom begins with financial education. We believe that basic financial knowledge and tools for the implementation of this knowledge should be made available to the general public, to create opportunities for better financial conduct. The more financially knowledgeable our customers become and the better they manage their finances, the greater our capability to help them grow and attain long-term financial security. Towards that end, this year, the bank expanded the assistance offered to its customers in the area of customized financial advice and education. This effort is aimed at providing tools for balanced account management, promotion of prudent consumerism, encouragement of medium- and long-term savings, and increased knowledge regarding the core areas of the bank's activity.

In the area of employment, we have created a long-term system for the promotion of employment of population groups underrepresented in the Israeli labor market, while continuing to pursue multi-year internal processes promoting environmental resource savings and efficiency.

Over recent years, we have strengthened areas with potential for local growth and adapted to the needs of the economy and to global and local developments. We believe that small businesses are one of the most important growth drivers of the economy, and that the development of these businesses has a highly positive economic and social impact. Accordingly, the bank launched a program offering more than NIS 1 billion in credit to small businesses, offering preferred terms and a comprehensive range of services, including professional and financial guidance for optimal business management.

As a member of the community from which it draws its strength, Bank Hapoalim invests in Israel's society and environment through a wide range of efforts and initiatives. The bank's social investment

focuses on education, a catalyst of the foremost importance for the promotion of growth and equal opportunities. The bank sponsors and supports extensive activities in the area of education for children and adolescents, with an emphasis on geographically remote regions. This year, in line with the bank's vision, a decision was made to promote volunteering at the bank through integrative management in this area. A new organizational structure has been established, promoting volunteering as a core activity of the bank and allowing management, absorption, measurement, control, and guidance of the bank's volunteering system. In addition, in a pioneering program launched this year to promote both social and environmental values, electronic and metal waste has been collected from the public, in collaboration with local government, while employing workers with disabilities and maintaining dialogue with the community.

These initiatives and activities, along with the many others described in the report, have earned Bank Hapoalim international as well as local recognition for its commitment to the values of sustainability and corporate social responsibility. As in each of the last several years, the bank earned the top rank in the highest rating categories of international and Israeli CSR indices this year.

Our commitment to the values of sustainability and CSR is rooted in the bank's vision and operational philosophy. We believe that this commitment benefits the bank, its employees, its customers, and all of its stakeholders; and we declare our commitment to continue to pursue the course of corporate social responsibility in all areas of the bank's activity as we head into the future.

MESSAGE FROM THE HEAD OF CORPORATE SOCIAL RESPONSIBILITY

This is the fifth report to be published by Bank Hapoalim for its stakeholders. Each report in its turn surveyed a full year of activity within our overall sustainability and corporate social responsibility plan.

The reports reflect varied, thorough, organized, systematic action. The sustainability and CSR reports released by Bank Hapoalim describe the bank's journey, from the inception of the plan to the present day, to assimilate corporate social responsibility. Each report focuses on different highlights, according to the key areas of activity in the preceding year:

In 2007, we described the project of initiating this activity, including in-depth diagnosis, the formulation of work plans by specialized committees, the creation of infrastructure for future action, and the description of many projects in this field.

In 2008, we focused on solidifying and developing a working infrastructure and on planning numerous activities in the areas of sustainability and CSR.

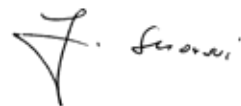
In 2009, we reported on the expansion and improvement of the specialized infrastructure for the management of the plan, and on the development of a network of relationships with those involved in sustainability and CSR in Israel.

In 2010, Bank Hapoalim took another step forward in the process of assimilating the values of CSR and promoting the creation of shared value for the bank and its stakeholders, in all levels of its activity.



Yair Seroussi

Chairman of the board of directors



Zion Kenan

President and CEO



In 2011, the bank focused on expanding its sphere of influence in the core areas of social responsibility, through dialogue with its stakeholders and initiatives for the creation of a wide range of projects.

For example:

- Continued implementation of the Bank Hapoalim Vision, based on values including sustainability and financial freedom, and promotion of a broad plan for the integration of this vision;
- Improvement and expansion of the database and system for collection of information on the bank's real-estate properties, and processing of environmental data;
- Management of environmental activities through the implementation of the ISO14001 system of environmental management, in accordance with the requirements of Israeli and international standards;
- Expansion of appropriate environmental conduct beyond the employees of the bank, through unique projects;
- Development of a work plan for the promotion of diversity of human capital;
- Promotion of financial freedom for customers, through online household budget management tools, capital-market workshops for beginners, and the newly launched personal financial planning meetings;
- Promotion of the creation of environmental value for customers and for the economy by developing and offering banking products in the area of sustainability;
- Pioneering infrastructure projects designed to enlarge the bank's sphere of influence through a campaign for environmental efficiency, collection of electronic waste from the general public, and the environmental transportation project, in which shuttles to and from the financial district are provided for employees of the bank as well as others;
- Continued investment in the community through educational and other projects, organized employee volunteer work, and contributions to the Israeli economy as a whole;
- Development and expansion of the dialogue with our network of stakeholders on various issues.

Content and Scope of the Report

This report on sustainability and corporate social responsibility refers to the calendar year 2011, and is current as of the end of the first quarter of 2012. The report also includes objectives and plans for the coming years. We believe that this report is the best indicator of our actions and plans.

The bank continues to maintain its tradition of reports at the highest level of quality, meeting all of the requirements of the core metrics and most of the additional metrics in the newest, most advanced reporting framework of the Global Reporting Initiative (GRI), G3.1, as well as all of the supplementary metrics for the financial sector.

This report covers the full range of the bank's material impact in the area of CSR. However, the report does not address Isracard Ltd. Isracard is a subsidiary of the Bank Hapoalim Group. The company's operations may have some sustainability impact. The company operates in accordance with sound corporate governance rules, and is managed independently. At this stage, the board of directors and management of the company have not yet reached a decision to file formal CSR reports.

The process of determining the content of the report involved an identification of the target audiences and stakeholders likely to make use of the report: Bank Hapoalim employees, suppliers, customers, analysts, community organizations, regulators, policymakers, and more. The report extensively discusses matters deemed by the bank to be of special importance for one or more of the following reasons:

- The bank has (or may have) substantial influence in a particular area;
- The stakeholders of the bank accord high importance to the issue;
- Banks that are world leaders in the area of sustainability and CSR accord high importance to the issue.

The scope of discussion of subjects of secondary importance is therefore narrower than the scope of discussion on essential subjects. All areas described in the report contain full information and were given full attention.

This year's sustainability and CSR report is distributed in a new abridged version printed on recycled paper, as well as in a digital format available on the bank's website, for convenient environment-friendly distribution and reading. As part of the drive for transparency and openness continuing from earlier reports, the quantitative data are accompanied by in-depth analyses, explanations of long-term trends, and detailed descriptions of key infrastructure projects.

Data in the Report: Methods of Measurement, Evaluation, and Assurance

Most of the data in the report were generated by the existing information systems of the bank, in accordance with the GRI reporting requirements and the bank's judgment of the matters relevant to our stakeholders. This year, the database was improved and expanded, and the system for the collection and processing of multi-year data on energy and water consumption and on emissions of air conditioners was upgraded. Some of the data were not measured continuously and routinely, or were not previously available to the bank. These data were generated specifically for this report; in a small number of cases, estimates and evaluations were used. Estimates and evaluations, where used, were diligently checked and validated, and are clearly noted in the report.

We recognize the importance of auditing and external assurance of our work and of the accuracy of the data accumulated as the plan moves forward. Accordingly, we have decided to continue to maintain external auditing of the fairness of our reporting, on four levels: the corporate social responsibility implementation process; the fairness of the report pursuant to GRI guidelines; the completeness of the report on our carbon footprint; and compliance with GRI reporting standards. GRI examined this report and assigned it the highest grade of A+ for completeness and scope of content.

The readers of this report, our stakeholders, will use it to critique and judge our performance and the extent to which we have met their expectations. We are committed to making use of the comments and feedback we receive from our stakeholders in order to learn from them and continue to examine ourselves.

I would like to thank all of the employees and managers involved in every level of the bank's work, who contribute to these activities each day, and who helped create this report.

Avraham Bar-Ilan

Head of Corporate Social Responsibility

Direct e-mail: avraham.barilan@mailpoalim.co.il

Comments and questions can also be sent through the CSR section of the Bank Hapoalim website at www.bankhapoalim.co.il/csr.

PROCESS CONTROLS FOR IMPLEMENTATION OF THE CSR PLAN AT BANK HAPOALIM

An external assurance process allows readers of this report to verify the bank's self-report based on an independent opinion from a professional examiner. This year, the bank decided to expand the assurance process with regard to the report on sustainability and CSR. The expansion of these processes and the involvement of additional sources of assurance enable the bank to learn from the feedback received from those conducting the process and provide verification of the reliability of the report for stakeholders.

The current report underwent four assurance processes, each focusing on a different aspect of the report:

- The CSR and sustainability group at BDO Ziv Haft performed routine process control and examined the CSR implementation process at the bank;
- Good Vision examined the fairness of the report, in accordance with the GRI and Accountability guidelines;
- The Good Energy Initiative examined the quality of the report with regard to the bank's carbon footprint;
- The report was examined by GRI and found to comply with the highest reporting standards, earning a score of A+.

BDO Ziv Haft: Process Controls for CSR Plan Implementation at Bank Hapoalim

General

This is the sixth year in which the Corporate Social Responsibility and Sustainability Department of the BDO Consulting Group has accompanied Bank Hapoalim in implementing its sustainability and CSR program. The group's activities focus on monitoring the process¹ and progress of the program for sustainability and social, economic, and environmental responsibility. BDO consultants' close work with the bank allows a professional opinion to be provided based on an examination of the processes performed by the bank throughout 2011 and up to the end of the first quarter of 2012.

The bank has continued to implement and assimilate sustainability and CSR values, in accordance with the trajectory formulated following the establishment of the plan in 2008 and implemented in the subsequent three years. The results achieved by these activities reflect this progress.

¹ Consultants in the group collected the data processed for this report. This opinion therefore focuses on the work process at the bank. In order to maintain independence, the examination for the purposes of assurance of the report in compliance with GRI requirements was performed by an independent third party, Good Vision.

Our examination of processes and outcomes indicates that progress has been made in three key areas: (1) developing data infrastructures and reporting, (2) learning and assimilating processes and legislation, and (3) examining the results of these activities.

Description of the Process

The group performed process control with regard to the areas of activity of the bank, designed to ascertain that progress is being made in the implementation of the CSR and sustainability plan. This examination monitored the bank's progress in three areas of activity, as the basis for feedback on the implementation of the plan:

- A. Development and maintenance of the information infrastructure and metrics for corporate social responsibility management** - Consultants in the department examined the CSR management system at the bank, as an area in which integrative management is essential. As part of this process, we examined the support provided by the CSR Administration at the bank to the various units, its interaction with the units, the summarization of results, collection of information, and process optimization. In addition, we reviewed the processes of deriving information and processing the information into current metrics for the examination of the performance of the bank in the various areas and in comparison to the goals and objectives set by the bank;
- B. Assimilating CSR and sustainability values in core activities and in the various units** - In this area, we examined the process of organizational change emerging as part of the implementation of CSR at the bank. In that context, we examined the relevance and added value of the various issues for the activity of the units. We also considered the way in which these issues were being integrated into the activity of the units of the bank, and whether an ongoing learning process was occurring as a result. The control process also encompassed an examination of the method of development and implementation of new issues arising from reports by the various units;
- C. Examination of the results of implementation of the program (effectiveness of absorption)** - At this stage, we examined the ways in which the bank had improved its performance on the various metrics, led new initiatives at the various units for activity in this area, developed new banking products, and created a dialogue with stakeholders, while broadening its influence. The examination we conducted at this stage enables us to complete the circle of process controls, in that it examined the relevance of the information and metrics generated during the CSR program to the various issues raised and implemented at the various units, as well as the effectiveness of implementation relative to the goals set in advance.

Findings, Conclusions, and Recommendations

This assurance process encompassed an examination of the bank's conduct in the implementation and integration of its sustainability and CSR plan. The process controls allow the bank to receive feedback and evaluation of its practices and delineate future objectives accordingly. We found that progress was made in 2011 in the three areas described above, in accordance with the established trajectory. In addition, the measured results achieved by the activities reflect this progress. However, we would suggest five vectors to be maintained and reinforced:

- **Achieving shared value** - The bank's CSR strategy is based on four elements: customers, employees, environment, and community. In each of these areas, we have found a series of activities bringing progress both to the bank and to its stakeholders. This year, the bank continued to develop numerous initiatives in these content areas, demonstrating a leap forward in the process of assimilating CSR values. The endeavor to create shared value ensures continued growth and strength in this area over the long term. This trend should be maintained and expanded into additional channels, with an emphasis on the core business activities of the bank;
- **Strategic guidance** - As a result of intra-organizational changes, during 2011 CSR was brought into the work of the board of directors, under the responsibility of the chairman of the board of the bank, in addition to the responsibility of the head of marketing, service, and CSR in this area. Despite this change, we believe that strategic management and implementation in this area could be strengthened by the establishment of a CSR committee of the bank's board of directors;
- **Learning and integration** - This year, we have seen a range of socially responsible initiatives originating with the units of the bank, rather than the CSR unit. This demonstrates the success of the process of assimilating these ideas at the bank. In view of these learning achievements, progress in this direction should be encouraged further, expanded in units that have carried out the initial stages, and implemented in additional units. In the area of training and development of CSR awareness, emphasis was placed on the connection between CSR and intra-organizational dialogue, through extensive use of the organizational portal as a central platform for communication with employees. In addition, a connection was identified between Poalim Campus, as the bank's training center, and training content related to sustainability and CSR. Accordingly, we recommend expanding CSR and sustainability activities in this area and developing specialized training courses in this area for all employees;

- **Strengthening dialogue with suppliers and with the general public** - The period covered by this report was a time of fluctuations and shifts in the Israeli public's demands with regard to activities that are part of the bank's core business. The bank has begun to respond to some of these demands through innovative savings tools and through proactive efforts to promote financial freedom. Further to these efforts, and in view of decisions made during the reported period, we recommend strengthening the dialogue with the bank's suppliers, its customers, and the general public through proactive outreach, in order to enhance the understanding of their needs and coordinate expectations.

In conclusion, we see a systemic effort to assimilate corporate social responsibility in the activities of the bank. The plan is backed by an organizational infrastructure designed to contribute to effective integration and practical attainment of significant results. The foregoing review contains several points which in our opinion should be maintained and reinforced in order to improve the implementation of the plan and preserve the bank's leadership in this area. Our recommendation to the bank is therefore to continue to follow its current trajectory for these activities.

Dr. Jonathan Menuhin

Director of the Corporate Social Responsibility Department

BDO Consulting Group



THIRD PARTY ASSURANCE STATEMENT

Background

Good Vision Corporate Responsibility Consultancy Ltd. was asked by Bank Hapoalim to conduct an assurance examination of its sustainability report for 2011. The company was established in 2002, and has carried out dozens of consultancy studies in all areas of corporate responsibility. Good Vision is the Israeli representative of Good Business England. Good Vision is not involved in or dependent upon business activity with Bank Hapoalim, apart from the fact that it is a customer of the bank. This assurance examination was carried out for payment, in a manner as objective and professional as possible, on the basis of information supplied by Bank Hapoalim. Good Vision has performed assurance examinations for the bank over the last four years, affording it a broad perspective on the process of writing the report at the bank. The company's consultants participated in this process, in the areas of ethics, corporate governance, the community, and the environment. The findings of the assurance examination are intended for publication to all of Bank Hapoalim's internal and external stakeholders.

Methodology

This assurance examination employed two methodologies in order to examine the extent to which the report conforms to the applicable reporting requirements: GRI reporting principles and guidelines for reporting at Level A+, and assurance principles on the basis of the AccountAbility AA1000AS (2008) standard, at Type 1 Moderate level, designed to examine the credibility of the report.

The work process

The assurance examination included in-depth reading of the draft of the report and comparison of the draft to earlier reports and to reports of other companies, and meetings with the authors of the report and with the head of CSR, as well as requests for clarification and follow-up questions. In this context, it is important to note that the work was carried out with cooperation and transparency on the part of the personnel of the bank; in addition, many of the findings of the assurance examination communicated to the bank were remedied during the writing process and appear in the report.

The assurance examination of the Sustainability and CSR Report of Bank Hapoalim for 2011 included examination of the report's adherence to principles including the following:

- 1. Inclusivity** - Examination of the reporting on all indicators required for Level A reporting (full reporting on managerial approaches with regard to all material issues and all core metrics contained in the GRI-G3.1 reporting guidelines), and examination of the extent to which the report provides comprehensive information to all stakeholders and enables them to respond;
- 2. Materiality** - Examination of the extent to which the report addresses material matters for the various stakeholders, and establishes priorities for resolving such material issues;
- 3. Responsiveness and meeting past targets** - Examination of the 2010 sustainability report, and comparison with the present report, for the purpose of examining the bank's progress and responsiveness;
- 4. Comparability** - Examination of the ability for the reader to compare the report with the reports of other banks in Israel and abroad;
- 5. Reliability** - Examination of whether the information contained in the report is supported by documents and sources that were used in preparing the report, including clarifications and discussion of findings.

Findings

On the basis of our assurance examination, it is possible to determine that Bank Hapoalim's Sustainability and CSR Report for 2011 conforms to the GRI-G3.1 Level A+ reporting guidelines and requirements. In addition, the report conforms to AccountAbility reporting principles. In the course of the assurance examination, we found that the report addresses material matters, including the core metrics, as required in GRI-G3.1 Level A reporting, including the financial sector supplement. In our opinion, the report was written in a reliable manner, with reliance on relevant data and documents. It is also our impression that CSR activity at the bank is overseen in a professional manner and is unique in the context of the Israeli economy.

The 2011 CSR Report

TThis report demonstrates improvement in the presentation of data in many areas, such as the environment, the community, and human resources. In our opinion, the report is written lucidly,

and is capable of faithfully reflecting information regarding the bank's performance in the various areas of CSR during the reported period to its stakeholders. However, we believe that it would be appropriate to accompany the expanded details noted above with descriptions of gaps and flaws, which are necessary in order to create a more balanced and credible presentation for readers.

Accordingly, our recommendations for improvement of this report and for future reporting are:

- Broader presentation of the effect of the economic and social events of the reported year on the bank (such as the social protests of the summer of 2011).
- Details of legal claims filed against the bank and sanctions imposed upon the bank during the reported year, even if not reported in the financial statements.
- Detailed current status of issues to be addressed noted in the preceding report.

Ivri Verbin - CEO

Good Vision Corporate Responsibility Consultancy Ltd.
May 2012



CARBON FOOTPRINT

The Good Energy Initiative (Registered Non-Profit Association) is a social initiative devoted to climate change. The organization works towards minimization of greenhouse-gas emissions, which accelerate climate change, while raising public awareness of this issue. The initiative plans and operates projects aimed at saving energy and integrating renewable-energy technologies, with a community orientation. In addition, it assists public and business organizations in reducing greenhouse-gas emissions by gaining an understanding of their carbon footprint, providing guidance regarding measures to reduce this footprint at source, and performing carbon offsets. The initiative was founded with the assistance of the Heschel Center for Environmental Learning and Leadership, motivated by the ongoing escalation of the climate and energy crises.

Work Method

Our work is based on prevalent principles for carbon calculation and marking, developed by the technical work group of the British government. The data were adapted to Israel through the Israel Greenhouse Gas Emission Recording System - Operating Rules and Reporting Guidelines, issued by the Samuel Neaman Institute and the Ministry of Environmental Protection in March 2011.

Emission coefficients used for these calculations are national figures published by professional entities such as the Public Utility Authority - Electricity, the Central Bureau of Statistics, and the Samuel Neaman Institute, which is linked to the Technion. Emission coefficients for imported products or products not specific to Israel are congruent with the directives of the World Resources Institute and the Department for the Environment in the UK, through the professional organization appointed on its behalf.

Consumption data were supplied by the bank, at its responsibility.

Calculation and Reporting of the Carbon Footprint of Bank Hapoalim

In 2011, the bank continued to improve its carbon monitoring and reporting, further to the transition to analysis of its carbon footprint according to the prevalent international standards, effected during 2008-2010, and the reports to the Israel Greenhouse Gas Emission Recording System, beginning in 2010.

The total carbon footprint of Bank Hapoalim amounted to 106,593 tons CO₂e in 2010. Greenhouse-gas emissions from the bank's routine operations mainly derive from electricity consumption at the head-office buildings and branches (64%), coolant gases (10.5%), and the vehicle fleet (7.8%). The moderate decrease of 164 tons CO₂e in the carbon footprint from 2010 to 2011 resulted from more efficient electricity consumption at the bank, alongside an increase in constructed area, including construction, renovation, and air conditioning at new and renovated branches.

Summary of Findings

- The bank monitors and calculates greenhouse-gas emissions caused by electricity consumption, use of the vehicle fleet, consumption of paper and ink, emission of coolant gases, purchases of electronic equipment, sewage production, new construction, and water consumption in Tel Aviv;
- The bank monitors and measures the reduction of greenhouse-gas emissions at source achieved by expanding customers' use of online banking and by recycling paper, cardboard, ink, and electronics;
- The reduction of emissions at source through the use of online banking is difficult to quantify, due to the lack of thorough research on this subject and the inability to measure and assess the true savings in paper consumption, movement of paper through the entire supply chain to the online-banking customer, emissions resulting from customers' use of the internet, and in particular the reduced number of visits to the bank using private vehicles. This report contains basic assumptions regarding online banking from the Pay-it-Green Alliance, which encompasses all of the major banks in North America, led by the Federal Reserve;
- It should be noted that extensive activities with environmental and social significance described in this report are not reflected in quantitative terms in the calculation of the reduction of the bank's carbon footprint. The collection of fluorescent light bulbs, including mercury removal and safe disposal, as well as the separate collection and disposal of batteries, contribute to the reduction of various pollutants and toxins in employees' environment, in waste-disposal facilities, and in the environment in general, but do not reduce the emission of greenhouse gases;
- At this stage, the bank does not measure the emission of greenhouse gases caused by employees' travel in private vehicles, production of solid waste, renovation of buildings, advertising, vehicle maintenance, travel by suppliers and customers, consumption of disposable plastic, lighting elements, beverage containers, gardening services, and cleaning services.



GRI A+ Rating Assurance

This report on sustainability and CSR was submitted to the international organization GRI. GRI affirmed that the report meets the criteria for A+ Level reporting, the highest grade. In 2011, for the first time, the bank's report met the newest, most advanced GRI standard, G3.1. All of the data presented in the Sustainability and CSR Report of Bank Hapoalim for 2011 were taken from the database monitoring factors with an environmental impact, established by the bank as part of its sustainability and CSR plan.



SOCIAL RESPONSIBILITY, THEN AND NOW

Sustainability management and corporate social responsibility constitute a strategic and social philosophy that is continually evolving. From the beginning, Bank Hapoalim has devoted extensive attention and resources to the various areas of social responsibility, as part of its routine operations.

Identifying the Need: The Decision to Apply the CSR Approach

The bank's decision to create a sustainability and CSR program followed many years in which a range of activities in areas related to social responsibility were conducted by various units of the bank. For example, far-reaching efforts were undertaken in the areas of community relationships, energy savings, recycling, and more. Against this background, a decision was reached, in late 2006, to collect all of the initiatives and activities in the area of sustainability and CSR into a single structure, allowing centralized and organized management, adding momentum to the bank's CSR efforts, and creating a powerful critical mass. The decision positioned the bank on a par with the leading banks globally in the area of sustainability and CSR projects and initiatives.

The Launch

In accordance with this decision, Bank Hapoalim prepared to create and implement its CSR program. In order to realize this ambitious goal, the bank formulated a comprehensive CSR plan under the leadership of a senior-level corporate CSR officer. The first step was to build an original model for our approach, relying on international best practices and on a large number of specific performance metrics defined according to the bank's needs. In the next stage, a thorough and comprehensive diagnosis of the existing situation at the bank was carried out. Specialized teams formed as part of this process discussed and validated all metrics, addressing the metrics' significance, scope, and content, whether the information necessary to examine the metrics existed at the bank, etc. In addition, the specialized teams collected the necessary information in the various areas.

Based on the diagnostic process, the situation at the bank was analyzed and compared to the desired situation according to optimal benchmarks. This gap analysis served as the point of origin for work plans designed to respond to the findings, aimed at bringing the bank to compliance with international standards in all aspects of its activity related to CSR.

This stage concluded with the bank's first CSR report, in 2007, which was assigned the top grade of A+ by GRI.

Assimilating CSR Values in All Levels of Activity

The three years following the creation of the sustainability and CSR plan were dedicated to formalization and regularization of the plan, in five primary organizational areas:

Structure and authority - The sustainability and CSR program is managed based on the matrix management approach. In accordance with this method, the CSR officer is the integrator for this area. The CSR officer works collaboratively with the heads of the various units; each unit administers its authority and resources with respect to the specific aspect of CSR that falls within its duties.

The corporate CSR officer is the strategic leader in this area at the bank, coordinating with all of the bank's stakeholders. Activities of the CSR officer include integration of the totality of actions of the bank related to CSR, overseeing methodology, tools, and professional support, controls and reporting; change management and communications in this area, and building an up-to-date knowledge base.

Processes, metrics, and information - Measurement is a fundamental element of management, allowing goals to be set, progress to be monitored, and performance to be compared. Improvement of the measurement infrastructure allows enhanced controls to be applied to the various activities, and is aimed at promoting efficient, effective management of the sustainability and CSR program at Bank Hapoalim.

The sustainability and CSR plan is implemented at the bank based on a fundamental infrastructure including:

- Processes that gradually transform new initiatives in this area into routine activities at the relevant units;
- Clear metrics for the various issues, allowing standardization of the plan and performance analysis over time;
- Extensive information collected from existing organizational systems or produced directly for the purposes of the plan.

Broad implementation - In order to bridge the gaps between CSR in Israel and global developments, the decision was made to proceed rapidly on all fronts, from the earliest stages of the plan. To meet this ambitious goal, the plan was implemented and administered broadly, in a top-down process, with the participation of many units and encouragement for units to develop bottom-up initiatives.

A large number of projects were developed in order to realize the objectives of the plan. Each new activity was first carried out as a pilot project. Following the pilot and the process of drawing the necessary conclusions, the many projects were absorbed into routine work processes and procedures, with the aim of achieving ongoing administration comparable to other business processes of the organization.

Branding, communication, and awareness - In order to support change management and differentiate the various initiatives undertaken within the plan, a logo was designed for the organizing model of the plan - the CSR Flower - accompanied by the slogan, "Social responsibility - it's in our hands." In the spirit of this logo and slogan, each initiative launched as part of the plan was branded and widely communicated to the various levels of managers and workers at the bank.

Subsequently, an extensive series of training sessions and talks on the topics related to the plan was developed, encompassing sustainability issues, healthy lifestyles, safe driving, CPR training, and workshops on caring for aging parents, parental authority, marital relationships, dangers to children on the Internet, and additional content under the heading of whole-person wellbeing.

In addition, in order to leverage the impact of the sustainability and CSR plan with employees' families and the general public, the bank formulated and later updated a guide to the protection of the environment, including an extensive section on energy efficiency, and promoted this issue through a large-scale advertising campaign. The guide contains practical, useful information on environmental subjects, and is aimed at providing the general public with tools for cost savings and protection of the environment.

Dialogue and collaboration with stakeholders - In order to extend the activities within its CSR plan, the bank sought dialogue and collaboration with external stakeholders. In this context, a comprehensive mapping process of community and environmental organizations that were potentially relevant stakeholders for dialogue and collaboration was performed. A wide-ranging network of collaborations and connections was formed with environmental and social experts, non-profit organizations,

government agencies, entrepreneurs in areas related to the environment and society, academia, and more. This web of connections enables the bank to exchange information and create collaborations with a range of partners, thereby expanding its sphere of influence and strengthening the nationwide network of elements involved in this field.

As part of this process, the bank participated in a large number of conferences, and sponsored events related to business and community affairs or environmental issues. The bank also granted support to various websites dealing with sustainability and CSR.

The activities described above were carried out during the period of 2007 to 2010. At the end of each year of activity, a detailed CSR report was produced, in compliance with a strict transparency standard, meeting the highest level of GRI requirements. Concurrently, prior to the current report, four CSR reports were published (the last two reports were also released in English) and presented to the stakeholders of Bank Hapoalim, in Israel and internationally.

Activity in 2011

Sustainability and CSR activities in 2011 were devoted to **broadening spheres of influence**, especially in the core business and operational areas of the bank, continued development and improvement of the infrastructure targeted to the management of the plan, initiation of new activities, and development and growth of activity involving the network of people engaged in sustainability and CSR activity in Israel. In addition, in recognition of the importance of this issue, Mr. Yair Seroussi, chairman of the board of directors of the bank, was appointed to head the strategic guidance and supervision of sustainability and corporate social responsibility.

The bank invested extensive efforts in activities aimed at **promoting shared value** for the bank and its stakeholders, who are its partners in these activities. Achieving shared value is a key goal of the bank's sustainability and CSR plan, aimed at genuine realization of the win-win principle, whereby all parties involved in this process benefit in their own ways from the results of the shared activity. Basing the planning of the activities on the shared-value principle has allowed us to focus on significant action that responds to essential needs arising in a changing environment.

Dialogue and expansion of the sphere of influence of the bank's activity are key means employed by the bank's sustainability and CSR plan to understand the needs of the various stakeholders,

provide a precise solution tailored to these needs, and allow work processes to be optimized, in order to influence diverse population groups in Israeli society and work for the common good. The perception of dialogue as a means of planning activities allows the bank to respond to essential needs that arise within its changing environment. As part of this expansion of the bank's sphere of influence, a large-scale campaign was conducted to raise awareness of energy efficiency, based on the environmental protection guide published by the bank for its customers. In addition, an initiative was developed for direct transportation for employees of the bank and other organizations, between the train stations in Tel Aviv and the financial district in which the bank's head offices and many branches are located. The initiative was developed in dialogue with employees, government agencies, and other banks and companies, with the aim of generating social and environmental value. Another key project launched this year is a pioneering drive for collection of electronic waste in the city of Holon. The project combines social and environmental values, with the involvement of workers with disabilities in the process of recycling the waste. These and other projects are described in detail in the Community section of this report.

Alongside the expansion and extension of existing activity and integration with all levels of activity at the bank, new initiatives were also developed during 2011. These initiatives were conducted on various levels, from environmental resource management, management of human resources, caring for employees, and development of new products and services promoting customers' financial freedom and contributing to economic, environmental, and social sustainability, to new community projects.

New initiatives and significant activities developed and implemented during 2011 are briefly described below:

Environment - Additional initiatives carried out in the area of paper (Paperless Branches, Mail-Net) include the following: (1) transition to the use of "green" office paper, (2) formalization of the bank's environmental management system and formulation of targeted procedures, towards overall certification of the bank under the ISO 14001 standard, (3) improvement and expansion of the database and system for collection of information about the bank's real-estate properties, and processing of data on consumption of energy and water and on emissions of air-conditioning systems, (4) continued progress on approval and certification procedures in construction of additional branches and properties in compliance with the Green Construction Seal (5281) in Mazkeret Batya, Afula, and Tiberias, (5) change in the purchasing procedure for carpeting at the bank, to environment-

friendly carpets, (6) expansion of environmental operations of the various initiatives for collection by employees of electronic waste, fluorescent bulbs, expired medications, batteries, clothes, and ink and toner cartridges, separation of cardboard for recycling, and more, (7) air-conditioner water reclamation project, (8) completion of installation of command and control systems at all of the bank's properties, (9) deployment of additional virtual servers within the Green Computers process, (10) efficient innovative LED lighting pilot project, and more.

Employees - Continuation of the organization-wide program for assimilating the bank's vision, through employee workshops include the following: (1) development of a work plan for the promotion of the diversity of human capital and formation of closer relationships with non-profit organizations and societies specializing in diverse employment, (2) increased transparency through improvement of manpower data and analysis of multi-year trends, (3) increased number of hours invested in training and learning at the bank's campus, and financing of academic tuition for employees, (4) internal placement of employees at all units of the bank through the Human Capital Development Center, (5) creation of a comprehensive program for improving employees' health, (6) launch of employee well-being websites on coping with illness, caring for aging parents, and more, (7) workshops and lectures for employees on full life cycle and social responsibility topics, and more.

Customers - Promotion of financial freedom for customers through online household budget management tools, capital-market workshops for beginners, and the introduction of personal financial planning meetings include the following: (1) continued promotion of savings and financial education for children through the Dan the Saver program, (2) promotion of the creation of environmental value for customers and for the economy by developing and offering banking products in the area of sustainability (financing of power stations fueled by natural gas, water desalination plants, and renewable energy plants), (3) gradual implementation of an environmental risk management methodology in financing, (4) Continued accessibilization of branches and ATMs for a wide range of population groups, including people with visual impairments, (5) development of new, innovative customer-service applications in the direct channels, and more.

Community - Projects include the following: (1) A pioneering project for the collection of electronic waste and electrical appliances, using the resources and experience of the bank, while employing workers with disabilities, (2) an initiative for the operation of a shared shuttle system for several business organizations to the Tel Aviv business district, sponsored by the city of Tel Aviv and Israel Railways, with knowledge accumulated during the bank's internal planning process shared with

the partners in the project, (3) tighter controls applied (through an external specialist) to reports by manpower contractors engaged in the areas of cleaning, cafeteria, and security services, measures taken according to the findings, and distribution of the ethical code to contractor employees in four languages, (4) a large-scale campaign on energy savings and efficiency, based on the bank's energy efficiency guide, distributed extensively on the Internet and on television, (5) an increase in community aid in Israel through project financing and direct donations, (6) continued promotion of strategic community projects in the area of education, such as From Three to Five and Read & Succeed, (7) promotion of volunteer activities at the bank through integrative management by the nationwide volunteering network, and more.

All of the new initiatives are described in detail in the relevant sections of this report. The descriptions address qualitative and quantitative aspects, to the extent possible, as well as future objectives.

Transparency as the foundation of dialogue - Our website as the reflection of Bank Hapoalim for stakeholders and as a communication channel for feedback on its activities

The CSR section of the bank's website, at www.bankhapoalim.co.il/csr, reflects the bank's activity in the areas of sustainability and social responsibility. The website presents an appropriate level of transparency for stakeholders with regard to events at the bank and delivers the maximum possible amount of information, which is essential to dialogue.

The CSR section of the website is constructed in congruence with the organizing model of CSR activity at the bank, the CSR Flower. This structure provides users with quick, easy access to all internal content and immediate transition between content segments. A link to "Additional aspects of CSR," added in 2011, leads to other parts of the bank that conduct activities related to social responsibility.

In 2011, a video was added to the website summarizing the bank's annual CSR activities in a concise, entertaining, user-friendly format. The video was also enclosed with all copies of the report distributed on USB flash drives, and is available in English in the CSR section of the bank's website.

The content of the CSR section of the website was prepared with the aim of reflecting all of the sustainability and CSR activities at the bank. The most important activities are highlighted, and links are provided to other sections of the website that offer practical tools in business areas related to sustainability and CSR, such as solar-energy financing, tools for better financial conduct, green mortgages, and more.

During the reported period, the bank developed a feedback form designed for all stakeholders of the bank who visit the website. The feedback form invites all visitors to the site to respond to the content reported in the bank's CSR reports or presented on its website. Feedback received is examined by the bank and methods of implementing the comments are considered.

The location of this section within the website, its internal division into subsections, and the content itself are designed to display a full picture of the bank's actions in the area of sustainability and CSR, including multi-year quantitative information. The website earned the bank first place on the Transparency Index, for the fourth consecutive time.



ASSIMILATING THE BANK HAPOALIM VISION

Over the last two years, an ongoing process has been underway to assimilate the vision of the bank. The purpose of the vision is to express the future we foresee for Bank Hapoalim at its best. The Bank Hapoalim Vision is a clear, powerful, meaningful description of our future as it can and should be. The vision also provides a structured framework for charting our future course; declares our commitment to our customers, our employees, and all of our stakeholders; imparts meaning and a connection with our values to the objectives and initiatives led by the bank; and empowers the bank in its leadership on the shared path to the challenges of the future. Values chosen for inclusion in the Bank Hapoalim Vision are intended to create an impact on the following three levels:

- 1. Proud to belong - Our focus on our customers and our financial leadership are a source of pride and foster a sense of belonging for our employees;
- 2. Committed together - The endeavor to create value for our stakeholders and our commitment to the cultivation of human capital on a path of humanity, integrity, transparency, and responsibility are aimed at nurturing a personal commitment to our shared journey, in which each person acts responsibly and contributes to the success of all;
- 3. In it for the long haul - The drive towards financial freedom for our customers, in congruence with the principles of sustainability and in encouragement of excellence and innovation, reflects a long-term commitment to improvement and empowerment.

The concept underlying the integration of these three dimensions and the fundamental motif of the Bank Hapoalim Vision is: **Leading Growth Together**.

The Bank Hapoalim Vision

To be a leading global financial institution, headquartered in Israel, focused on its customers and working towards their financial freedom.

To create value for our stakeholders while upholding the principles of economic, social, and environmental sustainability.

To cultivate human capital and encourage excellence and innovation.

To base our actions on the core values of compassion, integrity, openness, and accountability.

The vision consists of ten values. Practical applications of these values are demonstrated throughout the sections of this report.

The Bank Hapoalim Vision is comprised of ten elements:

Global with a core in Israel We are, and will remain, a leading Israeli bank. Yet in today's world, under conditions of a globalized economy, a large top-tier bank must engage in international activities and offer its customers globe-spanning services. Our international operations are an important growth driver for the long term.

Leadership of the bank is mainly measured by its market capitalization, profitability, and return on equity, but also by its operating efficiency, brand strength, CSR activities, upholding of sustainability principles, contributions to the community, and professional ethics. The bank is strong on all of these parameters, and is working to improve and advance further.

Focused on its clients We are dedicated to responding to the changing needs and aspirations of our customers during each stage of their lives, while creating economic value for the bank and tailoring services to different sectors: households, private banking, small businesses, commercial, and corporate. We believe that our focus on our customers is the key to our success over any period of time.

Financial freedom This concept represents the freedom and will of our customers and employees to make good choices, based on their personal preferences, while taking responsibility for and understanding the financial capabilities and possibilities open to them.

Sustainability principles Represent and reflect environmentally conscious business conduct aimed at preserving and enhancing existing resources and achieving economic, social, and environmental balance for our own sake and for the sake of future generations. The bank believes that the adoption of these principles supports its objectives and increases its value for the long term.

Creating value for stakeholders The essential mission of a business enterprise is to maximize its value in a way that serves all of its stakeholders: customers,

employees, investors, suppliers, the community, and the general public. The creation of value is based on four pillars: (1) the stability of the bank, which ensures its ability to meet its obligations at any given moment and to support the development of the economy, (2) sustainable profitability, balancing risk and returns, (3) promotion and cultivation of sustainability principles, and (4) a philosophy of genuine partnership with customers and employees.

Excellence An organizational and personal stance leading to success, and expressing the desire, responsibility, and commitment to be better, through resolute and effective efforts. Excellence is the ambition to make the most of our inherent potential, to make optimal use of available resources, and to set a high standard for performance.

Innovation Finding and promoting new initiatives that generate business value and competitive advantage, through processes that encourage employees to raise ideas and to think creatively and innovatively, throughout the bank. This effort is aimed at improving processes and systems, developing new products and services, and promoting business initiatives.

Developing human capital The bank believes that the human capital of any business organization is one of its most valuable assets. The bank considers its employees to be partners, maintains a relationship with them based on mutual trust and respect, and strives to enable them to succeed and to provide them with tools for professional and personal development.

Fundamental principles: humanity, integrity, transparency and responsibility These values embody the ethical and moral standards and principles that are the cornerstones of our organizational culture, reflecting the way of life and rules of appropriate conduct of the bank. We will uphold these values in our work relationships with each other, and in our connections with customers, suppliers, and the community.

Adoption of Responsible Initiatives, Promotion of Partnerships, and Transparent Reporting

The bank is committed to its partnership with organizations working towards sustainability and CSR, and has adopted international standards of responsible conduct:

Global Sullivan Principles of Social Responsibility - The bank adopted these principles as early as 2004, in the belief that the implementation of the principles would help achieve greater tolerance and understanding among peoples and promote a culture of peace.

Maala - Bank Hapoalim joined Maala in 2006 as a member of the organization's business leadership. In ratings assigned by Maala for 2012, based on reported data for 2011, Bank Hapoalim was ranked at the top of the Platinum Plus class, the highest rating category.

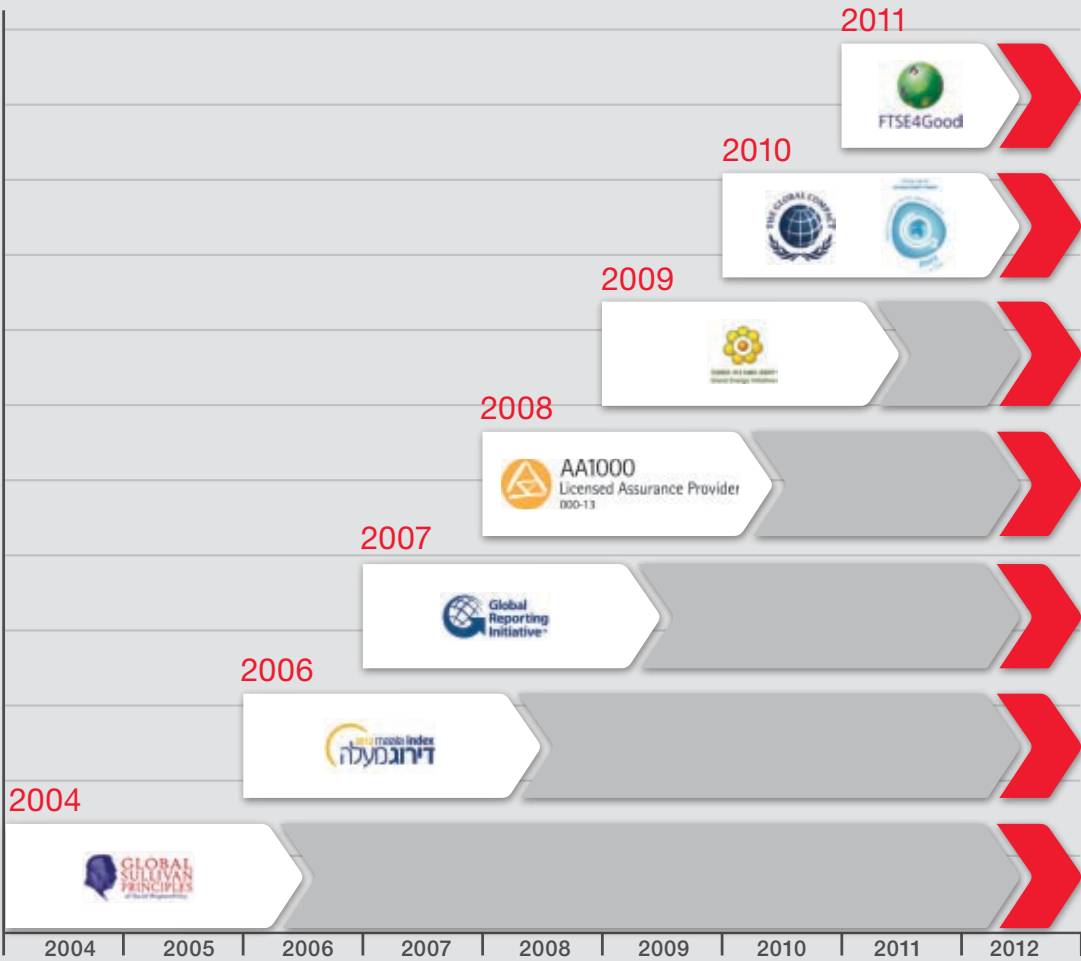
UN Global Compact - During 2010, Bank Hapoalim joined this UN initiative aimed at promoting economic development that is beneficial for the community and for future generations.

FTSE4Good - The bank was added to the worldwide FTSE4Good index in the first quarter of 2011, with the maximum score. FTSE4Good is considered a leading global index of sustainability and responsible investment.

Voluntary reporting system on greenhouse-gas emissions in Israel - In 2010, Bank Hapoalim was one of the first organizations to join the voluntary system for recording greenhouse-gas emissions. This system is a joint initiative of the Ministry of Environmental Protection and the Manufacturers' Association.

Business transparency index - Bank Hapoalim has led this index for all four consecutive years since its launch. The transparency index examines the degree of social and environmental transparency of the 100 largest publicly traded companies in Israel.

Throughout the years the bank has joined partnerships and initiatives as follows:





LOOKING AHEAD

The sustainability and corporate social responsibility program continues to be a part of the strategic core of Bank Hapoalim. The program is ongoing, and encompasses organizational infrastructures, information and measurement systems, milestones, and controls, constituting an element of the bank's long-term vision. As extensively illustrated in the CSR report, structured work plans and planned future activities have been formulated. At the same time, within its emphasis on innovation and entrepreneurship, the bank works to identify original ideas in this field and to bring these concepts to fruition through pilot projects. The projects are designed to test the feasibility of the ideas in light of societal, environmental, and economic considerations. Following the testing period, ideas that prove successful on these parameters are implemented broadly across all units of the bank.

The bank intends to continue to expand the activities conducted within the sustainability and CSR plan, on all dimensions, and to further enlarge its sphere of influence, with continual examination of the progress being achieved globally in this field. Bank Hapoalim believes that corporate responsibility begins within the organization itself; this philosophy must be expressed first and foremost in the bank's internal conduct, its responsibility towards its employees, and its responsibility towards the environment. The bank plans to strengthen and implement these values as extensively as possible.

Concurrently with its continued progress in the area of resource management and multi-year measurement, the bank will sustain its efforts to expand its business activities and identify new opportunities to create combined business value for the community and the environment. Examples include the wide range of activities designed to promote customers' financial freedom; expansion of the electronic waste collection drive in Israeli cities, with the employment of workers with disabilities; and leadership in providing financing solutions for projects that promote environmental causes, in areas such as renewable energy, energy efficiency, water desalination, and more.

The bank intends to continue to develop and expand the positive impact of its sustainability and CSR plan, and to leverage this influence through its employees' families, its customers, and other stakeholders. Knowledge imparted to thousands of people helps them while also making them partners for change in the broad circles of their social networks.

Finally, the bank plans to support the strengthening of the social responsibility network in Israel - non-profit organizations, academia, government agencies, local government, and other professionals - thereby contributing to the promotion and development of sustainability and CSR in Israel. This report presents detailed descriptions, addressing each dimension, of the key activities performed and planned at the bank.



OPERATING PROACTIVELY

LIVING WITH THE ENVIRONMENT



ENVIRONMENTAL POLICY

In recognition of the bank's social responsibility and the importance of sustainable environmental policies, Bank Hapoalim has formulated a comprehensive, formalized policy in this area. The policy was delineated by professional bodies and constitutes an integral part of the strategy of the bank.

- The bank views the protection of the environment as a social value, managed as an inseparable component of its social responsibility;
- The bank recognizes that natural resources are an asset of the public, the community, and future generations, in accordance with the principle of sustainable development;
- The bank seeks to achieve the proper balance between economic development and protection of the environment in its business decisions;
- The bank complies with environmental regulations and laws, and adheres to the directives of the organizations charged with protecting the environment;
- The bank diligently endeavors to prevent environmental damage;
- The bank is committed to managing its environmental impact in a manner that ensures continual improvement, by setting measurable targets and monitoring the achievement of its objectives;
- The bank will continually measure its impact on the environment in all significant respects, and will strive to understand ecological consequences and make decisions accordingly;
- The bank will collaborate with other companies and public entities to promote environmental causes;
- The bank will work to assimilate environmental education among its employees, and will initiate and participate in community projects.

The bank recognizes the added value associated with the implementation of this environmental policy, on two main levels:

- The integration of environmental values with the economic values of efficient use of logistical resources generates shared value for the profit line of the bank's financial statements and for the protection of the environment;
- A policy of environmental responsibility makes it possible to improve the work environment contributing to better quality of life for employees at work and higher workplace satisfaction.

Obeying the Law

The bank is aware of its legal duties in connection with the protection of the environment and prevention

of environmental damage, and acts accordingly. No substantial fines or sanctions have been imposed upon the bank for violations of environmental laws or regulations.

Coping with Environmental Effects

Banking products have an inherently low direct environmental impact, as they primarily operate in an office setting and take the form of services. Nonetheless, Bank Hapoalim strives to minimize this impact.

This section describes the bank's approach to the management of environmental resources (such as paper, energy, and water) and to waste management and the prevention of pollution (paper, batteries, vehicle emissions, and more) - the main direct environmental impacts of Bank Hapoalim. In addition, we address the expansion of public awareness of environmental issues and of the environmental costs and effects of banking products.

The bank involves its employees in this process both through internal changes in environmental practices and through the attempt to maximize the impact of its overall environmental activities, in the hope that its employees will become agents for change in their own right. In accordance with its worldview, the bank aspires to rigorously manage its direct environmental impact, with employee involvement whenever necessary, after the infrastructure for appropriate environmental conduct has been established. The bank engages employees in these processes based on the philosophy that their participation is essential for success. In addition, the bank seeks to extend its influence on environmental conduct to employees' homes; the bank's employees together with their families number in the tens of thousands. Towards that end, the bank strives to supply its employees and their families with information and tools to enable them to be greener - when driving, recycling, saving energy, and more. This enlarges the bank's sphere of influence, so that its environmental effect encompasses a growing range, progressing from its internal environment to the external public environment.

The bank encourages extensive use of its products through online means, thereby improving service quality while reducing environmental impact. A multitude of channels are currently available to customers at any place and time, so that a substantial part of their activity with the bank can be conducted without visiting a branch. 2011 saw a substantial increase in the use of computerized and online channels such as the call center, the bank's e-banking website, smartphone and tablet applications, the Mail Net service, and more. As noted, this trend leads to minimization of the environmental impact of banking products in that it frequently eliminates the need to visit a branch of the bank (reducing vehicle pollution) as well as leading to paper savings (as detailed below).



The use of bank branches also carries relatively low environmental impact, due to the broad distribution of the branches of Bank Hapoalim and the extensive network of ATMs, self-service stations, and self-service information delivery stations, located adjacent to and outside of branches. Customers can visit a branch or use a self-service station conveniently, with minimal travel and environmental impact.

Bank Hapoalim also takes responsibility for the indirect environmental impact of banking products. The Clients chapter of this report addresses the management of these environmental effects, with an emphasis on services and products that promote sustainable development and generate environmental value for the economy and the general public, while also generating financial value for its customers.

The Clients chapter also addresses the management of the indirect environmental effects of the bank: promotion of environmental value through the bank's customers and prevention of negative effects through customers' activities. The bank promotes the creation of environmental value for its customers and for the economy as a whole by developing and offering banking products in the various areas of sustainability, such as financing of gas-driven power stations, financing of renewable energy generation facilities (thermosolar, photovoltaic, pumped storage, etc.), financing of water desalination plants, and more. In addition, the Clients chapter describes the ways in which the bank prevents the formation of negative environmental effects through environmental risk management when granting credit. In this context, the bank has adopted an environmental risk management policy, in accordance with the directives of the Supervisor of Banks, carried out a formal training program for all relevant employees, and acted to assimilate advanced work processes in this area that are appropriate for a commercial bank. It is important to distinguish between commercial banks that provide financing to independent business entities and investment institutions that become interested parties and thus bear responsibility for the activity and management of the investee entities.

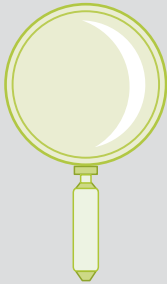
From Consumption Management to Resource Management

The bank views consumable materials as resources to be managed from an environmental and business perspective, rather than as an inevitable but undesirable component of its routine expenses. Consequently, key environmental resources consumed by the bank are managed according to the following parameters:

- Creation of a measurement infrastructure allowing monitoring of trends and identification of areas needing improvement;
- Establishment of a multi-year comprehensive work plan;
- Validation of forecasts from the planning stage and analyses of variance in performance for learning purposes;
- Implementation of initiatives aimed at increasing efficiency;
- Partnership with employees, internal professional functions, and external stakeholders in the implementation of localized initiatives and formal work plans;

- Examination of environmental effects throughout the life cycle of the resource, taking all types of impact into consideration (pollution, global warming, resource scarcity, etc.).

The following parts of this section focus on describing the management of the environmental resources of paper, energy, and water, the approach to green construction, management of the various types of waste; and the ways in which the bank is expanding its sphere of influence in the area of responsible environmental thinking.



ISO 14001

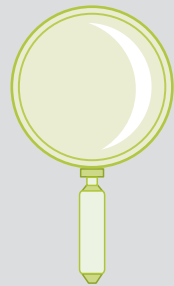
Within the bank's commitment to protecting the environment and as another element in the ongoing process of optimizing and formalizing this commitment on the organizational level, the bank is in the advanced stages of implementing the environmental management system ISO 14001, in line with the requirements of the Israeli and international standards. This process is aimed at defining the routine management of the fields in which the organization has an impact on the environment, and assimilating the prudent use of environmental resources in every activity and unit.

The ISO 14001 environmental management system promotes a method for transition to effective, efficient work processes, allows monitoring of compliance with all existing legal requirements in this area, and helps strengthen trust between the bank and the various stakeholders, such as citizens, social and economic organizations, state and municipal organizations, green organizations, etc. The standard provides assurance that caring for the environment is a high priority for the bank. In addition, the process offers an additional opportunity to improve efficiency in resource usage and to achieve savings in inputs such as electricity, water, and raw materials.

The implementation process includes identification of the substantial areas of environmental impact of the bank; definition of work processes and controls in all environmental areas that are material to its activity, coordination with the various functions responsible for each area; and certification from the quality and assurance institute - IQC, which conducts tests and examinations for that purpose. For each working procedure, the bank has defined a rationale for monitoring in that field, work methods, a survey of the relevant internal and external stakeholders, a system of controls and reports, and details and contact information of contact persons.

MANAGEMENT OF PAPER RESOURCES

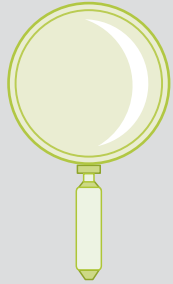
The drive to reduce paper consumption at the bank continued during 2011. Special emphasis was placed on maximizing the potential for automation of processes that previously consumed paper, as well as on the transition to green paper, which is made of a combination of recycled raw material and original cellulose. This significant accomplishment was achieved through initiatives such as the Paperless Branch and the Mail-Net service. The Paperless Branch project entails analysis of the bank's paper consumption in terms of efficiency of use and examination of possibilities for reducing or canceling the production of forms. The Mail-Net service enables registered customers to receive account notifications through the bank's website, in a mailbox linked to their online account. All of these efforts supported the trend towards paper saving.



THE PAPERLESS BRANCH - 2011

The Paperless Branch project is run by the Corporate Strategy Area of the bank, led by the Poalim the Right Way Unit. The project is focused on the analysis of four categories of paper use: forms, reports, document retrieval, and mailings. Current analyses of demand and of production and distribution methods are conducted. Possibilities for reduction or elimination of superfluous forms are examined, subject to professional and regulatory approval, while preserving high levels of functionality and service. The main activities conducted within the Paperless Branch project in 2011 are reviewed below.

- **Digital signatures** - Technological infrastructures were established to allow the introduction of digital signatures at the bank, following a pilot project at two bank branches. The implementation of digital signature systems will allow paper savings and an improvement in service, retention of documents at a high quality without the need for printing, rapid location and retrieval of documents, and a reduction of the quantity of printed materials sent to the archives;
- **Green accounts** - An infrastructure has been created to allow copies of transaction forms and information printouts ordered by customers to be sent by fax or through the Mail Net service, for transactions executed in response to an order over the telephone or via fax. E-mail is used according to customers' request, for certain transactions (e.g. teller transfers). For the transactions converted to this



system, the branch's copy of the document is retained as a digital file in the computerized archive;

- **Automation of credit forms** - The process of automating various manual credit forms, initiated in 2010, was expanded in 2011; the forms now include applications for a loan with guarantors. The first form automated is the most commonly used form: the loan application. The development was based on an abridged version of the form, with automatic entry of customer information and other loan parameters - contributing to the improvement of work processes, beyond the reduction of paper volumes. The project has substantial advantages in terms of the elimination of the need to manage a supply of forms in warehouses and in the branch network, reduction of paper due to the production of an abridged form, and savings of time and paper resources at the branches;
- **Credit-card renewal** - Previously, when their credit-cards were about to expire, customers were required to come to their branch to collect a new card and sign forms. Today, the new card is mailed directly to the customer, who activates the card over the telephone following an identification procedure. This process saves paper and unnecessary travel, and improves customer service;
- **Double-sided printing** - As part of the continual monitoring system designed to reduce the production of various documents, including forms, infrastructure has been developed to make double-sided printing possible on printers with the suitable capabilities; this feature is currently applied to credit-card orders, leading to immediate paper savings. Moreover, 20 printing centers were added to the head-office building this year. The printing centers support double-sided printing, contributing to a reduction of the quantity of printed pages by about half and a cutback in the use of toner cartridges.



Mail Net

Bank Hapoalim aims to streamline and reduce mailings to customers. Under various regulatory consumer-protection directives, the bank is required to send mail to its customers, at specified times, containing the details specified by law. Within this requirement, the bank is working to reduce its paper consumption. This effort includes consolidation of messages, reduction of mailings where possible, and environmental mail initiatives such as Mail Net. The Mail Net service enables registered customers to receive account notifications through the bank's website, in a mailbox linked to their online account. Every customer registered for this service contributes to average savings of 45 mailed pages annually. During 2011, a survey was conducted to identify needs with regard to the Mail Net service, with the aim of identifying and addressing the main barriers to registration for the service, in order to encourage new registrations.

Transition to Recycled Paper

At the beginning of 2011, the bank made the transition to green A4 paper for its printers and copiers. The green paper is made in Israel, using a combination of 50% recycled fibers and 50% ordinary fibers (original cellulose).

2011 Summary:

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- In 2011, as part of the the Paperless Branch project, credit-card activation by telephone prevented the printing of 400,000 forms and freed customers from the requirement to come to the branch;
- 407,805 customers of the bank use the Mail Net service, or about 50% of the total active users of the bank's website - a 10% increase compared with 2010;
- The paper consumption was reduced by 170 tons in 2011 relative to 2010.

2008

2011

42.3% DECREASE

In the last four years, paper consumption for internal needs decreased by 35.2%, and paper consumption for mailings to customers decreased by 42.3%.

Increase in Mail-Net users and active users of the bank's website

Year	Active users of the bank's website	Mail-Net subscribers
2008	660,000	134,000
2009	705,000	246,000
2010	754,000	301,345
2011	810,000	407,805

Paper consumption at the bank (in tons)

Year	Paper used internally	Paper mailed to customers	Blank A4 paper
2007	2,015	603	
2008	1,659	445	
2009	1,527	394	248
2010	1,461	355	271
2011	1,306	348	265

1,000=

PREVENTING 45,000 TREES FROM BEING CUT DOWN

The cumulative savings in paper consumption in comparison to 2007 reached 2,960 tons. This figure is equivalent to preventing approximately 45,000 trees from being cut down for the paper industry. Cumulative paper savings increased by 50% in 2011, compared to total savings in 2007-2010.



LOOKING AHEAD

- **Digital signature** - The deployment of digital signature systems at all branches will be examined during 2012;
- **Green accounts** - In 2012, the infrastructure for sending transaction forms by e-mail will be expanded to several additional forms. Savings from this process are estimated at tens of thousands of pages, in addition to savings on inputs and improved customer service;
- **Credit-card orders and delivery to customers' homes** - When a customer orders a credit card, 42 pages are printed, of which half are given to the customer. A new agreement for use in orders of new cards has been formulated. The agreement will be printed as a thin pamphlet, without a printed copy for the branch. This change is expected to lead to annual savings of about 10 million pages. In addition, an innovative pilot is planned in which new credit cards will be delivered by mail. The implementation of this process is expected to lead to extensive savings on paper used when cards are collected, travel savings, and improved customer service;
- **Checkbook delivery** - In 2012, the bank plans to launch a pilot project in which checkbooks will be sent directly to customers. This process is expected to eliminate the need for visits to the branch to order and pick up checkbooks, superfluous paperwork, and reprinting of uncollected checkbooks;
- **Double-sided mail** - Within the bank's effort to streamline and reduce mail sent to customers, a process of converting all notifications sent to customers to a double-sided format will be implemented during 2012, along with the consolidation of notifications. Savings from this process are expected to reach millions of pages per year;



- **Double-sided printing** - The double-sided printing format will be expanded to additional forms during 2012;
- **Basic documents** - Basic documents are agreements and accompanying documents (dozens of documents, defined by the bank, e.g. account opening forms or provident fund opening forms) that define the working relationship between the bank and the customer and encompass the requirements of the bank as well as legal and regulatory requirements. These documents are retained permanently and must be accessible at the request of customers, courts, government agencies, and external supervisory entities. In 2011, infrastructure was established to continuously follow basic documents from their creation in the branch to their scanning and archiving. This infrastructure allows customers fast and specific retrieval (including fast matching of the requesting client) of both the computerised scanned copy and the archived physical copy. This project will expand to all branches of the bank during 2012;
- **Mail Net** - The bank plans to continue to market the Mail Net service, while working to gain a better understanding of customers' needs and preferences, in order to provide an appropriate response to such needs within the service.

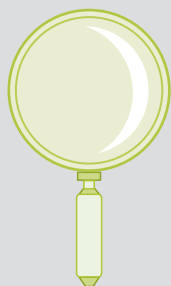


POWER CONSUMPTION MANAGEMENT AND ENERGY EFFICIENCY

Electrical power is a key resource used at the bank. The basic assumption is that in businesses that operate in an office setting, just as in industrial operations, electricity should not be seen as an uncontrollable expense or as a necessary evil. Electricity should be managed as a resource, with rigorous analysis of power consumption over the course of the day, week, and year, and with comparisons among buildings. The central principle in efficient management of electricity consumption by offices is coordinated timing of air conditioning and lighting systems and of computer operation, according to employee presence, to the extent possible. The collection and analysis of as much data as possible allows organizations to identify excessive consumption and find the optimal solution.

Virtually all of the energy consumption of Bank Hapoalim is in the form of electricity supplied by the Israel Electric Corporation, rather than renewable energy (apart from fuel consumption by the vehicle fleet).

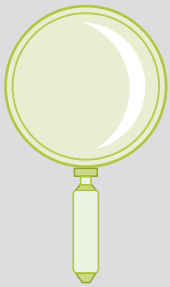
In 2011, the bank expanded its activities in the area of energy efficiency. Ongoing internal processes include a series of measures such as the installation of air-conditioning systems, installation of command and control systems, and various activities in the area of green computing. In addition, the bank has reached out to the Israeli public on the subject of energy efficiency by offering guidance on simple, everyday ways to save energy, by launching an environmental protection guide and an energy efficiency campaign (see details in the Community chapter).



POWER CONSUMPTION MANAGEMENT - MEASUREMENT AND CONTROL

Management, monitoring, relevant data processing of power consumption require a system for thorough tracking and analysis. Bank Hapoalim has hundreds of buildings. In some of the buildings, especially the larger ones, several separate electricity meters are installed. Each year, tens of thousands of consumption data items are collected and analyzed, making it possible to discover the characteristics of the overall power consumption as well as various cross-sections and long-term trends.

The bank, as a dynamic organization, experiences structural changes in its properties each year as a result of the addition, closure, or redesignation of buildings. Monitoring in this area requires analysis, processing, validation, and reexamination of hundreds of types of data.



By maintaining and updating this complex system, the bank is able to examine the consumption profile of each property separately, compare it to itself and to similar buildings in terms of size and function, identify trends of improvement and increased efficiency, and identify properties that may be experiencing inefficiencies or malfunctions.

In recent years, extensive efforts have been invested in creating a database and improving measurement infrastructure in the area of power consumption, at all of its properties. As part of the process of improving the database, data on the bank's power consumption in 2010 were revised in 2011. An analysis of multi-year data indicates that the report for 2010 did not include the power consumption of properties under the management of private management and holding companies; it also emerged that the information regarding the total area owned by the bank was incomplete. In addition, the measurement of consumption per employee was changed, and now includes the external employees of the bank. The multi-year power consumption analysis presented in this report therefore presents data as of 2010 that have been validated and affirmed by an external audit.

Energy Efficiency Initiatives

Command and Control Systems

These computerized systems monitor and control all energy consumption, from temperature control and lighting at the branches, to cleaning status buttons (reduced air conditioning and lighting during cleaning hours) and alerts for significant problems (flooding; overheating of a computer room). The systems are operated from the Hapoalim call center; their advantage is a convenient interface for control over every energy-consuming system at every branch. The installation of command and control systems for energy savings was completed in the branch network and in almost all head-office buildings during 2010. The systems were installed in all new branches opened during 2011.



Lighting and Air Conditioning Timing

An energy efficiency diagnosis was conducted at the bank's head-office buildings in 2011. The findings indicated that lighting and air conditioning operation hours exceeded the limits originally established. Consequently, usage was readjusted to the original schedule.

Energy-Efficient Lighting

In a process initiated three years ago, LED lights were installed in elevators, signs, and peripheral lighting fixtures at the bank's head-office building on Yehuda Halevi Street in Tel Aviv. In 2011, a pilot project began at Rubinstein Towers, in which neon light bulbs are being replaced by more efficient LED lights as central lighting fixtures both at existing buildings and at new buildings. Within this innovative transition, existing bulbs are replaced by 50% of their original amount, based on a techno-optic solution that enables better spreading of the new LED lights, in order to shorten the time needed to obtain returns from the project.



Installation of Systems with Variable Compressor Capacities

The bank conducted an economic test of these systems and determined that air-conditioning systems with variable compressor capacities (VRF - variable refrigerant flow) generate savings of about 38% on energy and maintenance costs relative to other systems; 20% of the savings are in power consumption. Following this examination, a decision was made to install VRF systems in each replacement or addition of air-conditioning systems.

Green IT

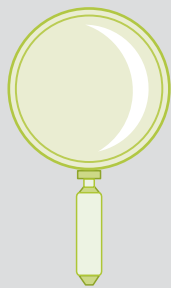
The bank also works to achieve energy savings and efficiency through a thorough examination of the possibilities for green information technologies at its branches and offices. Energy efficiency is one of the parameters in the procurement tenders for IT equipment. Equipment with more efficient power usage earns added points in IT tenders, motivating bidders to supply with more advanced products. In addition, the hardware and communications division does not rely on manufacturers' information regarding the performance of the various components, instead running the necessary tests on server hardware and software, printers, and peripheral equipment at a laboratory set up for that purpose. The tests make it possible to examine the products in greater depth, and serve as a preliminary stage to pilots in the field, in order to generate more reliable forecasts.

Main activities in the area of green IT during 2011:

- **IP telephony** - Implementation of IP Telephony solutions at the branches and head office continues. IPT solutions allow the entire telephony system of the branches to be managed from a centralized computer system, without the need to travel to the branches to set up local switchboards, as was necessary in the past;

- **Reduction of energy consumption by servers** - Over the last year, the bank significantly increased the number of servers operating based on consolidation and virtualization technologies. The old servers were replaced by virtual servers, allowing savings on power consumption for cooling, optimal utilization of server resources, reduced maintenance, and savings on physical space;
- **Computer shutting system** - starting from 14:00, the independently developed system identifies lack of mouse movement or typing, and changes the computer mode to hibernate. The system prevents data loss by automatically saving files left open. In this way the system reduces the electricity consumed by turned on computers left after the working hours;
- **Transition to printing centers and double-sided printers** - In 2009, over 700 different printing devices were installed at the head-office buildings: personal printers, department printers, fax machines, copiers, and scanners. In that year, the bank conducted a pilot project in which department printers, fax machines, scanners, and copiers were replaced by a single secure printing center (an integrated device operated using an employee card reader) that uses double-sided printing. The quantity of printed pages as well as toner cartridge and paper consumption were reduced by about half after the change. In addition, where personal and/or department printers are in place and a printing center is not necessary, the bank is gradually replacing the existing printers with printers that offer a double-sided printing function. In 2011 the project continued;
- **Printing and toner saving system** - A command and control system for physical features and print settings (Web Jet Admin). All of the printers are connected to a central printing management server. Central management of printing allows uniform control over print settings, efficient management of toner consumption, monitoring and examination of exceptional consumers, and more. The default setting for all printing is draft quality printing. This option differentiates between text and image content, and leads to reduced use of toner for printing text;
- **Use of the Mail to Fax / Fax to Mail application** - This application allows full automation of two-way fax transmission. Use of the application eliminates large quantities of superfluous printing (including fax sent/received confirmation pages produced automatically) and the associated ink consumption. In addition, no less importantly, fax transmission automation allows management and control of all faxes received by and sent from each user's number.





THE BANK HAPOALIM ENVIRONMENTAL PROTECTION GUIDE

In 2011, the bank updated its comprehensive guide on the protection of the environment with an extensive range of ideas for household energy efficiency. Through this guide, the bank offers its employees and the public practical professional information that can help reduce household expenses as well as contributing to the environment. This project is part of a strategy adopted by the bank to implement the values of sustainability and corporate social responsibility in everyday life, and using it, offer its customers and the general public tools for smart financial behavior, and help them attain control over their budgets and expenses. The bank accompanied the production of the guide with extensive publicity in Israel, through various media (see details in the Community section).



The bank's protection guide

The ideas described in the 25-page guide were collected from various sources, with the assistance of experts in this field, including suggestions from employees, and the public has been invited to continue to offer updates. The guide is divided into three categories: energy, water, and recycling. Each idea is given a concise, reader-friendly presentation describing the recommended action, the reason for the action, and the savings and environmental benefits that can be achieved.

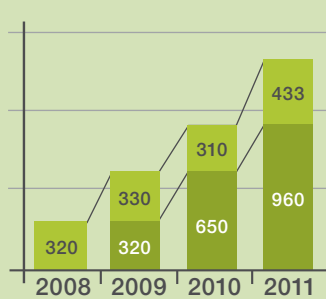
For example, the section on ideas for electricity saving lists correct usage methods for lighting and a range of common household appliances, such as air conditioners, refrigerators, washing machines, dryers, and dishwashers. Another section is devoted to methods for saving fuel in cars. The section on water contains several tips for the reduction of household water consumption and the prevention of water pollution. Another section provides a wealth of ideas in the area of recycling and consumerism. The adoption of these methods can lead to genuine savings of 20% or more on electricity and water expenditures.

Bank Hapoalim indirect energy consumption			
	2010	2011	Change vs. 2010
Total (KwH)	96,982,405	94,058,465	-3.01%
Total (GJ)	349,137	338,610	-3.01%
Consumption per employee (KwH)	8,510.2	8,299.5	-2.48%
Bank area in sq. m.	304,365	312,787	2.77%
Consumption per sq. m. (KwH)	318.66	300.71	-5.63%

Installation of command and control systems



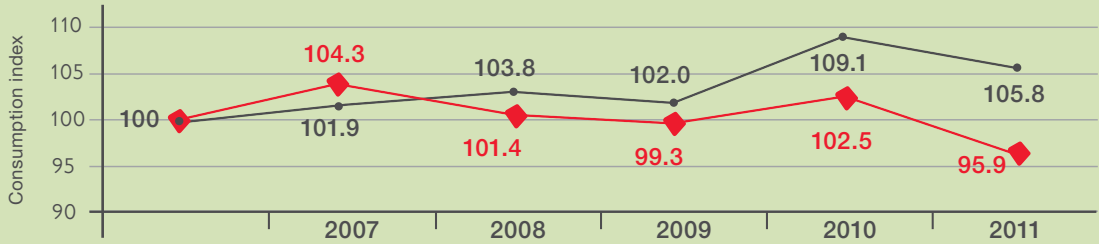
Installation of virtual servers



Installation of VRF air-conditioning systems




Comparison of rate of change in power consumption - Bank Hapoalim vs. banking industry



* The data were presented and analyzed by Gadir Engineering Ltd. Bank Hapoalim Banking industry

2011 Summary (includes data from previous report)

- 44,000 T5 fluorescent bulbs were used in 2011, constituting ~35% of all light bulbs used at the bank;
- 69 VRF air-conditioning systems were installed or replaced, adding to 100 existing systems;
- 433 virtual servers were installed in 2011;
- 20 additional printing centers were installed (for a total of 52), cutting paper and toner usage by about half;
- The deployment of the Fax2Mail applications was expanded to 1,900 users throughout the bank, and the deployment of the Mail2Fax application was expended to all the employees using E-mail;
- 60 IPT switches were installed to manage telephony through a centralized computer system, saving employee travel. These switches are installed in 1,800 telephones.



LOOKING AHEAD

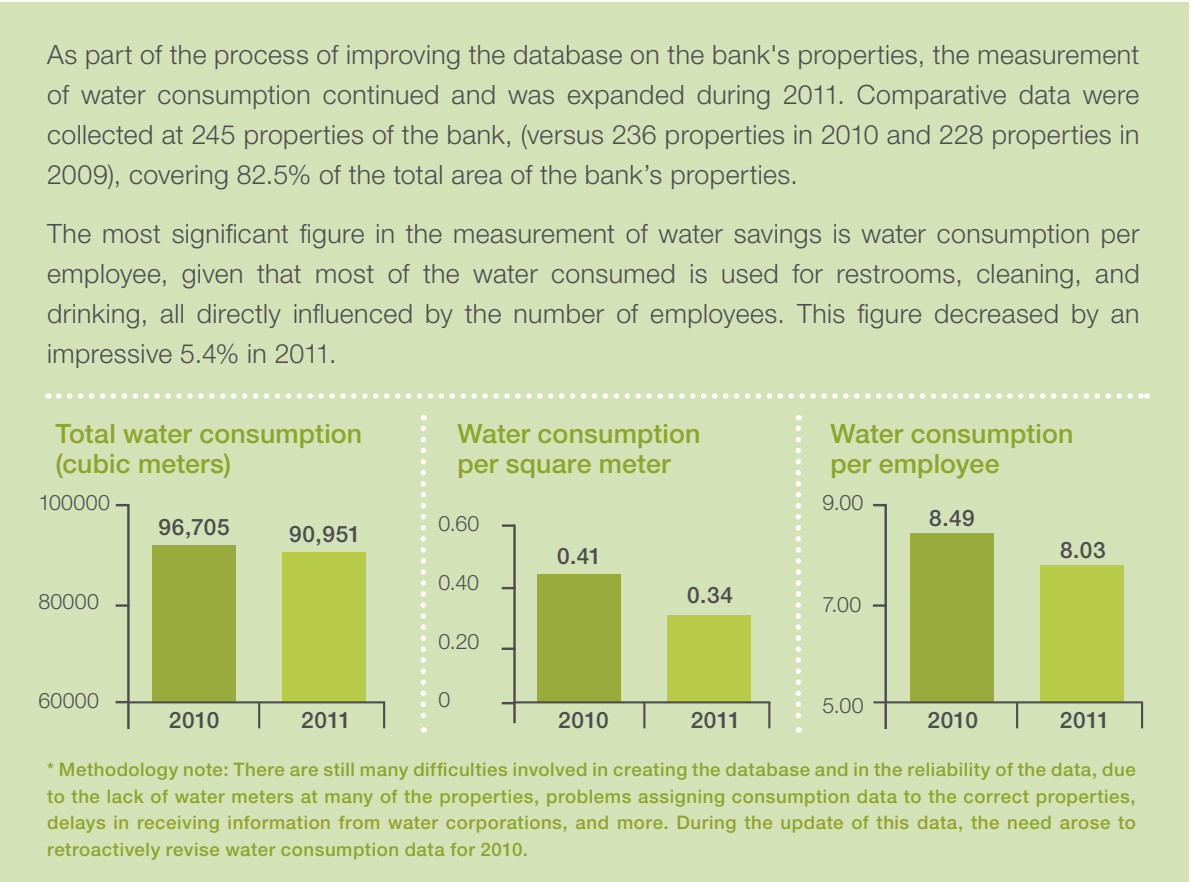
- Expansion of the LED lighting installation pilot will be considered, based on an analysis of economic performance and electricity savings;
- In 2012 the bank plans to continue installing VRF systems in its new branches and to change old systems during refurbishments and renovations;
- Further energy savings are expected, by gradual installation of volume detectors in the management buildings. The control system, connected to the existing energy management systems, would be installed in every room and monitor the lighting and air-conditioning based on employee presence;
- The bank's work plans include gradual upgrading of its existing consolidation servers to new virtual servers. Altogether, in 2012 200 servers are expected to be replaced;
- The IPT project is planned to expand in the following years. In 2012, the move is expected to add 1,000 new users.



WATER RESOURCE MANAGEMENT

Water is a natural resource facing severe shortages, in Israel and globally. Although the banking industry is not a major consumer of water, it is still important to formulate a methodical approach to this resource and to examine ways of achieving optimal management in this area.

Water consumption efficiency and savings are a national goal of the utmost importance. The bank has therefore decided to address this issue comprehensively. In recent years, a series of measures for efficient management and savings of water were taken, including the installation of water-saving faucet fixtures at all of the facilities, the installation of dual-flush toilet tanks in the restrooms, installation of signs explaining the efficient use of the dual-flush toilets in all restrooms, locating potential water sources for reuse for various purposes at the bank, and creation of a comprehensive measurement system encompassing all properties (branches and head office) in all municipalities.

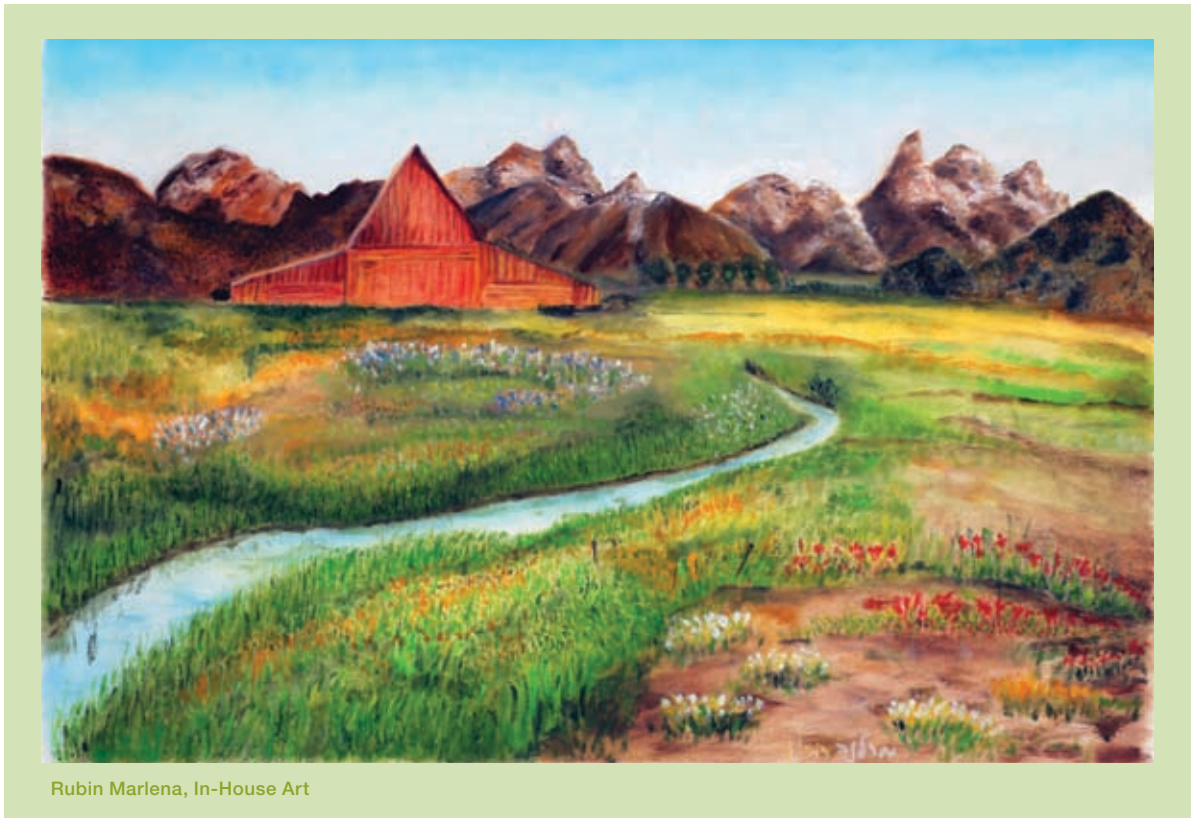
Measuring Total Water Consumption





LOOKING AHEAD

- A project aimed at recovering water from air conditioners for reuse will launch at two buildings during 2012. At the Rubinstein Building, this water will be collected and used to flush toilets. At the head-office building on Rothschild Boulevard, the water will be used for the cooling tower;
- In addition to the local municipality's meters, bank water meters would be installed, as part of the water measurement system. The meters would be connected to the energy management system and the data supplied would be constantly monitored. In case of abnormal water flow (leakage, pipe explosion), the system would provide visual and audio warning. The move would be gradual and assist in water measurement and saving, for both the bank and the country.



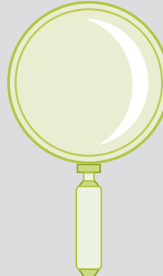
BUILDING ACCORDING TO GREEN CONSTRUCTION PRINCIPLES

Green construction entails the adoption of an environmental approach to construction processes, from planning to execution. The goal of this approach is to avoid damage to nonrenewable resources, reduce waste production, and save energy. The key principles of green construction are efficient, energy-saving planning of the construction, in integration with the environment, efficient thermal insulation for heating and cooling; channels for natural light and air to enter the building, efficient water management, waste recycling and contribution to employee health.

Beyond the benefits to the environment, the transition to green construction also confers economic rewards. The volume of the additional nonrecurring investment in a green structure relative to an ordinary structure ranges from 5% to 10%. Yet the ongoing savings, for example in energy, can reach 30% to 40%.

Green Construction at Bank Hapoalim

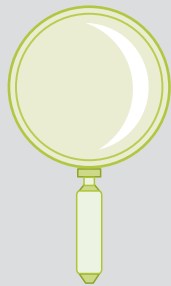
The bank has adjusted all of its purchasing specifications to align with green construction principals, intending to work according to these specifications when constructing office buildings and branches. It is important to note that a significant number of branches are located in shopping malls and commercial centers not owned by the bank, where the bank cannot alter the infrastructure of the buildings. However, the bank intends to bring as many elements of green construction as possible to these sites, even though the properties involved may not meet accepted green construction standards.



INSTALLING ENVIRONMENT-FRIENDLY CARPETS

In 2011, the bank began to install environment-friendly carpets at several of its buildings. The carpets are manufactured in conformity with international environmental standards. The manufacturing process of the carpets installed uses fewer raw materials and larger amounts of recycled materials compared to ordinary carpets. In addition, in this manufacturing process, the environmental impact of the product decreases throughout its lifetime, as the quantity of emissions is reduced. The carpets are also beneficial to employee health, as fewer toxins are released during installation are less allergenic materials are used in the installation process. The bank has made a decision to use environment-friendly carpets in all future installations at its properties. The main advantages of the carpets are:

- The volume of recycled materials (about 70%) and the innovative technologies for examination of the impact of the product throughout its life cycle lead to significantly lower emissions and savings on raw materials during manufacturing of the carpets, with 30%-50% fewer fibers used;
- Due to the development of installation technologies that do not require adhesives in the carpet installation technique, a 90% reduction of toxins



emitted by sealants and glues, is achieved;

- The carpets have a protective layer that benefits employees who suffer from allergies to substances found in ordinary carpets;
- Replacement of the carpet generates minimal depreciation, due to the modular design that simplifies localized replacement of carpet tiles without the need to replace the entire carpet;
- In the first stage, Interface carpets were chosen for the project. In the next stages, other suppliers would be added to the environmental carpets procurement process.

2011 Summary:

- The bank's green building in Afula, which houses the regional administration, a retail branch, and a business branch, in the process of obtaining green certifications similar to those of its Yokneam branch, which earned the Israel Standards Institute's 5281 Green Construction Mark in 2009. The building was planned and constructed in accordance with the green building principals that include electricity consumption reduction through thermal insulation, external shadings, usage of LED lights and lighting sensors, economical air conditioning, conserving building waste for reuse, air conditioning water reuse, etc;
- The planning process of a green retail branch in Tiberias was completed;
- The planning process of a green building planned to house the local Municipality and a bank branch in Mazkeret Batya was completed;
- Environment-friendly carpets have been installed at the bank's business center in southern Israel, at the southern regional administration, at Isracard headquarters, and at the regional call center, over a total area of about 4,000 square meters.



LOOKING AHEAD

- In 2012, the installation of environment-friendly carpets will continue in several of the bank's buildings, including the Rubinstein Building, (as part of a gradual process to be carried out over the course of the coming years).

TURNING WASTE INTO A RESOURCE AND PREVENTING POLLUTION

The environmental trends of recent years have highlighted the fact that one person's waste is another's resource. Population growth creates pressure on ecological systems, making it difficult to meet the demand for natural resources such as metals, wood, water, fossil fuels, and more. In addition, without proper treatment, waste pollutes the environment and damages soil, water, and the air, while contributing to global warming.

These and other insights highlight the importance of a methodical approach to the future of the materials and products that we consume, after they have been used. Bank Hapoalim mapped the types of waste generated by its operations, and subsequently examined the most environmentally beneficial methods of treating such waste:

- Reuse of a resource or of its components (in its existing condition, or after improvement);
- Recycling of the resource by external parties, who convert it into raw material and then reinsert it into the production process;
- Responsible disposal through collection and transfer to a licensed site (prevention of environmental pollution).

Collection of Electronic Waste from the Public and from Employees' Homes

The bank allows head-office employees to bring electronic waste from their homes to the collection center at Rubinstein Towers in Tel Aviv. When the receptacle is full, the waste is transferred to a licensed supplier for responsible disposal. This year, the bank expanded its sphere of environmental influence beyond the bounds of the organization by initiating a drive for collection of electronic waste from the general public, in collaboration with the city of Holon, at central locations in the city. This project will be expanded to additional Israeli cities during 2012 (see details in the Community section).



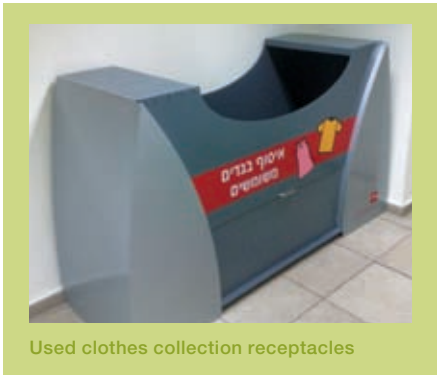
Electronic waste collection center

Collection of Electronic Waste of the Bank

Bank Hapoalim strictly maintains responsible, orderly disposal of disused computer equipment. In general, the bank endeavors to donate computer equipment, when it is still usable. Moreover, the bank invests efforts in upgrading computer equipment before donating it (for details, see the Community section). Computer equipment not suitable for donation is transferred for responsible recycling and disposal each year. In addition to computer equipment, all mobile devices no longer in use are returned to the supplier for responsible disposal. All other disused electronic equipment is transferred to Ecommunity, a unique company specializing in electronic waste recycling that employs only workers with special needs. The bank thereby contributes both to the community and to the environment.

Collection of Used Clothing

Receptacles for the collection of used clothes are located at the Rubinstein Towers. Head-office employees bring used clothes to this facility instead of disposing of them. In early 2010, the bank formed a collaboration with the Pitchon Lev foundation, which undertook a commitment to collect the clothes each week. In late 2011, an additional receptacle was placed at the head-office building on Rothschild Boulevard in Tel Aviv.



Used clothes collection receptacles

Toner and Ink Cartridges

The quantity of toner and ink cartridges consumed at the bank is directly influenced by the quality of computer equipment (printers, scanners, and fax machines) and by the management of paper consumption. The trend towards reduced paper consumption as a result of proper planning and management, reflected in initiatives such as the Paperless Branch project, similarly affects the consumption of printing materials. Consumption of three key categories of printing products has trended down over recent years: printer ink cartridges, printer toner cartridges, and fax toner cartridges. This movement has also been supported by the transition to printing centers, which are gradually supplanting personal printers, and the introduction of secure printing.

In 2011, consumption of toner and ink cartridges increased by about 20% in comparison with 2010, from 19,723 to 23,669 cartridges. The most significant increase occurred in purchases of toner cartridges for printers. The increase resulted from several factors: opening of several regional offices of the central back office, requiring new printers; opening of new branches, requiring new printers; and an upgrade of printers in the branch network to a new model, requiring purchases of a model not available in inventory. In addition, the activity of the branches grew in 2011.

Collection of Paper and Cardboard

The bank collects and transfers waste paper for recycling. Paper no longer in use (documents, forms, etc.) is regularly and systematically collected and transferred for recycling by a specialist external company. As part of this effort, each employee has a bin designated for paper collection. Cardboard is collected at the head-office buildings (Rubinstein, Yehuda Halevy, and Rothschild) and compressed for recycling.



Paper and cardboard collection facility

Collection of Bottles and Cans

Bottles and cans subject to the Deposit Law are used at the head-office buildings of the bank. Every such container carries a refund of NIS 0.30 when returned. Receptacles for the collection of cans and bottles were developed in 2008; following an initial pilot project on one floor of the Rubinstein Towers in 2009, the project was expanded in 2010, with 330 recycling receptacles placed throughout Rubinstein Towers and at the call centers in Nesher and Azor. Receptacles were also placed at the Rothschild head-office building in 2011. The collection of bottles and cans for recycling is performed in collaboration with the ELA recycling corporation. Refunded deposits are transferred to the unit's employee union and used to finance various social activities, donations, etc.



Cans and bottles collection receptacles

Batteries

Used batteries placed in the trash may cause substantial environmental damage due to their toxic contents. Accordingly, as part of the expansion of the bank's sphere of influence to employees' environmentally conscious behavior at home, an initiative has been launched for the collection of used batteries brought in from employees' homes at all units of the bank.

Battery collection receptacles were placed at all of the bank's buildings during 2008, and the quantity of batteries disposed has been monitored and measured since 2009. The government-owned Environmental Services Company is responsible for removing the batteries.

Fluorescent Bulbs

Fluorescent light bulbs contain mercury and glass, making disposal in trash cans and garbage dumps environmentally problematic. Bank Hapoalim uses tens of thousands of fluorescent bulbs. As part of the bank's sustainability and CSR plan, used fluorescent bulbs are disposed of responsibly at all of the buildings and branches of the bank. This orderly disposal method, which includes removal of the mercury and its safe burial, continued to be implemented in 2011.



Fluorescent Bulb collection receptable

Responsible Disposal of Medication

Within the bank's CSR plan and environmental efforts, a pilot was launched in 2009 for the collection of old unneeded medications at the Rubinstein Towers. There is currently no formally organized solution for drug disposal, and most people treat medications as ordinary waste. The active ingredients in medications reach soil or water reservoirs, react with the natural environment and pollute it, and, among other effects, contribute to the development of resistant germs.



To contend with this potential source of pollution, a collaboration was formed with Clalit Health Services. A receptacle designated for the collection of medications was placed in the lobby of the Rubinstein Towers. In 2011, medication collection was expanded to six additional buildings. This activity has earned the full cooperation and a positive response from employees.

Responsible Disposal of Construction Waste

The bank arranges for orderly disposal of its construction waste. Bank Hapoalim includes a contract clause in its agreements with construction and renovation contractors working at the branches and buildings requiring the responsible removal of waste to a licensed facility. The aim is to fully prevent construction waste originating with the organization from reaching unlicensed sites or open fields.

Working to Prevent Air Pollution by Vehicles

The direct and indirect environmental impact of Bank Hapoalim in the area of transportation, primarily fuel consumption and emissions resulting from fuel burning, derive the bank's vehicle fleet and the internal system for transportation between branches and facilities of the bank. The bank is working to reduce its fuel consumption, and consequently to cut back on air pollution, by various means, including:

- Limiting the vehicles chosen for the vehicle fleet to those with a pollution rating of 8 - according to internal procedures, bank employees entitled to a leased vehicle may choose a vehicle with a pollution rating no higher than 8. Most of the vehicles at the bank have lower pollution ratings;
- Monitoring actual consumption and addressing vehicles found to have higher than usual consumption - the fuel companies provide information regarding the fuel consumption of each vehicle owned by the bank. The information regarding the vehicles is collected and analyzed by the vehicle department.

Vehicles with exceptionally high fuel consumption that indicates a problem are referred for treatment to a repair shop, in accordance with agreements with the leasing companies;

- Dialogue with employees through the organizational portal and response to specific inquiries - the vehicle department operates a page at the organizational portal. The page is used to publish articles and recommendations concerning safe, efficient, careful driving;
- Payment for resource-saving toll lanes for employees of certain ranks - the bank finances travel on toll lanes for some of its employees, allowing employees to save time and fuel consumption (due to the avoidance of traffic jams and high-fuel-consuming travel). The roads included are Route 6, the Carmel Tunnels, and the Fast Lane;
- Encouragement of commuting by bicycle - The bank encourages employees at the Rubinstein Towers to ride bicycles to work instead of driving. Within this initiative, the bank prepared showers for its employees on the ground floor and placed bicycle parking spots at the building's entrance;
- Promotion of environmental transportation options through improved access and subsidies of public transportation for commuters (see details regarding the shuttle project in the Community section);
- In addition, the innovative processes in the area of direct banking (by mobile, Internet, or telephone) and the Paperless Branch initiatives (such as credit-card renewal by telephone) eliminate the need for customers to visit the branch, leading to reduced air pollution.

Emission of Substances that Damage the Ozone Layer

The bank uses five main types of air-conditioning systems: split air conditioners, central air conditioners, VRF systems, cooling towers, and chillers. The older systems use freon gas, which is permitted by law, but may be harmful to the ozone layer. The bank is working to replace these existing air-conditioning systems with systems that use only environment-friendly gases.

All of the air-conditioning systems are installed and maintained through service contracts with licensed suppliers only. Due to the service and maintenance components of the systems, it is not possible to obtain a definitive measurement of the quantity of coolant gas emitted during system malfunctions. The bank strives to keep all systems optimally maintained and acts immediately to repair any leaks discovered.

The air-conditioning systems were mapped in the last two year. The mapping indicates that the air-conditioning systems of all of the bank's properties in aggregate are filled with about 21 tons of coolant gas, of which approximately 50% is the environment-friendly R-410a. The gas supplements added to the systems during 2011 due to leaks and other malfunctions totaled about 6.5 tons (one-third of which consisted of environment-friendly gas).

2011 Summary: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- 14 tons of cardboard were collected and transferred for recycling in 2011;
- The bank carried out the orderly disposal of 8,000 fluorescent bulbs;
- 470 kilograms of batteries were removed from the bank's properties;
- During the year, more than 130,000 bottles and cans were transferred for recycling, with refunds given to the unit's employee union;
- The usage of green secure envelopes for transfers of checks and cash from the branches to the central back office and the head office began in 2011. The envelopes biodegrade within six months and can be buried without fear of toxic gas or pollutant emission;
- The bank's fuel consumption decreased by 12,523 liters in 2011 relative to 2010, a slight decrease of about 1%. The gas mileage remained unchanged from 2010 at 10.1 kilometers per liter;
- The number of hybrid vehicles decreased in 2011, due to the expiration of leasing contracts. However,more non-hybrid energy efficient vehicles were introduced, in order to reduce fuel consumption and emissions;
- The project of transitioning to environment-friendly cleaning products, launched in 2010 as a pilot at the Rubinstein Towers head office buildings, continued in 2011. This method ensures a higher level of cleanliness while using materials that are better for employees' health and for the environment, as well as saving water.



LOOKING AHEAD

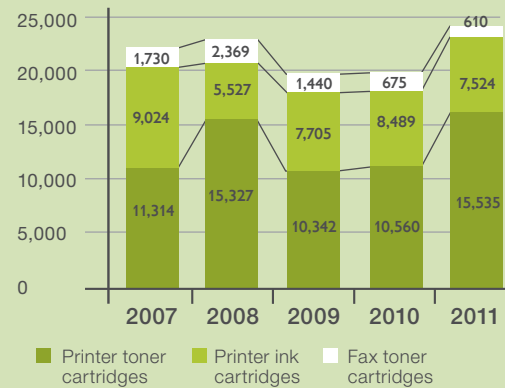
- In 2012, the environment-friendly cleaning materials project is planned to expand to the call center in Nesher;
- Train station shuttle system: Ahuzot Hof, a company owned by the city of Tel Aviv, plans to implement this plan in 2012. Bank Hapoalim will assist in every way in involving as many of its employees as possible in the shuttle program;
- The bank plans to establish bicycle parking spaces in the parking lot of the head-office building on Rothschild Boulevard and to prepare showers for employees in 2012;
- A system of carpools for employees is planned to be set up during 2012.

Data on Bank Hapoalim vehicles					
	2007	2008	2009	2010	2011
Number of vehicles in leasing fleet	1,362	1,407	1,364	1,324	1,329
Annual fuel consumption (in liters)	3,615,406	3,979,223	3,719,817	3,586,759	3,574,235
Kilometers per liter	9.8	9.8	10.8	10.1	10.1
Number of hybrid vehicles in the fleet	-	97	115	110	23

Responsible disposal of electronic waste										
	Computers	Screens	Printers	Servers	Keyboards	Telephones	Fax machines	Routers	Other	Total
2011	714	284	170	104	174	120	30	26	28	1,650
2010	258	354	324	77						1,013
2009	698	414	405	26						1,543
2008	473	959	757	24						2,213
2007	514	720	403	55						1,692

In addition, the bank disposed of 1,685 kg. of hard disks and 170 cartons of electronic waste: electric cables, electronic cards, plastic parts, and electronic components.

Consumption of toner and ink cartridges



The significant increase in purchases of printer toner cartridges in 2011 relative to earlier years stems from several factors: A. The opening of several regional offices of the central back office, requiring new printers. B. Opening of new branches, requiring new printers. C. An upgrade of printers in the branch network to a new model during the year, requiring purchases of a model not available in inventory. In addition, the volume of activity of the branches increased in 2011.

Collection of paper for recycling (tons)



COPING WITH GLOBAL WARMING

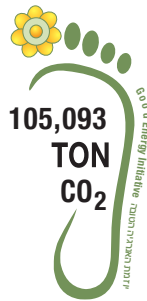
Israel is no longer exempt from compliance with global warming requirements, as it was when it had developing-nation status. With its accession to the OECD, Israel has become accountable for compliance with the environmental standards that are binding for other OECD member nations, including the reduction of greenhouse-gas emissions. The first step towards minimization of the impact of the organization's operations on the environment is measurement. The metric used globally to quantify and assess climate impact is the carbon footprint. This metric converts a range of environmental impacts into one numeric figure, in tons of carbon dioxide equivalent (CO₂eq), encompassing all of its various emission sources. The result enables us to gain awareness of our share of the climate change process. In 2010, Bank Hapoalim joined the voluntary greenhouse-gas reporting system of the Ministry of Environmental Protection. Since that time the bank has reported to the recording system in accordance with the established methodology.

Measuring the Carbon Footprint

The carbon footprint of Bank Hapoalim consists of greenhouse-gas emissions on three levels:

- First level - Direct emissions due to fuel burning or other direct emissions;
- Second level - Indirect emissions due to the production of electrical power for the bank;
- Third level - Indirect emissions due to actions that are not carried out by the bank (resource production, waste treatment, use of banking services, etc.).

The measurement of the first two levels is a technical matter, performed according to methodologies agreed upon by the Ministry of Environmental Protection's greenhouse-gas recording system. However, it is more difficult to define, measure, and assign responsibility to the bank for causes of emissions on the third level. In fact, at this time no international consensus has been reached regarding methodology for the measurement of third-level emissions of greenhouse gases.



Nonetheless, Bank Hapoalim recognizes its responsibility for greenhouse-gas emissions on the third level as well; the bank therefore diagnosed the significant factors that can be categorized as third level, and monitors these factors while examining possible ways of reducing them.

The total carbon footprint of Bank Hapoalim amounted to 106,593 tons CO₂eq in 2010. Greenhouse-gas emissions from the bank's routine operations mainly derive from electricity consumption at the head-office buildings and branches (64%), coolant gases (10.5%), and the vehicle fleet (7.8%). The moderate decrease of 164 tons CO₂eq in the carbon footprint from 2010 to 2011 resulted from more efficient electricity consumption alongside an increase in the bank's constructed area, including construction, renovations, and air conditioning at new and renovated branches.

2011 Summary in Numbers:

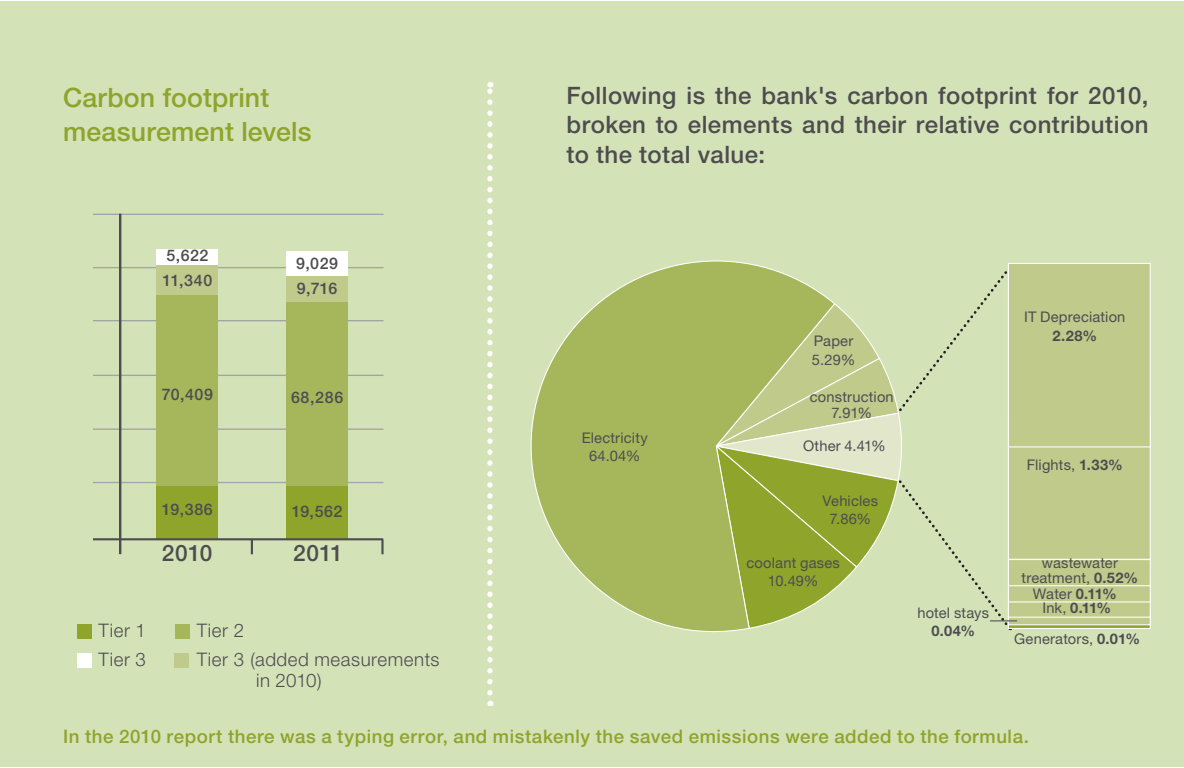
- Waste recycling and the substitution of e-mail for physical mail saved emissions of 9,319 tons CO₂eq;
- Without the reduction of emissions at the source, the carbon footprint would have been 115,912 Ton CO₂eq, 8.7% more than the figure actually measured;
- The bank planted 50,000 trees to rehabilitate the Galilee forests in 2007. These trees will absorb 37,500 tons CO₂eq over 25 years, commensurate with an annual offsetting of 1,500 tons CO₂eq;
- The total carbon footprint of Bank Hapoalim in 2011: 106,593 - 1,500 = 105,093 tons CO₂eq.

9,319
TON
CO₂

Goal of Energy Initiative 2007-2012

LOOKING AHEAD

- As part of the project for the collection of electronic waste, metals, and electrical appliances from city centers in Israel, in 2012 the bank plans to measure the carbon footprint of its collected waste. This will help increase the bank's carbon offset.



Preserving Biodiversity and Contributing to Environmental Awareness in Wider Spheres

The bank is committed to being a contributor to the sustainability of the State of Israel. As such, within its environmental responsibility philosophy, some of its activities are aimed at raising general awareness and finding practical solutions to a variety of environmental issues.

Environmental Protection and Energy Efficiency Campaign

This year, the bank updated its environmental protection guide, which contains tips and ideas for financial savings and energy efficiency for households in Israel. The bank subsequently communicated these environmental messages to the public through an extensive media campaign (see details in the Community section).

OPERATING PROACTIVELY

EMPLOYEE LIFE AND WELLBEING



HUMAN RESOURCES POLICY

Adhering to Five Basic Principles

Following its time-honored tradition, the bank strictly maintains a unique work environment, characterized by five fundamental principles:

- Constant dialogue, cooperation, and transparency between employees and management;
- Opportunities for personal and professional development, to cultivate growth, learning, and empowerment. Employees benefit from this approach, while the bank gains the best people, at the most appropriate place and time;
- Solidarity and collegiality, imparting special meaning to the relationship among colleagues, achieved through means including social events held by branches and management teams;
- Continual caring for the wellbeing of employees and their families, and support for employees during times of crisis;
- Rigorously maintained equal opportunities and non-discrimination.

Defining a Human Resources Credo

The bank applies long-term considerations of sustainability and social responsibility to the management of its human resources. For the bank, its employees are key stakeholders; its relationship with them is conducted on a firm foundation of true growth and partnership. Each employee is a member of the community of the bank, and all interactions with the employee are rooted in this basic stance.

The bank recognizes that as an employer, it has a duty to consider employees' wellbeing and wellness, understand the importance of balancing work with family and leisure time, and devote attention to employees' enrichment, growth, and empowerment. Responsiveness, flexibility, assistance, and support when necessary are vital elements in fostering the desired relationship between the bank and its employees. This approach helps the bank achieve the goal of satisfied employees who are able to function to their full potential and who view the bank as a desirable, preferred workplace where they seek to remain. It is important to note that caring for employees also encompasses orderly and attentive preparation of employees for retirement, as well as continued contact with retirees, who remain part of the Bank Hapoalim family. According to the philosophy of the bank, the most effective way to manage human resources in the best interests of both the bank and its employees is to create a genuine partnership.

Earning Rating on List of Best Workplaces

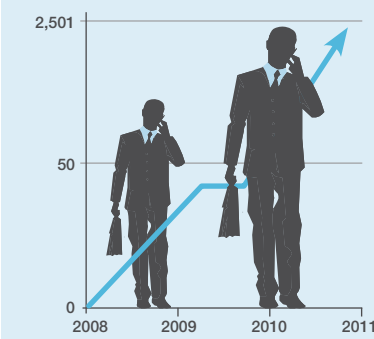
In a survey conducted by BDI among 3,600 college students at fifteen academic institutions, Bank Hapoalim was ranked as the fourth most desirable workplace of fifty Israeli companies. Bank Hapoalim was ranked fifth on the BDI index of best workplaces at the top of the financial and banking sectors by company employees. This accomplishment reflects the bank's commitment to its employees and its achievements in the area of social responsibility.



PRESENTING INFORMATION ON
EMPLOYEES

2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- The bank employed 10,206 internal employees;
- The rate of the positions of internal employees was 90.1% and the rate of the positions of external employees was 9.9%;
- 692 employees took maternity leave, while 501 employees returned to work following maternity leave. In general, employees returning from maternity leave return to their previous positions;
- 93.3% of the employees are employed full time; 6.7% are employed part time. The number of full-time employees increased by 1.1% relative to 2010;
- Over the last year, the percentage of employees holding academic degrees rose from 54.4% to 56.6%;
- The bank recognizes its employees' right to unionize and conduct collective negotiations. The collective agreement applies to the overwhelming majority of the employees of the bank (93.5%), excluding those employed under personal contracts.




2,501 EXTERNAL WORKERS HIRED IN 2008-2011

In 2011, the bank hired 624 external workers as regular employees.

Overall, the bank hired 2,501 external workers in 2008-2011.

From 2007 to 2011, the percentage of external workers at the bank fell from 18.8% to 9.9%.



430 EMPLOYEES ATTENDED ACADEMIC DEGREE PROGRAMS WITH FINANCING FROM THE BANK IN 2011.

The funding was provided by a joint fund of the bank and the employees.

Distribution of employees by type of employment contract

		Permanent employees	Temporary employees	Senior employees	Total
2011	Collective contract	77.2%	16.3%	-	93.5%
	Personal contract	0.2%	5.0%	1.3%	6.5%
2010	Collective contract	77.5%	17.9%	-	95.4%
	Personal contract	0.2%	3.2%	1.3%	4.6%
2009	Collective contract	77.9%	18.3%	-	96.3%
	Personal contract	0.1%	2.4%	1.2%	3.7%

Segmentation of employees by rank, 2007-2011

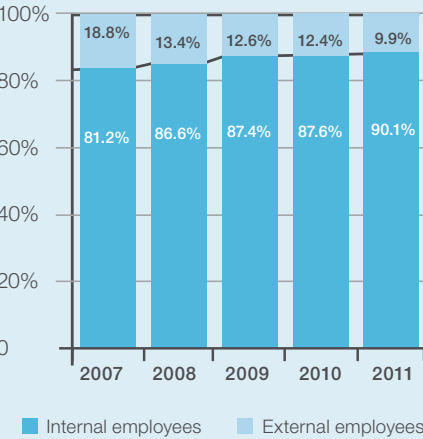
	2007	2008	2009	2010	2011	% change vs. 2010
Board of management	14	13	14	15	15	0.0%
Area heads and chief supervisors	69	83	87	85	87	2.3%
Branch managers and department heads	584	586	602	605	625	3.3%
First tier management	1,723	1,780	1,799	1,792	1,849	3.2%
Total management	2,390	2,462	2,502	2,497	2,576	3.2%
Other employees	7,486	7,477	7,535	6,984	7,630	1.9%
Total employees	9,374	9,979	9,979	9,983	10,206	2.22%

Most of the employees who left the bank in 2011, further to the trend of 2009-2010, belong to the youngest age group (up to 30). This resulted from the following factors: (1) Due to the amendment to the Manpower Agencies Law, a large number of employees were hired by the bank in 2008 for positions historically staffed by external personnel. Many of these employees viewed their work at the bank as temporary, and were not interested in a long-term career at the bank. (2) Employees in this age group, known as Generation Y, are characterized by frequent transitions between jobs and workplaces.

Employee turnover, 2009-2011

Year	Age	Female	Male	Total
2011	Up to 30	197	81	278
	31-50	96	59	155
	50+	69	43	112
	Total	362	183	545
2010	Up to 30	164	70	234
	31-50	68	60	128
	50+	48	47	95
	Total	280	177	457
2009	Up to 30	76	132	208
	31-50	37	61	98
	50+	23	16	39
	Total	136	209	345

Proportions of internal and external employees

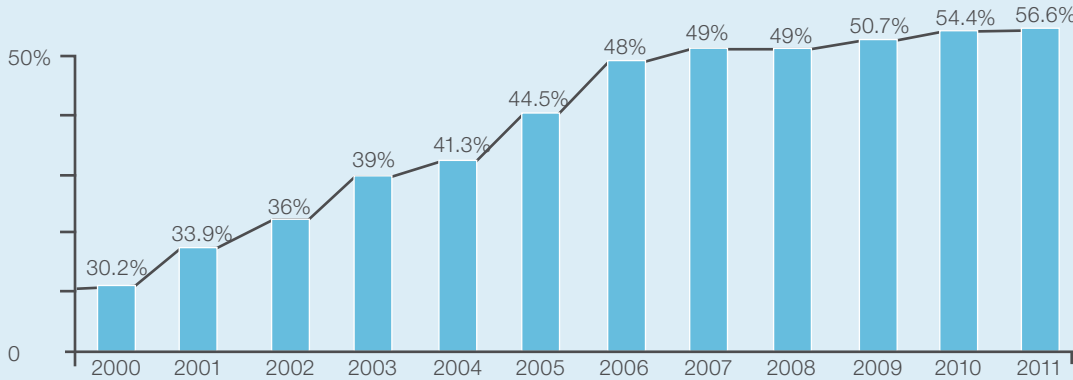


Education and Age

The following table presents a breakdown of the 10,206 employees of the bank in 2011, by age and level of education.

Education / Age	No academic degree	Academic degrees			Total	Age group distribution
		B.A	M.A	Ph.D		
18-21	34	1	-	-	35	0.3%
22-30	800	715	112	-	1,627	15.9%
31-40	650	1,456	751	2	2,859	28.0%
41-50	946	903	690	2	2,541	24.9%
51-60	1,770	636	307	2	2,715	26.6%
+60	215	137	72	5	429	4.2%
Total	4,415	3,848	1,932	11	10,206	100%
Education level distribution	43.3%	37.7%	18.9%	0.1%	100%	

Upward trend in percentage of degree-holding employees at the bank



The upward trend in the percentage of degree-holding employees continued at a greater pace in 2011. This achievement reflects an ongoing long-term positive trend of rising proportions of degree holders due to factors including the bank's encouragement for employees to study towards undergraduate and graduate degrees through tuition aid and added vacation days for examinations. Overall, from 1997 to the end of 2011, the percentage of degree-holding employees at Bank Hapoalim rose from about 26% to almost 57%.

Insurance Policies, Funds, and Benefits for Employees

Bank Hapoalim pays wages to its employees in accordance with personal or collective employment contracts signed with each employee. In addition to wages, employees enjoy a wide range of benefits, under agreements with the Employee Union and pursuant to their personal contracts, as relevant. Employees receive comprehensive insurance coverage, including pension insurance (starting on the first day of employment at the bank), disability insurance, life insurance, personal accident insurance, health insurance, and dental insurance. In addition to the insurance coverage described above, two additional safety nets are available to employees of the bank during times of crisis:

- The Malki Foundation - A voluntary fund financed by the bank and its employees, which provides financial coverage for employees in the event of serious illness or similar occurrences;
- The Shared Mutual Assistance Foundation - This foundation is financed by the employees budget and the management budget, and is also designed to assist employees who encounter financial difficulties and family or financial crises.

Employees are entitled to discounts on bank-account fees, subsidized loans, spreading of debts into installments, and loans tailored to personal milestones: moving to a new home, buying a vehicle, children's weddings, and more.

Employee Union

The employee union is first and foremost a strategic partner and a key stakeholder. The work of the management with the employee union follows a pattern of continual dialogue (updates, feedback, and consultations) and partnership in all key actions and processes in the everyday life of the bank.

The roles fulfilled by the employee union include protecting each employee's rights and obligations; developing cultural, instructional, and social activities; and organizing mutual assistance among employees. The numerous activities of the union for the wellbeing of employees include summer day camps for employees' children throughout Israel, reduced-price or subsidized tickets to cultural and entertainment events, discounts on hotels and vacations, holiday gifts and gifts for personal occasions, various types of insurance for employees and their families, medical examinations, aid funds, assistance for families in mourning, assistance during crises, and more.

The national union heads the pyramid of local unions, which are organized into regional unions. Branch managers in each region have a regional union as well as representation in the national union. The national union consists of representatives of the regions (including branches and the head office), with representation proportional to the size of the region. The national union operates on the basis of articles of association, accessible to all employees in a dedicated section of the organization's web portal.

Performance Rewards

The bank's remuneration policy as adopted by the board of directors is congruent with the principles of the Supervisor of Banks according to the circular issued by the Supervisor in April 2009.

Following the circular, a working committee was established in 2010 to examine remuneration policies at the bank group level. The committee analyzed all of the subsets at the bank that receive bonuses, and defined groups to be addressed. Accordingly, components were added to the remuneration models to balance short-term and long-term risks, as well as components reflecting the success of the individual in relation to the success of the bank as an organization. In addition, components were added to the remuneration policy for the spreading of bonuses over several years and for negative bonuses. In accordance with the approved remuneration policy, in order to promote a culture of achievement and outstanding business performance, the bank links employee remuneration to the performance of the bank in the following ways:



- **Annual bonus** - The annual bonus is determined according to the rate of return of net profit on equity, as it appears in the consolidated financial statements of the bank group. Part of the annual bonus is distributed uniformly to all employees, while part is distributed differentially, based on employee performance;
- **Option allocation** - The bank has an option allocation program for permanent employees and for employees with non-executive personal contracts. The option allocation program highlights the employees' partnership in the business success and constitutes an additional level in the comprehensive annual remuneration for employees, which also includes bonus and ranking processes.

Commendation of Outstanding Employees

The bank selects and commends employees who excel. The selection of outstanding employees expresses the appreciation as management for these employees' contribution to the accomplishments of the bank. Outstanding employees are chosen for their skills and for a combination of qualities based on a range of criteria, such as striving for excellence, colleague relationships, teamwork, and more.

ENSURING DIVERSITY, EQUAL OPPORTUNITIES, AND TRANSPARENCY

Non-Discrimination

From the Bank Hapoalim ethical code:

The bank treats its employees fairly and without discrimination. The policy of the bank is to employ, promote, and make decisions regarding employees based on pertinent considerations, such as qualifications and performance, with no discrimination due to religion, race, sex, age, political views, sexual orientation, disabilities, etc. The bank does everything in its power to implement this policy. Any claims of discrimination brought before the responsible parties are addressed by the bank immediately, in order to eradicate such occurrences. In 2011, no discrimination claim was brought before the human resources department.

Transparency from First Step

The bank provides new employees with information regarding terms and processes related to their work, as well as extensive useful information on all matters connected with the beginning of their employment, in order to allow for a highly transparent and rapid orientation. The "First Step at the Bank" section of the organizational portal was launched for this purpose. Large amounts of useful information are available in this section.

Equal Opportunities in Wages and Terms

In general, salaries and terms of employment for bank employees are determined according to a role book. The role book, which is available on the organizational portal, contains information regarding the terms of employment and entitlements granted to each rank of employees. The publication of the role book contributes to transparency in wages and allows control over the terms of the wages. The range of starting salaries is based on minimum wage.

Equal Opportunities - Gender and Sector

Male and female employees receive equal compensation for equal positions and ranks. The bank strives to achieve diversity in the workplace and hires diverse employees as part of its hiring policy.

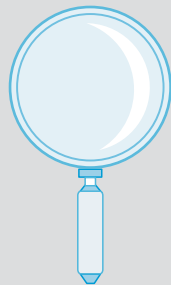
Data on the employment of women indicate that the percentage of female managers of the whole is on an upward trend. The pool of female employees with management potential (at the first tier of management) is very large, and has a positive effect on the development of talented female managers and on the increase of the proportion of women in senior management.

Adapting Work and the Workplace for Special Needs

Many physical disabilities pose no limitation to the ability to work at the bank. Accordingly, the bank does not exercise special treatment (affirmative action) with regard to persons with physical disabilities in its hiring processes or during routine work at the bank. The bank invests the necessary resources and carries out any adjustments that are called for in the working environment in the event of changes in employees' health. Thus, the bank provides disabled employees with an appropriate work environment that enables them to function to their full potential, and in some cases assigns them to a more suitable position in order to enable them to continue to work within their abilities.

Hiring Employees from Groups Underrepresented in the Job Market

Bank Hapoalim encourages the hiring of employees from population groups that are underrepresented in the job market, as part of its hiring policy. To promote workplace diversity, the bank invests extensively in studying the accumulated experience in this area, in Israel and globally. The bank is also a sponsor of the Israel Forum on Workplace Diversity. Among other activities, the bank collaborates with non-profit organizations specializing in the empowerment and integration into the job market of these population groups. The bank is learning from its accumulating experience and drawing conclusions in order to allow for optimal integration, generating value for all of the parties involved.

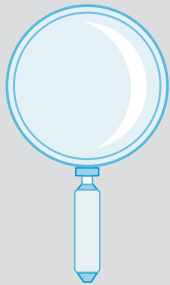


PROMOTING WORKPLACE DIVERSITY

Diversity was promoted on the systemic level in 2011 through an increase of awareness in this area, continued realization of the recruitment potential of employees from relevant population groups and the creation of a systemic work plan for the promotion of human-capital diversity in the bank.

Awareness of the importance of workplace diversity has been raised through the presentation of this subject, its importance, and the work plan for its promotion to managers in the area of human resources and operations who are responsible for the management of human resources at the various units, and to the members of the management and board of directors. The importance accorded to the promotion of this area has also been communicated to the manpower agencies engaged by the bank. The agencies were asked to meet objectives in the area of recruitment of employees from population groups underrepresented in the job market.

The bank's hiring process emphasizes maximization of the potential found in population groups underrepresented in the job market, by reaching out to non-profit organizations specializing in these population groups, participating in specially designated job fairs, and guiding candidates through the process. The bank has made changes to its standard screening processes in order to adapt them to the unique cultural characteristics of candidates from population groups underrepresented in the job market. As part of this process, targeted workshops on multicultural job interviews were held for human-

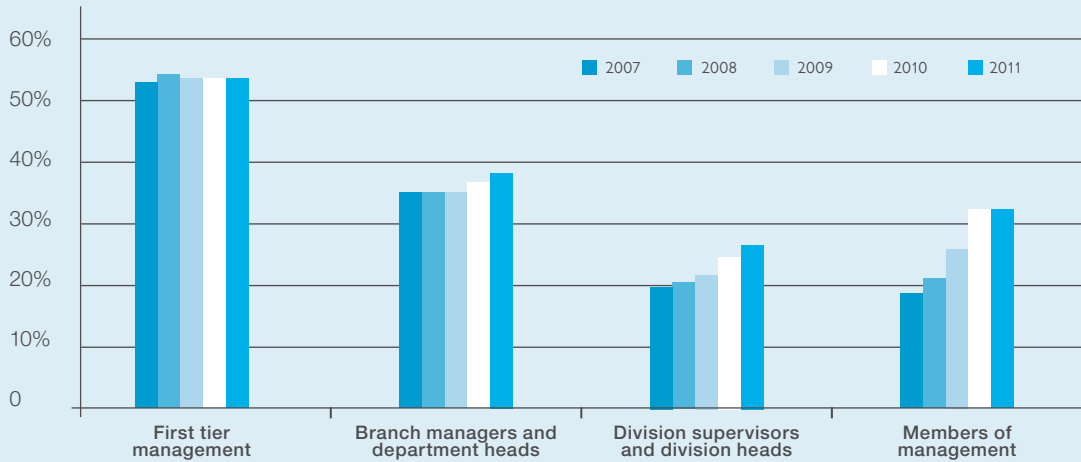


resources personnel. In addition, evaluation days at screening centers were adapted to enable candidates to better express their capabilities.

In 2011, special emphasis was placed on promoting the recruitment of employees from the ultra-orthodox sector. As part of this process, special criteria were approved for ultra-orthodox candidates; representatives of the bank participated in a job fair targeted to the ultra-orthodox population; and visits were made to non-profit foundations and organizations specializing in this field. In addition, a first-of-its-kind pilot was launched to recruit female ultra-orthodox students for the Poalim by Telephone call center, through a targeted training course adapted to their school schedules.

For the following years, a systemic diversity work-plan was created, based on the existing experience in the bank and on available information and benchmark from the world. The plan encompasses nine components of a systemic overview of diversity, based on the understanding that the promotion of diversity in human capital takes place on various dimensions of the organization, including employee hiring, screening, intake, mobility, development, and promotion; leadership to promote diversity; community relations and partnerships; supplier diversity; change management; communication of messages in this area and more.

Proportion of women in management positions, 2007-2011

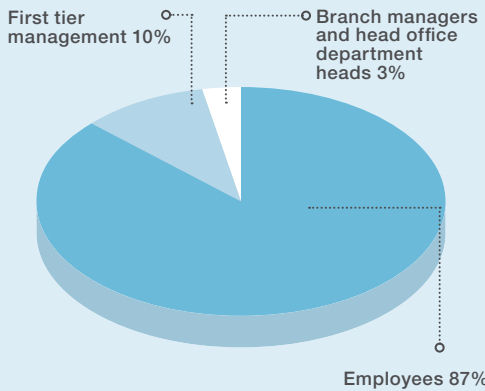


Comparison of men and women at each rank

	Female	Male	Total
Board of directors*	5	10	15
Board of management	5	10	15
Division heads and chief supervisors	23	64	87
Section heads at head office	280	269	549
Department heads at branches or department heads at head office	522	407	929
Branch managers	105	211	316
First tier management	487	434	921
Total management	1,395	1,422	2,817
Other employees	5,172	2,217	7,389
Total employees	6,594	3,612	10,206

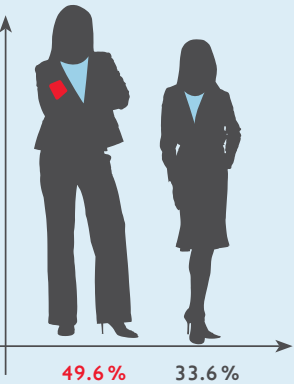
* Not bank employees

Segmentation of minority employees



WOMEN ARE 49.6% OF THE MANAGERS AT THE BANK

49.6% of the managers at the bank are women, versus 33.6% in the workforce;



WAGE EQUALITY BETWEEN MEN AND WOMEN

The basic salary at Bank Hapoalim is defined by a wage system based on position and level which makes no reference to gender whatsoever. Thus, there is full equality in the basic salary paid to men and women in all levels and positions. However, certain differences in the gross salary of different employees in various positions can be found, since salaries are based on the personal characteristics of employees such as: seniority, overtime and benefits given to parents.

Data for 2011: 7 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- Minimum wage earners constitute 6.5% of the employees of the bank and 8.8% of non-management employees;
- 64.6% of the employees of the bank are women, versus 46.6% in the workforce;
- Minority employees constitute 5.9% of the bank's workers, a moderate increase of 0.2% percentage points relative to 2010;
- The number of minority employees at the bank rose from 445 in 2007 to 606 in 2011;
- From the beginning of 2011, 45 employees were hired at the bank's regional administrations under the bank's diversity policy, accounting for 17.8% of the 254 employees hired by the regional administrations in total;
- The bank participated in three diverse employment fairs for population groups underrepresented in the job market: In Jerusalem, for the Ultraorthodox (Haredi) population, in Tel Aviv University – for Arab students, and In ZOA, Tel Aviv, for people aged 60 and above;
- The bank continues to collaborate with non-profit organizations engaged in promoting population groups underrepresented in the job market, such as Olim Beyahad - Leadership for Ethiopian-Israeli University Graduates, Tech Careers - Computer Training for Ethiopian Israelis, Kav Mashve - Equality for Arab University Graduates, Manpower Bereshit - a placement firm for the ultra-orthodox sector, IT Works, Tevet - Fighting poverty and Be-Atzmi.

LOOKING AHEAD

The execution of the work plan for the promotion of human-capital diversity at the bank for the coming years will continue in 2012, through several organizational processes, including the following:

- Defining positions, work processes, and measurement infrastructures in the area of workplace diversity;
- Identifying appropriate recruitment channels, continuing to improve the screening process, and adapting the orientation process;
- Establishing metrics for employee mobility, development, and promotion; identifying gaps; and creating focused plans to close the gaps;
- Providing training to managers on the management of a diverse workforce and on the creation of an optimal employment diversity mix;
- Formulating targeted messages and identifying inter-organizational channels and opportunities for communication in this area;
- Managing and assimilating workplace diversity with the bank's suppliers;
- Establishing groups of employees from diverse population groups for assistance with various aspects of the management of diverse human resources at the bank.

PROMOTING A CULTURE OF DIALOGUE AND OPENNESS

Bank Hapoalim considers its employees to be full partners who contribute to all business and organizational processes. Employees become partners in the promotion of all endeavors of the bank through organization-wide communication on every level: dialogue between managers and employees, and direct communication between different units. Direct dialogue between managers and employees enables employees to feel connected with organizational objectives. Lateral dialogue between units helps organization-wide processes move forward with flexibility and efficiency. The range of methods applied at the bank to achieve these aims includes face-to-face meetings, use of the organizational portal, promotion of a culture of sharing and innovation, and processes of feedback, assessment, and drawing conclusions.



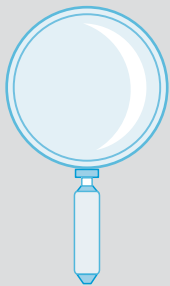
Employees in a Breakfast with the CEO event

Strengthening Connections and Communications between Management and Employees

- **Breakfast with the CEO, Zion Kenan** - Aimed at forging closer relationships with employees and connecting management to events on the ground. Employees of various ranks are invited to the breakfasts to celebrate their birthdays together. The get-togethers are an opportunity for dialogue and bilateral communication, in an atmosphere of openness and honesty, on equal terms. Topics raised during the event are documented and addressed both during the session and through subsequent action, to the extent possible;
- **Executive Chat meetings** - Since January 2010, each member of the bank's board of management has held a series of open talks with groups of employees from other areas of the bank, in a variety of positions, representing a range of the bank's units. The sessions are known as Executive Chats, and are aimed at strengthening the relationship and dialogue between management and employees, in order to enable the executives to listen to voices on the ground and make necessary changes.



- From the beginning of the project, by the end of 2011, more than 100 Executive Chat Meetings were held, involving 1,200 employees;
- Over 500 employees participated in Breakfast With the CEO events with the bank's CEO Zion Kenan.



ASSIMILATING THE BANK'S VISION AT THE CAMPUS

As a destination for many of the bank's employees, the Campus is a key forum for assimilating the bank's strategic objectives, vision, and values. In a process initiated in 2011, the bank's vision and values were integrated into various training programs. As part of the



Employees during the bank's vision assimilating workshop

process of assimilating the vision of the bank, workshops were held in several locations throughout Israel in which a dialogue was conducted, using artwork, in order to familiarize the participants with the vision and its components and impart an understanding of the value of "financial freedom", which differentiates the vision of the bank from the visions of other organizations. These workshops strengthen employees' sense of connection and pride in belonging to a vision-driven organization.

The stage in which the vision is assimilated is the apex of a process begun four years ago, during which the guiding values of the bank's activity were considered thoroughly and in depth. This has been a process of renewal and growth, as well as commitment to social values applicable to all of humanity that also reflect sound business policies.



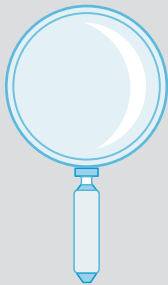
ALL EMPLOYEES PARTICIPATED IN OVER 100 WORKSHOPS

Within the process of assimilating the vision of the bank, over 100 workshops were held for all the bank's employees.

The Organizational Portal - Creating a Central Infrastructure for Intra-Organizational Communications

Dialogue, transparency, and sharing are fundamental elements of corporate social responsibility. These values are put into practice through the organizational portal. Since the launch of the portal, it has become a key arena for extensive business activity conducted on an everyday basis. The portal has enabled Bank Hapoalim to move from information distribution to effective information sharing and management. As a result, the bank has succeeded in achieving improvement in employees' professional expertise, increasing synergy between headquarters and the field, strengthening employees' identification with the organization, and fostering genuine dialogue, through the various tools offered by the portal.

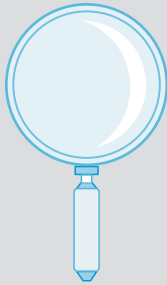
The bank's organizational portal has been recognized in Israel as a "best practice" organization in the areas of knowledge management and intra-organizational communications. Consequently, the portal has continued to respond to requests from representatives of leading organizations in this field in the Israeli economy for sharing of practices and practical tips to further the study and promotion of this topic in Israel.



ACTIVITY OF THE BANK'S PORTAL IN 2011

During 2011, the bank continued to expand the activity of the portal in the area of knowledge sharing and flow within the organization and the improvement of service and support for banking activity, through the following means:

- **Straight to You** - During 2011, an innovative application was launched within the portal allowing quick, efficient access to information in the banking portal, the telephone directory, and the term glossary. The Straight to You application helps users obtain information quickly, without leaving the screen they are using, whether they are working in the Messila or Dialogue systems, on the organizational portal, or on any document;



- **Guidance for headquarters units through the information package model** - The organizational portal unit helps increase the effectiveness of communication and absorption of information transmitted by the various headquarters units, through a model used to plan the necessary steps. The information package model allows the units to become familiar with all of the tools at their disposal and helps them plan effective processes for communication and absorption of the information over the long term.

The planning of a communication and absorption process based on this model consists of three stages:

- A. Defining the goal and target group through the timing of the communication, exposure level, urgency of the message, and duration of transmission;
- B. Examination of the range of services and products (listed on the appropriate page of the portal) useful over the long term, according to the target audience;
- C. Creation of a periodic distribution plan for the selected range of tools.

Data for 2011: 7 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- The service and banking knowledge center of the organizational portal, an essential source of knowledge for employees, has processed a cumulative number of approximately 55,000 inquiries from employees, meeting 94% of its response objectives. The maximum response time has been predefined at 24 hours. 32 headquarters units participate in processing inquiries to the service and banking knowledge center;
- The number of page views on the organizational portal in 2011 reached 45 million. The banking portal had over 8 million page views by employees, while the international portal had 450,000 page views by about 1,000 employees, including 650 employees of the International Banking Area and its 21 overseas offices;
- The website management community encompasses 470 staff members who work to manage and update knowledge on the business websites and at the service and knowledge center.



LOOKING AHEAD

- In 2012, information consumption through the organizational portal will be expanded due to accessibility via cell phone, tablet, Portal at Home, and Portal Straight to You;
- The range of new sites planned to launch on the organizational portal during 2012 has been expanded, and includes a management site, an informational site for the Corporate Banking Area, an informational sites for Platinum employees, a New York site, and a Poalim by Telephone site.

Organizational Innovation

Innovation is one of the significant values promoted at the bank as part of the process of assimilating the Bank Hapoalim vision, through a commitment undertaken by the board of management and board of directors. The goal of the process is to create a culture in which employees suggest initiatives and innovative ideas for products and services, as well as for the improvement and change of operational and business processes, eventually granting the bank a competitive advantage. Furthermore, the process is designed to generate interest and enthusiasm among customers regarding innovation at the bank, which is reflected in the interaction with them. The bank is leading a process aimed at assimilating the values of excellence and innovation in its organizational culture at all levels of activity, through a series of initiatives. The innovation process at the bank is led by the Poalim the Right Way unit within the Corporate Strategy Division.



ORGANIZATIONAL INNOVATION 2011

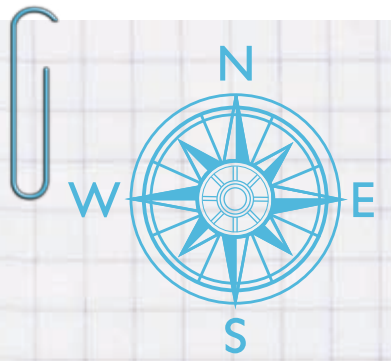
- **Inter-organizational innovation forum** - In the second half of 2011, a forum was established for executives from the 50 leading companies in the Israeli economy that promote innovation in their organizations. The forum convenes periodically and offers opportunities for networking, the exchange of ideas, sharing of accumulated knowledge in this area, consultations, and collaboration, as well as an arena for introduction to activities for the promotion of innovation, from Israel and from abroad;



- **Innovation lab** - A select group of employees with the mission of raising ideas and developing product lines and processes to promote the bank within a 3-5 year range. In 2011, lab members began meeting regularly for work sessions, "training camp" sessions, and professional training, with continual guidance from Israeli and international innovation experts;
- **Innovation community** - The innovation community, consisting of hundreds of employees, was launched in 2011. The goal of the community is to cultivate human resources in the organization with the aim of discovering creativity, innovation, and business initiative. Community members benefit from quarterly webinars on various topics related to innovation and tools for inventive thinking, and are the first to learn about innovation activities;
- **Innovation coaches** - Two additional groups of innovation coaches were trained at the bank in 2011. Immediately upon completing their training, the innovation coaches began to guide the various teams participating in the initiatives competition, as well as running business innovation training days for groups of bank employees;
- **Innovation festival** - During 2011, some 2,000 employees from all parts of the bank participated in the festival, held over three days, during work hours. Participants attended more than 80 workshops at the Mediatheque and other selected locations for the various regional administrations;
- **Innovation competition** - in 2011, 120 employees from all parts of the bank formed teams to develop ideas for innovative products, processes, and business models. During the competition, the teams received guidance from the innovation coaches and from external innovation experts for the promotion of their ideas and for personal empowerment and development.



The judging panel in the innovation competition



LOOKING AHEAD

- In 2012, the bank will launch its innovation strategy and a routine working framework for the creation of synergy between "islands of innovation" and the promotion of innovative outputs;
- The bank will hold an Innovation Happening during 2012 for the development of innovative products and services, based on the exclusive participation of members of the innovation community;
- Two other groups of innovation coaches will be trained in 2012, and will run workshops and instruct trainees at the Poalim Campus.

Conducting the Processes of Feedback, Evaluation, and Drawing Conclusions

The Performance Evaluation and Management Process

Each year, managers provide feedback to employees on their personal performance at their positions, in which the manager and the employee address the range of subjects and aspects that make up the employee's role. The performance evaluation process is in the form of a dialogue between the manager and the employee, and supports a number of goals, including employee development, coordination of expectations, and improvement of performance. The process helps empower and nurture employees, and promotes excellence.



The performance evaluation process includes an examination of the employee's performance over the last year and formulation of the main objectives for the coming year, including professional objectives as well as personal development objectives. About six months after the feedback meetings, trend meetings are held to enable managers and employees to examine the progress made towards the objectives together and to discuss steps that will help achieve the objectives. These talks offer another opportunity for open dialogue between managers and employees. The process reflects the spirit of the vision and the promotion of transparency, openness, and cultivation of human capital. In processes conducted to draw conclusions, managers and employees expressed satisfaction with this system.

Surveys and Feedback

The bank conducts surveys from time to time with the aim of learning about employees' positions and preferences on various matters. The surveys enable to formulate specifications for processes and products while taking employees' knowledge, experience, and opinions into consideration.

A variety of surveys were conducted during 2011, including notably a survey on organizational climate and a survey on intra-organizational service. Findings of the survey are integrated into work plans, with the aim of reducing gaps identified during the process. An organizational survey was conducted, to measure and identify the feelings and positions of employees and managers regarding various aspects of the workplace. The survey is a valuable means of communicating a message to employees regarding the importance accorded by management to listening to employees and to creating continuous dialogue, including a commitment to act and cultivate human capital in the spirit of the bank's vision. Survey questions are derived from content areas known to be correlated with satisfaction, commitment, and investment in the organization, including respondents' perception of their position, their work environment, their organization, and the fairness of their employment.

Excellence in Service for Employees

The **Mashab Personal Service Center** serves as the centralized location for employees' and managers' queries on various matters related to human resources, aimed at improving satisfaction and strengthening connections. Mashab was established as part of the conclusions drawn from the organizational climate survey, among other factors, with the aim of bringing human-resource services to the next level. Mashab was established in early 2010, and provides service to all employees and managers.



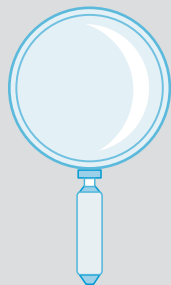
Mashab consists of two functions:

- A service center for online and telephone queries from bank employees and business partners on matters related to human resources;
- An operational system to support work processes derived from queries on matters related to human resources, focusing on topics such as attendance, maternity leave, unpaid leave, monitoring of missing data on employees, employment certifications, visas, eligibility for mobile phones, cafeteria points, daily expense allowances, and more.

The Poalim Service Center - At Employees' Service

The Poalim Service Center monitors alarm and security systems at all of the bank's facilities: monitoring closed-circuit television systems, supervising head office building control systems, providing personal assistance to Platinum clients, providing logistical services to the various bank units.

Services for bank units and for employees and their families - in addition to intra-organizational professional services, the Poalim Service Center offers a unique package of services to bank employees and their families, 24 hours a day. Among others, the service center assists employees in calling the police in case of burglary, assisting during car crashes, providing initial consultation, referring to professional bodies in cases of domestic facilities' problems, assistance in location of family members abroad and more.



MASHAB 2011

Improved service at Mashab - Mashab responds to changing needs as they arise from employees. The following issues were addressed during 2011:

- **Pregnancy and childbirth** - Since the establishment of Mashab, many queries concerning pregnancy and childbirth have been received. In order to provide a suitable response, a booklet on pregnancy and childbirth was produced, summarizing all of the information relevant for employees during pregnancy, childbirth, and the return to work. The booklet will be sent to all female employees who report an expected birth;
- **Mashab in the field** - Mashab has commenced a series of visits to branches with a relatively low rate of contact with Mashab, with the aim of strengthening the connection with employees and responding to their questions. During the visit, employees are introduced to the option of contacting Mashab online, and answers to employees' questions are provided.

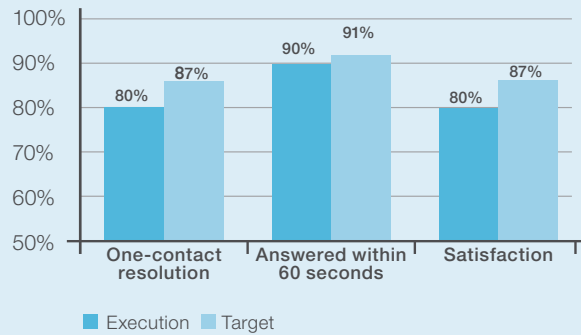
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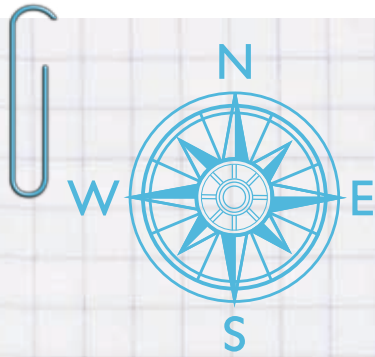
- In 2011, 99% of the employees of the bank received feedback on their performance, and trend meetings were held with 72% of employees;
- Approximately 7,000 employees participated in the bank's organizational climate survey. The survey attained a participation rate of 61% of all employees of the bank (up from 56% in the previous survey);
- 41,000 queries to Mashab were documented in 2011, from 8,700 employees. Since the establishment of Mashab, over 60,000 queries have been made by 9,650 employees;
- Mashab: 87% of respondents to the employee survey expressed high satisfaction with the service provided;
- The Poalim Service Center processed 39,323 service requests and answered 513,190 incoming calls;
- The "I Care" initiative was the first element launched in the innovation drive: Any employee in any position who identifies an activity that can be improved, streamlined, or renewed is invited to formulate a proposal and submit it to the relevant parties at the bank. In 2011, a total of 3,019 proposals were submitted by 1,383 employees. From the launch of this program to the end of 2011, 9,802 proposals were submitted by 2,777 employees, of which 8% are in the stages of implementation.



Mashab Service Metrics

The objectives set for Mashab include objectives with regard to queries responded to by the next day, calls answered within 60 seconds, and user satisfaction. Metrics as measured in 2011:





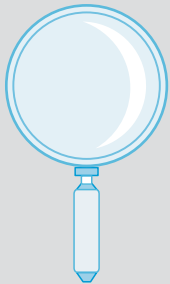
LOOKING AHEAD

- Following two years in which Mashab solidified its responsive services for employees, proactive initiatives will be emphasized in 2012. These include:
 - A. Proactive contact with employees, by telephone, e-mail, or text message, on occasions such as birthdays;
 - B. Forums and roundtables held to strengthen relationships with employees and respond to their requests;
 - C. Raising awareness of prolonged illnesses by producing a pamphlet for employees who are at home or at a medical facility for a prolonged period due to illness or injury, detailing all of the relevant information;
- Mashab will continue to promote operational excellence in 2012 by automating the employee loan application process, updating and improving human-resources procedures, and automating the process of issuing certification forms to employees, such as employment certifications;
- A hotline for calls from contractor employees working on the premises of the bank will be established in 2012, as part of the activity of Mashab;
- Work methods within the I Care initiative are planned to change during 2012, to allow management and optimization of ideas with the participation of all employees.

CARING FOR PERSONAL DEVELOPMENT, TRAINING, AND REALIZATION OF POTENTIAL

Creating an Organizational Map at the Human Capital Development Center

Approximately 1,800 employees change positions each year at Bank Hapoalim. Employee mobility takes place within a supportive, values-driven work environment that encourages workers to enrich their knowledge and experience. The bank is committed to providing a setting conducive to its employees' personal and professional development; the Human Capital Development Center (HCDC) serves this purpose by creating a point of contact between the organization's needs and its employees' professional ambitions, with the aim of realizing this approach and fostering employee growth, development, and empowerment. The center provides a comprehensive, current operational status snapshot of capabilities and skills, while advancing employees through individual instruction and occupation changes.

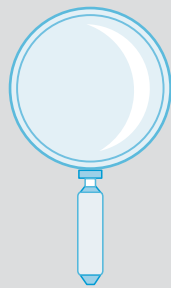


THE HUMAN CAPITAL DEVELOPMENT CENTER IN 2011

Several initiatives were carried out at the HCDC in 2011 in order to improve mobility processes for both employees and managers.

Processes targeted to employees:

- **Mentoring** - A mentor was assigned to every employee undergoing mobility, during the process of discovering, monitoring, and tracking job offers and interviewing with potential managers;
- **Interview preparation** - Preparation sessions for employees who find job interviews difficult. The preparation focuses on professional and personality aspects, and employees receive feedback and tips to help them prepare for interviews;
- **Observation days** - In the advanced stages before a final decision regarding employee mobility, an observation day may be scheduled for the employee at the destination unit, to allow a deeper understanding of the position and field to which the employee is being assigned. The observation day serves to reinforce the employee's decision regarding the designated position;



- **Transition workshop** - A one-day workshop, "Transitions and Preparation for Change," was built in collaboration with the Poalim Campus. Most employees who transfer to a different position through the HCDC staffing coordinators are invited to attend the workshop. The workshop provides an opportunity to discuss dilemmas related to the transition from one position to another, imparts tools to aid entry into a new position, and more;
- **Guidance and monitoring of mobility** - Guidance for employees during the initial phase in a new position and monitoring of the employee's integration.

Processes targeted to managers:

- Validation of job profiles to ensure a broad understanding of the requirements of the position;
- Distribution of a pamphlet for managers on taking in a new employee at the unit;
- Joint thinking on advantages and disadvantages of employees in connection with positions and alternatives.

Poalim Campus

The bank cultivates a culture of learning and invests in professional and management training to empower its employees and managers. Professional and management training is conducted through the Poalim Campus. The Poalim Campus serves as the central arena for change-generating learning, leading to personal, organizational, and business growth, with the goal of ensuring professional and managerial excellence for the employees and managers. The Campus consists of the banking school and the management and leadership school. The Campus is an arena for personal growth, combining employees' desire to learn and develop with




the bank's need for high-quality workers. Poalim Campus promotes an organization-wide culture of ongoing learning. This learning-oriented approach emphasizes the ambition to decentralize learning, from Campus classrooms to the training centers at the regional administrations and beyond, to each employee's workstation. According to this view, the time invested in employee training does not impede business performance; instead, it serves to enhance and hone professional capabilities, on the path towards better business achievements.

The Poalim Campus in 2011

In addition to being a workplace, serves as an arena of personal development and empowerment to its employees. In 2011 as part of the Campus and as a joint venture with the workers' union, the campus' expanded its activities beyond the normal training hours. This initiative was implemented for the personal enrichment of employees, learning a variety of subjects unrelated to the ongoing work at the bank.

The process of extending work hours started with preliminary planning that included dialogue with employees, part of which included an employee survey that examined the feasibility process among the employees and their wishes in relation to topics of studying. Employee involvement was high and was expressed in response of more than 3,000 employees to the survey, within a few days. In March 2011 the campus started the extracurricular learning scheme, and based on the employees' requests – focused on language studying. The next step was the opening of additional study groups in the country's periphery. Other employee groups were trained on personal coaching, both in the main campus and the country's periphery. In 2011 about 500 employees who chose to register the various extracurricular activities studied in the various programs.



2011 in Numbers:

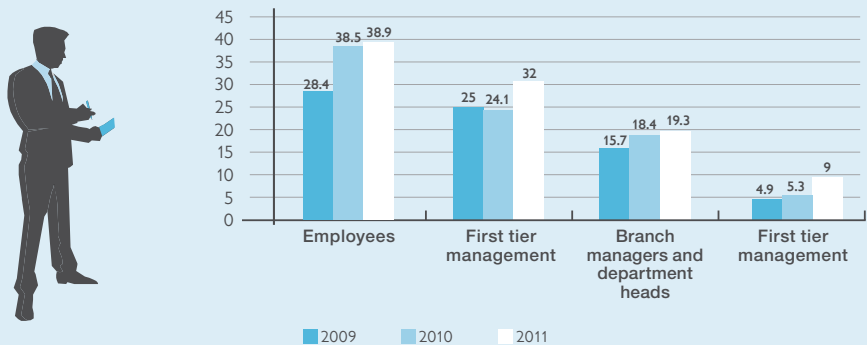
- 614 employee moves between areas of the bank and 1,678 moves within areas were performed;
- The number of participants in courses at the Campus, the central back office, and Poalim by Telephone call centers increased significantly this year. Approximately 74,300 learning days were held in 2011, and the annual average number of learning hours per bank employee was 54.6;
- This year, for the first time, the Poalim Campus held educational days for children of employees who are employed at the bank over summer vacation, in collaboration with the employee union. In this program, the teenagers learned about financial management.

ASSIMILATING AND COMMUNICATING THE VALUE OF SUSTAINABILITY AND SOCIAL RESPONSIBILITY

As part of the internalization of the values of social responsibility into its operations, the bank communicates its social responsibility philosophy to its employees, calling upon them to take part in these efforts and receiving advice and opinions for the expansion of its activities. The drive to promote the internalization and communication of the values of responsibility among employees takes various forms, such as:

- The corporate social responsibility section of the organizational portal, which presents the bank's philosophy in this area and centralizes all CSR content. In the CSR section, employees are invited to suggest ideas and tips, ask questions, and request assistance from the various content experts. Some of the ideas and tips are posted in the content sections, with credit given to the employees who suggested them. The ideas are considered, and some are implemented. In addition, the CSR section is used to communicate activities conducted at the bank within its CSR plan. The CSR section was updated during the year, with added content and is being redesigned;
- Dialogue with employees is a key axis of the process of assimilating CSR values at the bank. Employees commit to this process and greatly contribute to it through personal messages, telephone calls, e-mail, and surveys conducted from time to time. As part of this dialogue, a series of training programs and lectures on CSR topics was developed. The training sessions are held during routine work hours in special meetings, at unit-level conferences, and in voluntary enrichment programs offered after work hours, in collaboration with the social and wellbeing services unit and the employee union;
- Change of management processes and creation of cooperations with employees - The Sustainability and CSR Report is distributed to a long list of influential players in the Israeli economy: businesses, government agencies, non-profit organizations, academic institutions, and more. Copies of the report are on display at all branches for perusal by customers and the general public; the report is also available in digital form on the bank's website. In addition, cooperation with employees is enlisted to assimilate new processes in this area, by transforming a new and unfamiliar activity into an organizational, operational, and business routine. In order to achieve success, each new idea is examined in depth. Following this examination, a small-scale pilot is conducted with continual monitoring. When the pilot has been completed and the relevant conclusions have been drawn, the activity is expanded and converted from a project to a formalized routine.

Poalim Campus activity - average number of learning hours per employee



LOOKING AHEAD

The execution of several projects at the Poalim Campus will begin during 2012:

- Development and beginning of implementation of a learning management system (LMS);
- Team leadership center - A new program at the management and leadership school, designed to teach and assimilate a leadership model adapted to global changes and trends;
- Employee mentoring by managers - Continuation and expansion of the program imparting mentoring tools to managers at various levels, to enable them to empower their employees, in accordance with the various needs;
- Management reserves - Development of thinking and learning skills within the middle-management tiers of the bank.

80 LECTURES ON CSR

Approximately 80 lectures on subjects related to CSR were given for employees at the various units of the bank during 2011.

CARING FOR EMPLOYEES' WHOLE-PERSON WELLBEING

Wellbeing Services

Employees of the bank benefit from an extensive array of wellbeing services in many different areas. These services provide appropriate solutions for a broad range of employee needs, from leisure activities to enrichment for employees and their families to professional assistance in times of personal or family crisis. As part of these wellbeing services, a page was set up within the organizational portal, in collaboration with the employee union, offering employees of the bank a wide range of special offers and discounts in areas including theater, performances, travel, products, and services. The page is updated routinely and allows orders to be performed directly through the portal.

The bank's wellbeing services also include a wide range of leisure activities offered to employees. For example, employees benefit from discounts and subsidies at fitness clubs, swimming pools, and the Good Movie Club.

Another component of wellbeing services is a range of benefits in the following areas, offered through a fund maintained jointly by the management and the employee union:

- Gifts for holidays and special occasions - In addition to the gifts given on Jewish holidays, employees receive gifts on special family occasions. The bank takes part in the happy events in its employees' lives, and expresses its appreciation during difficult times as well, through a condolence basket;
- Insurance, financial assistance, and medical tests - The bank has established an insurance plan designed to provide employees with a sense of security and protection. The bank also helps employees undergo thorough periodical medical examinations;
- Employee education - In order to maintain the high quality and continual drive towards development of its employees, the bank encourages employees to acquire education and therefore promotes academic studies, through assistance with tuition or with work hours;
- Education for children of employees - In view of its ambition to promote higher education, not only among its own employees but as an important societal value, the bank provides tuition aid to children of employees.

Occupational Wellbeing

The bank's occupational wellbeing unit provides assistance to employees during situations of distress, crisis, or change in their personal lives or in the family or occupational sphere, such as divorce, bereavement, single parenthood, illness, disability, retirement, and more. This assistance is aimed at helping the employee cope with the crisis, change, or distress and resume optimal functioning. In some situations, intervention and assistance may also be necessary for the employee's family, or for the family members of a deceased employee.

Counseling, guidance, and support are provided through various means of intervention and communication, including face-to-face meetings, telephone calls, and e-mail conversations. Contact is made through the manager or through a direct application by the employee to the occupational wellbeing staff, which can be performed without notifying the employee's managers, as the service is confidential.

A Healthy and Ergonomic Work Environment

One of the many facets of caring for employees is to ensure a healthy, appropriate work environment. This is achieved through ergonomics, the science of adapting the working environment to the worker. The bank has a structured methodology-based training program applied at all of its units by an ergonomics expert from the management engineering department; in addition, the CSR section of the portal contains a page dedicated to ergonomics. In the training program, the expert highlights the importance of properly arranging the workstation, and provides practical knowledge in this area, either through personal training or in unit-level monitoring rounds performed to examine the absorption of this content. Resources are allocated in order to enable employees to maintain a healthy lifestyle, including through the initiation of competitions, sports events, and other events during work; medical examinations; workshops on healthy lifestyles; and workshops on breast health, physical fitness, nutrition, quitting smoking, and more.

Life Cycle Workshops

The bank is committed to being a family-friendly employer, and therefore offers employees support in their family roles and duties as parents of children, children of aging parents, spouses, and more. In this context, the bank offers life-cycle workshops, such as a parental authority workshop, defensive driving classes, workshops on correct use of the voice, couples' workshops, workshops on safe Internet use, language courses, and more.

Caring for Employees during Organizational Changes

Organizational changes are carried out by the bank with optimal care for its employees, integrating the needs of the bank with employee needs. Caring for employees involves ensuring that the conditions of their employment are not impaired as a result of the change. As a dynamic business organization in a competitive environment, the bank carries out organizational changes and adjustments that sometimes take several months. Such changes are communicated to and coordinated with the various stakeholders. In some cases, not only do units undergo change, but employees are also reassigned to different positions. In these situations, the appropriate training and instruction are provided in order to prepare the employees for their new roles, and support is offered through all stages of the transition and absorption. Under the bank's labor constitution, in all cases in which employees are transferred to a different position, the employee must be given at least one month's advance notice.

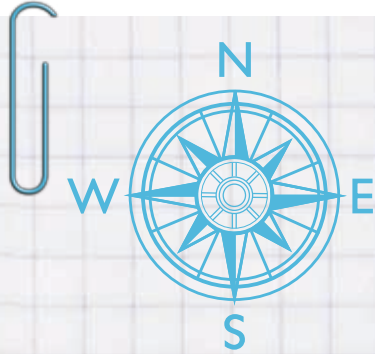
Preparing for Retirement and Keeping in Touch with Retirees

The bank's obligations regarding retirement plans, compensation, and pensions are fully covered by pension plan assets. The bank cares for employees and employees' spouses approaching retirement age by offering preparatory courses and workshops regarding retirement, and maintains continuous contact with retirees. This includes support, financing, and cooperation with the retiree union, which organizes trips and leisure activities and arranges monetary assistance in times of need.



2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- At the bank's head office, in Rubenstein Towers in Tel Aviv, a room was set aside and adapted for nursing mothers who return to work after maternity leave to pump milk during the workday;
- The Human Resources division produced a Pregnancy and Childbirth booklet containing detailed information on the rights of the employees from the pregnancy stage through maternity leave, to their return to work. The booklet that would be updated in 2012 was distributed to the pregnant employees and to the bank's business partners;
- Pages regarding the protection of the environment, dealing with elderly parents, and dealing with illness and disability were added to the organizational portal;
- Ergonomics: Approximately 600 lectures and 300 personal training sessions were held;
- About 850 employees took courses and workshops on various health-related subjects;
- In the annual tradition, an appreciation event was held for employees who completed 25 or 40 years of work at the bank;
- 114 artists who are employees of the bank participated in the In House Art exhibition, held for the sixth year to display a wide range of works by employees and retirees of the bank. The artwork was created using a variety of techniques and materials and limitless sources of inspiration;



LOOKING AHEAD

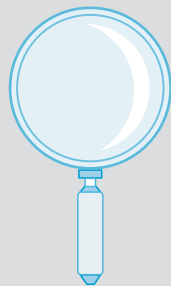
- As part of the CSR plan, infrastructure was added during 2011 for the creation of a safe driving section within the bank's portal. This project includes digital guides on this subject, to be produced during 2012;
- As part of the collaboration between the CSR division, the employee union and the organizational portal unit, a site will be set up within the bank's portal during 2012 to help employees cope with marital issues;
- Towards the last quarter of 2012 the Poalim Health program is expected to start. This program includes various initiatives to improve the health of bank employees, focusing on two main areas: healthy lifestyles and preventive medicine.

MAINTAINING SAFETY AND HYGIENE

Bank Hapoalim, as an employer, is committed to creating a safe work environment for its employees and for workers on its premises. The bank also ensures a safe service environment for all customers and visitors to its branches and properties. The bank operates its facilities based on an awareness of potential safety and hygiene risks, and is committed to complying with all legal requirements in these areas. The bank works to identify and locate risks and maintains a risk-management plan in this area. Safety considerations are an integral part of decision-making processes at all levels at the bank. The bank works to minimize negative effects on health and to continually improve its work environment. Processes and activities are regularly improved in order to prevent safety and hygiene risks. The bank conducts training and instruction activities, as part of its structured work processes, designed to promote awareness and responsibility, with the aim of providing safe environments to all of its employees, customers, and visitors. Management ensures that this policy is made public and is clear to each employee and to anyone whose services are engaged by the bank. The policy is available to all employees, including through the safety and hygiene section of the organizational portal, which is aimed at creating a culture and climate of safety and compliance with legal requirements for the protection of employees' and customers' safety.

The safety and security department of the bank is responsible for safety and hygiene, and conducts routine activities aimed at maintaining a safe and appropriate work environment. The department works to prevent and reduce safety incidents such as fires, malfunctions, and accidents and the resulting damage. Among other factors, the department's activities are derived from the bank's legal duty to protect the health and safety of its employees and customers while they are on its premises. The bank conducts annual analyses of accidents that occur at its facilities, in order to understand the reasons for the accidents (cause, timing, and location) and the possibilities for prevention. The safety and hygiene section of the portal introduces the bank's safety and hygiene policy, provides information regarding safety and hygiene risks in the workplace, describes prevention and response methods, and offers extensive information on safety at home and at work, occupational hygiene and health, and more.





LAUNCH OF THE SAFETY TUTORIAL WITHIN KNOWLEDGE MANAGEMENT AND TRAINING

During 2011, a safety tutorial was launched within the organizational portal, with the aim of teaching employees about the risks and hazards inherent in everyday life at the bank and ways of identifying and preventing them. Responses to questions that may arise during the working routines of the various branches and units are provided. The tutorial was introduced as part of the promotion of safety, as required by law, and is intended for all employees.

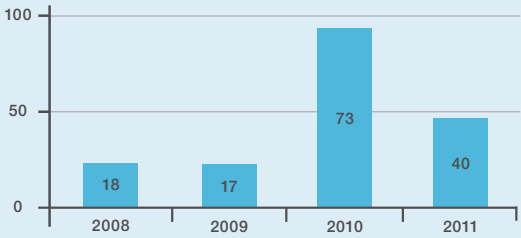
In addition, the following activities were carried out during 2011:

- Safety and security trustees of the bank were certified as Civilian Defense monitors, in collaboration with the IDF Home Front Command;
- A process was conducted to assimilate safety procedures, in which seminars were held at several departments and divisions, and training sessions were held for relevant positions;
- An interface was created with the new National Fire and Rescue Commissioner, as part of the promotion of safety and optimization of shared working interfaces;
- The safety and security section of the organizational portal was updated and renewed.

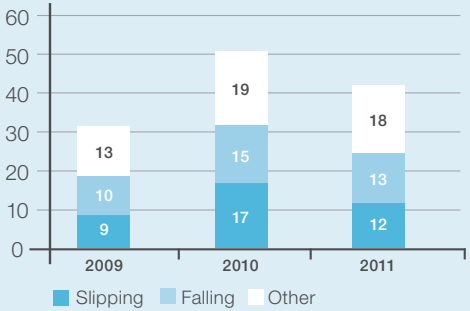
2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- As part of the Safety Gap Remedy project, safety systems and equipment were installed during the year. The project, based on a multi-year plan, was completed this year, with installation at a total of 148 branches;
- 345 training sessions and drills and 500 refresher courses for employees were held at branches during 2011.

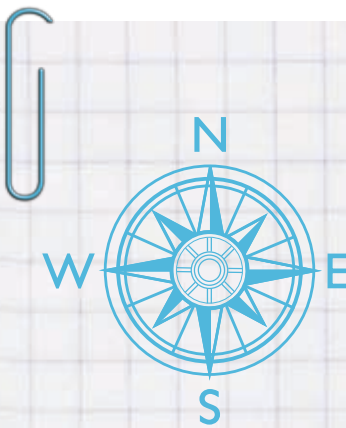
Number of branches included in safety systems and equipment installation plan



Distribution of employee accidents at the bank, 2009-2011



Relative to the large presence in the bank's facilities and its many employees, the number of accidents is very low and does not indicate any systemic or structural problems. In 2011, 35 of the accidents occurred to women and 8 to men.



LOOKING AHEAD

The following processes will be emphasized in 2012:

- Launch of a safety tutorial for construction supervisors;
- Implementation of safety procedures at subsidiaries, as part of the corporate governance policy of the bank's board of management and under the responsibility of the heads of the subsidiaries, based on the safety procedures of the bank;
- Implementation of the bank's safety procedures with regard to suppliers of services to the bank, as part of its procurement policy.

OPERATING PROACTIVELY

THE CLIENT'S WELLBEING



MEETING CUSTOMER NEEDS

This section describes the bank's relationships with its customers, the services and products offered to customers by the bank, and the ways in which the bank identifies opportunities and manages risks in the area of social responsibility in a changing business environment. The bank strives to develop banking services and products based on a philosophy of creating shared value for its customers and its other stakeholders, such as the community, various participants in the economy, the environment, and others, while simultaneously generating economic value for the bank.

Bank Hapoalim recognizes that customers' needs and aspirations change during different life stages. The bank therefore endeavors to provide customers with all of the financial information and services that can help them understand, plan, and carry out both long-term and immediate financial decisions. The bank's view of its customers is derived from a philosophy of sustainability, giving rise to a relationship designed to encompass a comprehensive understanding of the needs of customers and their families over time.

Furthermore, the changes underway in the business environment - the transition to a low-carbon economy, resource scarcity, water and land conservation efforts, and global warming - harbor potential business opportunities for the bank. As a result of sustainability strategies, the values and needs of customers are evolving as well. The bank's role is to provide solutions in the financial arena and to promote emerging demand in the sustainability space. Towards that end, the bank offers various financing solutions, deposits, and investment products that encourage sustainable consumption and environmentally conscious investment.

The bank works to create value for its customers, in the following ways:

- Development of responsible products to foster economic and environmental sustainability, for our customers and for the economy as a whole;
- Maintaining a multichannel network for communication with customers at any time and place, with appropriate accessibility;
- Providing optimal service to achieve customer satisfaction; responding to and learning from customer communications;
- Responsiveness to customers' needs through all life stages;
- Solutions tailored to the unique characteristics of different customer groups.



WORKING TO PROMOTE FINANCIAL FREEDOM FOR ALL STAKEHOLDERS

Financial Freedom

This term represents the freedom and will of our customers and employees to make good choices, based on their personal preferences, while taking responsibility for and understanding the financial capabilities and possibilities open to them. The Bank is committed to helping its customers and employees achieve their goals, working to realize their financial potential, and guiding them towards growth, by matching solutions to each stage of the life cycle and to growth from one stage to the next. Through the use of tools and products for responsible financial planning and management, knowledge, and dialogue, we enable our customers and employees to take responsibility for prudent financial behavior, while developing a significant, ongoing relationship of mutual trust and partnership.

From the Financial Freedom value in the Bank Hapoalim vision.

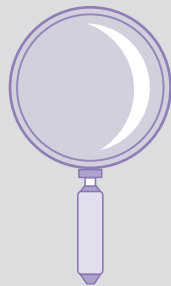
As a business leader, Bank Hapoalim has the responsibility to promote equal economic opportunities in Israeli society and economic sustainability among its customers. The bank welcomes this duty, and believes in its mission to contribute to the empowerment of the society from which it draws its strength. Expanding our customers' financial knowledge is also congruent with the bank's business interests. Aware consumers make better decisions; they maintain a relationship with the bank that is more balanced and more congruent with their expectations; and they are able to reach financial decisions more capably.

Examinations of consumer needs and desires in the area of financial behavior conducted in recent years by the bank indicate that the need for broader financial knowledge has grown stronger during this period. Lifetime Financial Planning is an organization-wide initiative stressing the formulation of a range of tools, products, knowledge, and guidance provided by the bank, matched to customer needs at various life stages. As part of this process, the bank is working to promote education on prudent financial conduct in Israel, in three main areas:

- Education on smart budget management;
- Education on prudent investments;
- Education on savings.

Budget Management Education

The bank has developed an extensive series of unique tools for education on smart budget management, with the aim of providing ongoing assistance with bank customers' financial conduct. These tools include personal financial planning meetings with customers, a budget management tool available through Hapoalim Online, and exclusive workshops on smart budget management.



PERSONAL FINANCIAL PLANNING

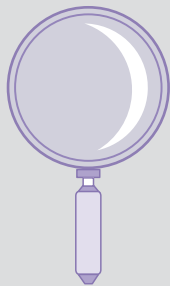
Within the drive to expand services in the area of financial freedom for customers, the bank launched a new service: personal financial planning meetings. These meetings are focused on an in-depth examination of the customer's banking activity, based on an overview of the customer's financial information, with real-time access to all relevant data, and an understanding of the customer's needs. Based on these materials, practical solutions are offered for improvement of the customer's financial condition and ability to make sound budget management decisions. Potential customers are identified by the bank and invited to a branch of the bank for a meeting. The bank has trained bankers to specialize in providing this service. The service is another step in the ongoing process of implementing initiatives and tools designed to raise awareness and enhance financial freedom for the customers of the bank, adding to the budget planning workshops introduced several years ago and the budget management tool on the bank's website.



Text

The meeting is structured in four stages:

1. **Getting acquainted** - The banker becomes familiar with the client's individual needs, both in terms of the current situation and from a long-term perspective;
2. **Understanding** - With the banker's help, clients attain a broad and comprehensive financial overview covering all of the data and tools used in their banking activity, through an innovative application that presents the information drawn from the various financial systems of the bank on a single screen;



3. **Matching** - According to the client's situation, the banker offers immediate solutions and alternatives that provide an effective response to the client's needs (such as information aimed at helping clients repay existing loans as quickly as possible);
4. **Guiding** - At the end of the meeting, the client receives a printed summary of the meeting, including graphs displayed during the meeting, and a personal financial planning pamphlet describing the full range of tools for prudent financial behavior. Along with clear explanations, the pamphlet offers many practical tips on savings, setting expenditure targets, smart account management (such as prudent use of loans and credit cards), and more.

After the meeting and in the following months, contact with the client is maintained in order to create an ongoing guidance process. This guidance is aimed at raising the client's awareness of the main budget management tools offered by the bank through the direct channels, in order to encourage a pattern of independent planning and monitoring of financial activity.

This project began as a pilot, in which over 200 meetings were held at 22 branches in central Israel. In early 2012, the bank began to offer the service at all of its branches; thousands of customers have already benefited.

Online Budget Construction Tools

- **Poalim Like Me** - For the first time in Israel, customers can examine their financial conduct in comparison to customers with a similar profile, leading to more prudent behavior. The service offers comparisons of total expenses as well as a distribution of expenditures by category, such as food, communications, education, etc;
- **The Living Right Financially zone** launched on the bank's website contains content, tips, articles, and general financial tools, presented in a unique colorful format, guiding customers through their first steps towards wiser financial management. Reflecting the bank's emphasis on the principle of people serving people, the new zone contains videos starring Bank Hapoalim bankers and investment advisors;

- **Goal setting** - This tool enables clients to plan their budget according to income and expense categories and set monthly targets. At the end of each month, clients can obtain a current snapshot of performance relative to the targets. In addition, customers registered for the On Time service can receive directly to their mobile phones a text-message alert of any deviations from a target. This represents a significant upgrade of the budget management tool, allowing customers to improve their control over financial budget management by encouraging them to plan their income and expenses by category, set goals, and discover deviations from the plan in real time;
- **Household financial management and planning** - A budget management tool that presents a current snapshot of income relative to expenses. The snapshot is based on collection, classification, and analysis of all of the customer's transactions. The service provides the customer with a daily, current, detailed overview of income versus expenses. The savings management tool allows customers to select a purpose for the savings plan, assign a name of their choice to the plan, define the saving method (standing order or one-time deposit), set the monthly amount deposited, and choose a preferred duration for the plan. Progress towards the goal can be tracked throughout the period, and clients can make changes to the plan and deposit one-time sums to promote timely achievement of their goal.

Education on Prudent Investments

Seminars on better investing for clients

Seminars were held for customers during 2011, at the initiative of the branches. The seminars covered content related to the capital market, from product-focused sessions to broad global market surveys. Dozens of seminars were held throughout Israel; additional seminars are planned during 2012.

Education on Savings

Dan the Saver

As part of the bank's approach to responsible financial education of current customers and of the future generation, and based on the goal of enabling children to have a better financial future and on the understanding that early habits become lifelong habits, the bank is leading a financial education initiative targeted to children and parents.

This effort is designed to reinforce and promote the values of saving among parents and children. Activity targeted to parents the program, focuses on encouraging saving by appealing to positive nostalgic memories, while remaining innovative and offering value beneficial to the customer. Activity targeted to children focuses on creating a positive experience during their first encounter with a banking organization, and on building a beneficial, empowering relationship. As part of this process, a series of special savings products were created, aimed at encouraging savings by parents for their children's future. The goals of these savings plans cover each life stage of childhood, until financial independence. The bank thereby promotes savings by parents for their children, easily and simply. In 2011, the bank further strengthened the Dan the Saver brand through the following activities:

- **Launch of Dan the Saver savings plans** - The bank allows children to open special accounts in which parents and children can deposit funds without paying a coin fee, so that children can deposit money saved in a coin bank. Dan the Saver child accounts allow children to receive information, for the first time, through an experience-based Internet interface, including a special activity channel for children. The website allows children to choose savings goals, with the aim of assimilating habits regarding savings from an early age. Children can use the interface to see how much they have saved, set savings goals, and view their progress towards their personal objectives. It should be emphasized that children are not authorized to carry out banking transactions in the account; parents must do this on their behalves;
- **Cash and coin deposit machines for children** - In order to enable children to actively participate in depositing their savings, special coin deposit machines were installed at about 30 shopping malls throughout Israel. Parents accompanied by their children can use the machines to deposit the children's savings directly into an account in the child's name. In addition to the convenience of the deposit machines, they can help illustrate and assimilate the value of savings and the importance of savings to the future of all members of the family;
- **Dan the Saver World** - In addition to banking products, a new experience-based online children's club has been established at www.danpoalim.co.il, offering educational games and activities for children. The website is designed to teach children about savings and smart financial behavior, through content and games;
- **Dan the Saver summer camp** - Financing of dozens of Dan the Saver summer camps held during summer vacation in over 20 Israeli towns. 5,000 children from a variety of sectors participate in the camps, in coordination with the municipalities;

- **Dan the Saver ATM card and checkbook** -

Two offers designed to expand the services provided to Dan the Saver child account holders were designed. The Dan the Saver ATM card is a card specially designed for Dan the Saver child accounts. The card can be used at all ATMs throughout Israel as well as at Dan the Saver machines, where children can complete the experience of saving by depositing the money they save into their account. In order to continue to encourage savings by parents, the bank introduced Dan the Saver checkbooks, which are given to customers along with elegant branded greeting cards and envelopes. When a Dan the Saver check is deposited in an account, the customer



Dan the Saver summer camp

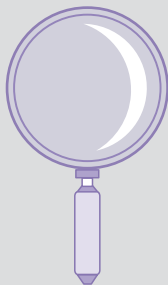
is entitled to a benefit when opening a Dan the Saver savings plan. The checks are intended for use as gifts for special occasions, such as a bris, bar mitzvah, etc. A beneficiary depositing the check in a new savings account receives a gift of NIS 100 for the account;

- **Dan the Saver grants** - Providing benefits in savings plans for specific population groups or events: a grant for the birth of a child, a Hanukkah grant for customers who open a Dan the Saver Hanukkah savings plan, and a grant worth NIS 50 for customers who open Dan the Saver plans.

In 2011, Dan the Saver won an Effie Award, in the social responsibility category, for its contribution to financial education for children. In the competition, awards are granted each year for effectiveness in advertising over time. Dan the Saver won second place in 2011 for the reintroduction of the brand with a new, updated appearance and for setting the goal of financial education for children.

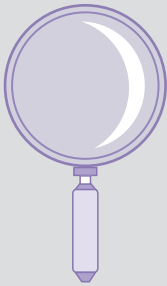
Offsetting Current Accounts

As of 2011, the bank offsets positive and negative balances in its customers' current accounts, reducing the amount of interest customers are charged for negative balances. The offsets are performed automatically in accounts with private drawing account credit facilities, salary accounts, bank employee accounts, benefit salary accounts, soldier accounts, student accounts, and youth accounts. As a result of this initiative, customers pay less interest on negative balances, provided that their account has a positive balance during part of the month.



PROMOTING THE GROWTH OF SMALL BUSINESSES

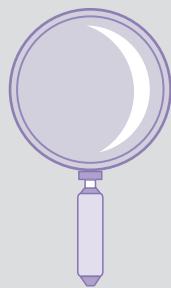
In recent years, according to the values embodied by the Bank Hapoalim vision, the bank has worked diligently to enhance and promote private customers' financial freedom, through the development of financial tools and knowledge. Within this process, Bank Hapoalim is committed to supporting and promoting small businesses, as a foundation for growth of the Israeli economy as a whole. During 2011, a plan for responding to the unique needs of small businesses, was created in order to enable them to grow and expand while meeting the challenges that they confront. The plan is based on the bank's core capabilities, and comprises several elements:



- **Establishment of unique aid funds for businesses** - Bank Hapoalim has won a tender for participation in the operation of a fund for small and mid-sized businesses, backed by the state, to provide NIS 700 million of credit to businesses. Each client seeking a loan from the fund will first apply to an external coordinator, who will determine whether the client meets the fund's conditions, examine the business and financial aspects of the business, and formulate an opinion. If the opinion is favorable, the loan application will be transferred to the bank for further processing. In addition, joint funds would be established with craft, industry, and commerce organizations and promote various collaborations would be established with leading organizations in the Israeli economy (such as the Histadrut General Labor Federation Fund, the Manufacturers' Association, and the Koret microfinance fund).

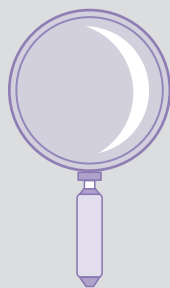
The bank has also established Poalim for Growth, a unique loan fund for small businesses, at a volume of NIS 100 million (beyond loans in the ordinary course of business). The fund will enable small businesses to grow, by granting credit with unique terms, including preferred interest rates, grace periods of up to twelve months, and no collateral requirement beyond an owner's guarantee. The fund will focus on the commerce, craft, and industry sectors. Clients of the fund will benefit from enrichment on banking-related subjects, through meetings with banking experts on the various topics relevant to the management of a small business. In addition, the bank reinforced the bankers in the business divisions, broadened the branch managers' credit authority and would offer some clients will be offered business advice services provided by expert advisors external to the bank, fully financed by the bank. **Overall, the bank will designate an additional amount of approximately NIS 1 billion for the benefit of small and mid-sized businesses;**

- **Deployment of business branches** - Specialized branches established for business clients over the last two years, as another element of the service package provided by the bank's corporate banking area. The branches are based on personal service customized to client needs, full availability including opening



hours suited to business clients, professional service by experts, and updates and initiatives for clients. Eight business centers and 22 new branches have been opened within this program (see details later in this section);

- **Innovative channels for business account management** - The bank offers multiple channels for improved efficiency of the operation of the business and for time savings. Hapoalim Online Business is an area of the bank's website tailored to business needs. The site offers account management and execution of all banking transactions, as well as advanced information, tools, and services, and the option of carrying out a range of financial activities at any place and time. Poalim by Cell Phone offers a unique application for the bank's business clients - Poalim Business - available for a variety of mobile devices. The application includes innovative services (such as alerts of transactions awaiting approval or an aggregate summary of balances in all of the company's accounts), as well as services such as real-time text-message alerts of events in the business account (see details later in this section);
- **Professional banking solutions** - In various financial fields, individually tailored to one's specific business, including investment consulting by professional, experienced advisors, who guide the business using knowledge based on leading economic and financial research, adapted to the client's needs. The foreign-trade center, which supports the service provided by the business branches, guides clients in international activities; a specialized desk for mid-sized businesses operates within the bank's dealing room;
- **Business club** - Provides solutions to business needs of small businesses through a professional program of guidance and instruction for these clients. Each business client can receive professional training delivered by expert lecturers from the bank on subjects relevant for small-business owners. The training sessions also provide opportunities for networking and meetings with colleagues in the same field.



The bank's CEO, Zion Kenan, commented: "Bank Hapoalim has set a goal, from a business perspective and from the perspective of the economy and society, of increasing its activity with small businesses, which we believe will be a key element in the growth of the economy in the coming years."

2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- Over 240,000 clients registered for the online budget management tool;
- Dan the Saver World - From launch in 2010 to the end of 2011, 107,000 users registered for the site and the site logged over 2 million visits.



LOOKING AHEAD

- In 2012, the Personal Financial Planning project will expand to serve tens of thousands of the bank's customers.



160,000 DAN THE SAVER SAVINGS ACCOUNTS WERE OPENED

From launch to the end of 2011, over 160,000 Dan the Saver savings accounts were opened, at a total volume of more than NIS 1.2 billion.

DEVELOPING PRODUCTS AND SERVICES TO PROMOTE ENVIRONMENTAL SUSTAINABILITY

Mankind is at a critical crossroads due to the ever-expanding gap between supply and demand. Most environmental resources are being used faster than they can be renewed in nature; meanwhile, increased consumption of nonrenewable resources (such as fossil fuels, metals, and more) is causing severe shortages. In societal terms, the world's population is growing and developing, adopting wasteful consumption patterns, and creating an even greater strain on the existing resources. These and other trends mean that a worldwide systemic change is essential, based on several strategic activities:

1. Development and implementation of resource-efficient business processes, including in the areas of reuse and recycling;
2. Emphasis on high efficiency of product manufacturing processes;
3. Incentivization and acceleration of groundbreaking technological innovation in the energy industry;
4. Creation of sustainable consumption patterns and consumer behavior in line with sustainability values;
5. Water: management, transport, recovery, purification, and desalination;
6. The challenge of producing and supplying food to a growing population.

Bank Hapoalim recognizes the strategic inevitability of the necessary change, and the resulting opportunities. Action is therefore being taken on all levels of the activity, both internally and externally. In its outward-oriented activities, the bank is working to impart knowledge to its customers and offer tools for responsible financial planning and management, in order to promote its customers' economic sustainability.

In addition to its internal environmental efforts, the bank has set a strategic objective of being a leader in offering financing solutions to its clients for projects that promote environmental concerns: renewable energy (solar thermal energy, photovoltaic energy, geothermal energy, pumped energy storage, cogeneration stations, wind turbines, etc.), energy efficiency, water, and more. Activity in these areas is conducted alongside varied, familiar, traditional banking activity. The new activity follows the accumulation of the necessary professional knowledge and an in-depth examination of goals and consequences.

Promotion of Solar Energy in Israel

Bank Hapoalim plans to be the sustainability leader on all levels of its activity - environmental action and business operations - while taking into consideration the effect on Israel's society and economy. Accordingly, as part of its business strategy, the bank seeks possibilities for the development of new banking products and financial solutions in the various environmental fields that can bring shared value to the promotion of environmental values and sustainability in Israel while promoting business. Bank Hapoalim is committed to promoting the solar-energy industry in Israel, by taking a proactive approach.

Bank Hapoalim's involvement in promoting the solar-energy industry is based on five key elements:

- Inter-segmental partnership with the Electricity Authority and the Israel Electric Corporation;
- Intra-organizational preparation to provide professional, comprehensive service to a range of customers;
- Ensuring the quality of the product;
- Dialogue with and support for a network of suppliers and installers;
- Encouragement of public awareness of solar energy.

The bank continues to offer financing solutions in the solar-energy field to all client segments, based on the arrangements published by the Electricity Authority.

Gas-Driven Powered Stations

Bank Hapoalim coordinated the credit for the Dorad private power station project, currently being constructed to the south of the city of Ashkelon. The station will be fueled by natural gas as a primary fuel, with the option of operation based on diesel fuel as an alternative. The station will supply about 800MW to the IEC and to major private consumers, accounting for a substantial percentage of total power production capacity in Israel. The station is scheduled to begin operating in early 2014. Bank Hapoalim led the senior debt funding for the project, and organized a syndication for that purpose, encompassing most of the commercial banks in Israel and institutional investors, including some of the largest insurance companies and pension funds in Israel. The institutional financing was organized by the bank in collaboration with Clal Finance.

Desalination

The bank is a leader in the financing of desalination plants. Bank Hapoalim financed the desalination project at Palmachim, including expansions. The bank is a partner in financing the desalination project in Hadera and Sorek, and recently closed the financing for a desalination project by the water corporation, Mekorot, in Ashdod.

Wind

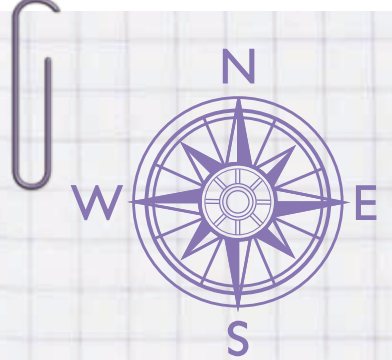
The bank is following the progress of regulation in the area of wind energy in Israel. Bank Hapoalim is in negotiations with leading entrepreneurs in this area for the formulation of a financing package for wind energy projects.

Green Construction Mortgages

A Green Mortgage is a banking product offered to all customers, which provides unique benefits on mortgages to buyers of apartments or houses based on green construction principles (after receiving confirmation from the Standards Institute of potential compliance with Standard 1528).


2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- The bank is the leader in financing for the solar-energy industry in Israel;
- In early 2011, Poalim Capital Markets, a member of the Bank Hapoalim Group, and a group of institutional investors launched the Noy Fund for investments in infrastructures and energy. The fund raised NIS 570 million, as of the end of 2011, for investment in various infrastructure and energy ventures;
- The bank is the leader in financing water desalination projects. The forecast for the volume of desalinated water organized or financed by the bank stands at 487 million cubic meters per year, or about 80% of desalinated water in 2014-2015.



LOOKING AHEAD

- The bank intends to continue to promote financing solutions in the areas noted above, including in the area of the transition to natural gas, energy efficiency, and solar energy.



The Arava Power Solar Field, in Kibbutz Ketura, financed by the bank.

EXAMINING ENVIRONMENTAL RISKS IN FINANCING

Pursuant to the directives of the Supervisor of Banks regarding exposure to and management of environmental risks, the bank established a working committee to formulate recommendations regarding environmental risk management policies and methodologies. The committee enlisted the assistance of external specialists and examined existing methodologies at banks elsewhere in the world.

Methodology for Management of Environmental Risks in Financing

The objective of the environmental risk management system is to identify, specify, and manage environmental risks in its key areas of activity, based on a uniform, approved methodology, in accordance with the following principles:

- Management of environmental risks from the perspective of the overall exposure of the bank to each specific risk;
- Management of credit risks through assessment and management of the exposure to environmental risk in the corporate credit portfolio; assessment of environmental risk and its effect on credit risk in new credit applications that meet predefined criteria; management and monitoring of exposure to environmental risk at the level of the overall credit portfolio and at the individual level;
- Management of market risks - managing exposure to environmental risks in direct investments by the bank (in the proprietary portfolio and in general);
- Management of operational risks - adapting operational systems to regulatory changes on environmental matters.

Risk Management Method of the Bank Group

Risk management at the bank is performed based on a global view of its activity in Israel and of its branches abroad, with due attention to the activity of banking subsidiaries. Risks are managed separately by each banking subsidiary in the bank group, according to policy formulated by each company's board of directors and presented to the board of directors. Some risks are hedged during risk management. Financial and operational risk assessment and control are performed based on a uniform methodology at the level of the group, with guidance from the risk management area, taking into consideration the unique characteristics of each subsidiary's activities.



Even before a general policy had been formulated, the bank began to apply environmental risk management processes when financing major infrastructure projects. A prerequisite for specific financing of such projects is an examination of the project's impact on the environment. Clients are required to prepare an environmental survey, which is examined for the bank by an external consultant. The consultant ensures that the project complies with all of the requirements set forth in the permits granted by government agencies.

The bank's system of environmental risk management in financing currently encompasses the organizational components necessary for efficient and effective management in this area, including a policy formulated and approved at the level of the board of directors, an organizational structure, a model for the classification of risks (including control threshold), procedures for transaction approval processes, and control systems.

Main Activities in 2011

During 2011, the bank approved the model for environmental risk management in financing. The model links the various environmental risks, as defined by the Supervisor of Banks, to the business sectors to which the clients belong. Within the model, each risk is scored for the various activity sectors, determining the series of tests required in order to approve financing for clients. After approval of the model, all of the relevant personnel were given training in this area (a total of 100 senior-level employees, including customer relationship managers). The system of environmental risk management in financing is operated with respect to infrastructure projects, real-estate projects, and all corporate credit of more than NIS 200 million.



LEADING BANKING INTO A MULTICHANNEL WORLD

Bank Hapoalim is dedicated to assisting its customers with the full range of the financial aspects of their lives. In view of this commitment, the bank offers its customers full availability and accessibility of banking information and financial services through various interfaces: an extensive network of branches and a mix of direct channels available at any place and time. Beyond the advantages of convenience and time savings, these services also save travel and fuel, thereby preventing pollution. In 2011, the bank continued to lead the Israeli banking industry in direct services and channels meeting international standards. This was achieved through the following initiatives, among others:

- **Poalim Connect** - In 2011, Bank Hapoalim launched a service making a personal banker available to each of its customers at its contact centers, in addition to their branch bankers, who are familiar with their needs, serves as the contact person for all of their customers' requests, and can be reached during extended business hours. Customers can contact the personal banker through a range of different channels (e-mail, chat, text message, website, telephone), according to their choice. The personal banker also proactively initiates continuous, routine contact with the customer. Through Poalim Connect, the bank provides its customers with comprehensive solutions, combining the experience of personal service through direct channels with continued service through a branch.



This comprehensive response also relies on an advanced interface between the customer and the bank, presenting all of the important information about the customer's account on a single, central, innovatively designed screen, adapted for laptops and tablets. The interface provides real-time alerts, customized text messages, proactive contact by the banker for important personal events in customers' lives, reminders to carry out actions, and options for telephone calls or meetings at its branches with expert advisors;

- **Cardless cash withdrawal by text message** - A service enabling customers to transfer funds, in cash, from their account to themselves or others, and to withdraw the cash from an ATM without using a card, through a text message sent to any mobile phone. The service provides a solution for customers who forget or lose their credit card or their PIN, as well as an option for transferring funds to others, such as soldiers serving far from home, or a remote payment to a service provider;
- **Opening an account through the bank's website** - This year, the recruitment process of new customers, was improved, based on the various value offerings: families with children, young people, students, soldiers, and teenagers. The application makes opening an account a convenient and pleasant experience, beginning at the bank's website, shortening the procedure to be completed at the branch. Customers interested in opening an account are invited to fill their details on the account opening page and set a meeting with a banker using the online calendar, for final signing in the branch.

Poalim by Telephone

Poalim by Telephone is a service that allows customers to receive information and execute various transactions in their accounts, including securities trading. The service is available Throughout most of the day, and allows all customers - including disabled persons - to receive professional service without coming to a branch. In order to offer customers comprehensive service, the authority of the bank's telephone bankers has been expanded to enable them to provide solutions on the spot, during the call. Services offered through this system include:

- **Poalim Speak** - An automated system that recognizes voice commands, used to receive information and execute transactions during most hours of the day;
- **Callback service** - This system makes it possible to hold the customer's place in line for the call center. Customers hear a recording offering them the possibility of disconnecting the call while the system keeps their place, until the banker can return the call, thereby saving time for the customer;
- **Voice response in Arabic** - The Arabic-language voice system allows Arabic-speaking customers to receive information;
- **Voice signature** - The bank has developed a system for recognition of customers' voices. The identification allows customers to be transferred directly to a service representative without the need to enter identifying information, shortening call times.



Poalim Online

The Bank Hapoalim website offers a comprehensive package of services for the its customers. The website aggregates all of the services in a uniform, convenient, user-friendly interface (www.bankhapoalim.co.il). The bank also offers a range of secondary sites tailored to the needs of different customer groups: a site for private clients; a site for retail business clients and clients of the corporate banking area; a site in English for business clients; a mortgage site; a site for students; an international site in English designed for non-residents; a site for global private banking (BHI) clients in English, Spanish, and Russian; and a marketing site in Russian for residents of Israel.

Bank Hapoalim's Internet activity is based on the principle of customer advocacy. Customer advocacy is part of an advanced customer-centered philosophy with the following foundations:

- Full transparency regarding the terms, prices, and properties of products and services;
- Thinking from the customer's perspective and offering solutions tailored to unique customer needs;
- Granting customers complete, easy control in managing their financial activity on the bank's website.

Accessible Website

The bank's marketing site is the first banking website in Israel to be accessible to users with disabilities. The website meets the Level II accessibility standard, complying with all requirements (approximately 99% of the pages within the website are Level II accessible). The accessibilization of the website allows people with visual or motor impairments, people with cognitive limitations and people who have difficulties operating a computer and using the Internet, to easily use the website, benefit from the online banking service, and save the hassle of visiting a branch.



Outstanding Site

The website won the Best Online Banking Site award for the seventh consecutive time at the prestigious WebiAwards 2011 competition.



Hapoalim Online in 2011

- **Corporate client website** - As part of the service package for corporate clients, the bank created website tailored to business needs, offering the possibility to manage accounts and execute all banking activities, through information, advanced tools and services, and a range of options for financial transactions, available at any place and time. The site is also accessible to customers through the most advanced mobile devices and tablets, via innovative applications including the following:

Poalim Growth - As part of a new initiative to promote the growth of small businesses, including through a specialized loan fund, a new page has been launched within the site providing information regarding the terms of the loans, the application process, relevant forms, and meetings with experts in various financial fields, as part of the service offered to small businesses. Following the main initiative to promote business customers' growth, a Poalim Business application was launched, which allows business account holders, for the first time, to activity manage their activities using smartphone devices. The application includes unique options that meet the business customer's needs, including approval of transactions waiting for signing. This option is exclusive in Israel to Bank Hapoalim and does not exist in competing applications. The application is available for iPhone, iPad, Android and BlackBerry devices;



The Poalim Growth brochure

New site for transfers and payments - All fund transfer transactions, including transfers to customers, employees, and suppliers, concentrated in a single interface, leading to time and resource savings in the routine management of a business account;

Increased transfer amounts - For transfers from business accounts to other accounts at the bank and to accounts at other banks;

Account access authorizations page - Provides the option of viewing full, current information regarding all persons authorized to access a Hapoalim Online Business account. This service is tailored to the needs of business clients, enabling them to maintain control over the account, with the aim of increasing their activity on the website and strengthening their relationship with the bank. In addition, a range of transactions can be carried out in the account, even when several signatures are required for approval of the transaction. A unique signature composition can be set up for Hapoalim Online Business that differs from the signature composition required at the branch, as well as a binding order of signatures (work flow), thereby expediting procedures and allowing control over all transactions executed in the account;

■ **Tools for smart financial conduct - Poalim Like Me** - A unique service allowing customers to analyze their financial behavior in comparison to a peer group with a similar financial and family profile, as part of the budget management tool on the bank's website;

■ **Promotion of capital-market activity** - This year, online capital-market services were expanded to include a consolidated portfolio, allowing customers to view data on the current holdings in their portfolio and end-of-day portfolio data on the same screen, as well as a new interface for trading in foreign securities, which helps customers transmit trading orders easily and conveniently;

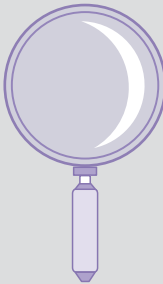
■ **International site** - With a new design and advanced infrastructure. Concurrently, three new BHI sites were set up in English, Spanish, and Russian;

■ **Sites for the Haredi sector and for Arabic-speaking customers** - Two targeted sites were launched this year (see details later in this section);

■ **Standardization and improved website access** - Extensive efforts have been devoted to allowing customers to enjoy direct-banking services from the full range of their natural work environments, including all browsers and platforms, while maintaining an advanced user experience.

Poalim on Facebook

As part of the multichannel activities and the initiative aimed to encourage smart financial behavior, smart consumerism, and long-term savings from a young age, in 2011 the bank added Facebook to the numerous channels used for these initiatives. The two main projects launched during the year were a youth page and a students' page.



POALIM ON FACEBOOK IN 2011

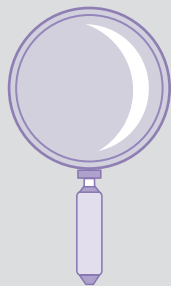
This year, the bank led a socioeconomic effort targeted to the 14-20 age group. Activity in this area is adapted to the language of this demographic, addressing them as equals, through interactive dialogue on the Facebook page.



a screenshot from the Poalim Youth facebook page

Young people were challenged to perform tasks related to their social environment, and to the world of consumerism and thinking before buying - for example, checking and comparing prices, being aware of a limited budget, prudently managing an allowance, and more.

Participation by minors requires parental permission. The Facebook youth page had over 35,000 "Likes" within a few months of its launch.



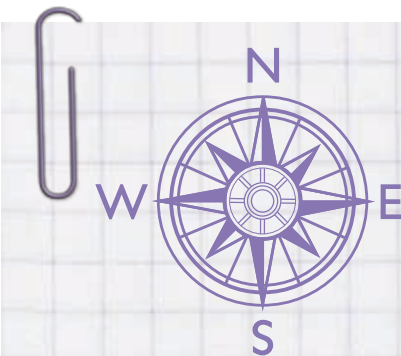
Poalim Students on Facebook is another channel used to raise awareness and promote the use of a range of tools and services that contribute to the customer's knowledge and financial freedom. This activity encompasses interactive dialogue with college students, in which they are invited to suggest services or products that can help customers achieve smart financial behavior. In addition, a range of services and benefits are offered through this channel: Worth Knowing - area for promotion of various products; regular updates of site content about new services, such as budget management tools; a list of banking benefits, updated each month, including a range of banking and non-banking benefits and an option for opening an account by clicking next to the benefit; and customer service, responding to students' inquiries on various matters and transferring the requests to relevant bank staff for further processing.



a screenshot from the Poalim Students facebook page



- **Poalim Online** - About one million active accounts are maintained on the bank's website;
- The bank's account management application won the People and Computers magazine Mobi 2011 competition's excellence award.



LOOKING AHEAD

- In 2012 an online protocol will be launched. The service is a great step forward, significantly shortening the registration process to the online business service, and is designed to replace the current manual filling protocol. The online protocol will enable customers to quickly and efficiently fill out the required details in the web site, using a friendly and convenient interface, accompanied by the relevant explanations;
- My Advisor Service - in 2012 an advanced innovative interface will be launched. The interface enables investors, for the first time in Israel, a customized investments overview that includes an innovative connection interface to an investment consultant, important updates, news and stock exchange events relevant for the clients' portfolio, a calendar of future events, advanced analysis options and more;
- In 2012 the dialogue with the youth and students will continue on facebook, while promoting financial education through activities, content and communication of the bank's tools.

Poalim by Cell Phone

Poalim by Cell Phone is another element in the multi-channel service. This is an innovative, dynamic, developing channel that allows customers to receive information and execute many types of transactions in their accounts through their mobile phones. The service meets advanced international standards, focusing on:

- User-friendliness, availability, simple use, real-time transaction execution;
- Adaptation for a wide range of of operating systems and devices providing an advanced user experience, while leveraging smartphones' advanced capabilities.



Poalim Applications

The content offered to customers through the mobile channel includes applications developed for smartphones and tablets:

Account management application for smartphones: - Allows customers to receive information and carry out transfers and many other account transactions, including withdrawal or deposit of daily deposits, third-party transfers, finding a branch on a map, instant credit applications, viewing images of checks, receiving information from a personal investment portfolio and from the capital market, details of credit-card charges, and more. The application also offers the option of ordering an immediate callback from a banker online. The account management application and the banker callback feature are open to all Poalim Online customers and can be downloaded free of charge;

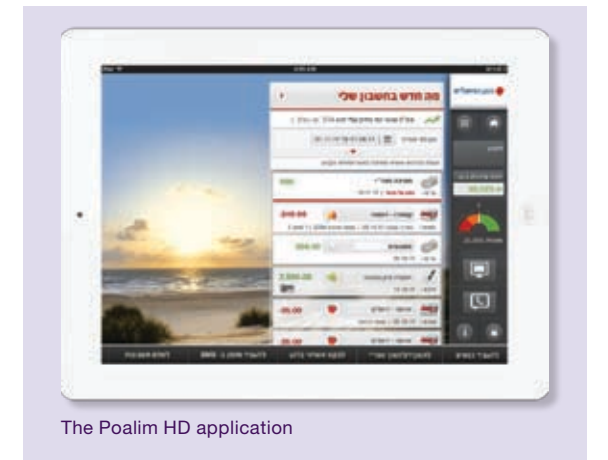
Hapoalim Business application - A unique application for business clients, accessible to a variety of devices, offering innovative services including: alerts of transactions awaiting approval, status of the transactions, and approval of pending transactions; an aggregate summary of balances of all of the company's accounts, and of each account separately; a view of check payments; information regarding deposits; information regarding loans in the account; list of past and future credit-card charges; information of the status of the investment portfolio, including orders; and more;



the Poalim Business application advertisements

Poalim HD iPad application - An innovative, sophisticated, advanced application for account management via iPad devices. Transactions in the account are presented as a dynamic sequence, in the format of a continually updated news feed, based on social networking usage habits. For example, a transaction executed by credit card appears on the following day, under the heading "What's New." Each transaction in the account is tagged, for easy monitoring. For example, touching the name of a business leads to a list of all purchases from that business. A touch of the category tag (clothing and footwear, leisure, communications, etc.) leads to a display of a graph summarizing expenses in that category over recent months. The application offers a range of additional options, such as fund transfers, transactions related to deposits, bill payment, and more. The application is available to all registered customers of Poalim Online;

Capital market application - In 2011 an advanced capital market application was launched for iPhones and Android based smartphones. The touch-screen based application allows a swift and easy trade orders - the most important parameter when it comes to trading. The application presents abundant information from the capital market: graphs, updated information on indices and stocks, supporting tools in making decisions and market analysis, smart graphs, ability to compare between stocks across defined periods, presentation of the portfolio by investment segmentation and more channels and more;



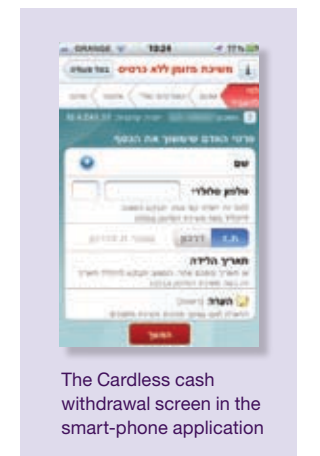
The Poalim HD application

Integration of Waze navigation application - In a collaboration with Waze, the bank's branches and ATMs are displayed in the popular social navigation software.

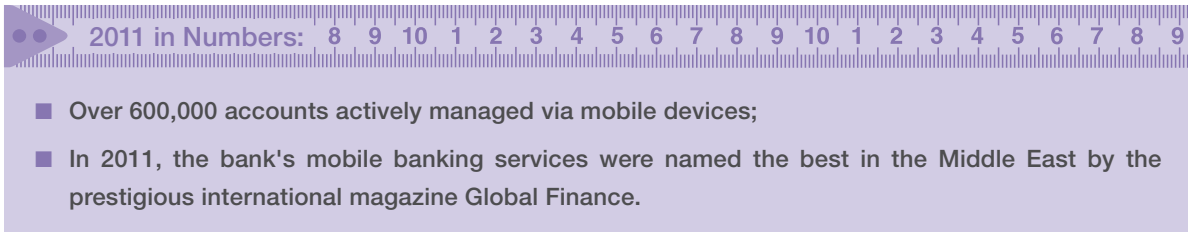
In addition to these applications, it is worth mentioning the Cellular wallet, presented in 2010 that enables direct bill payment and the Stock exchange information application, providing market data to clients of all the banks, without the need for identification.

Poalim by Cell Phone also includes the following services:

- **Cardless ATM cash withdrawals** - An innovative service allowing customers to transfer cash, to themselves or to others, through an ATM, without using a card. For example, a child can be permitted to withdraw a specified amount, without the need to use a credit card. This tool is also useful for clients who have forgotten or lost their credit card, ATM card, or PIN;
- **On Time service** - A text-message service allowing customers to receive information regarding events in their accounts, at the times and occasions they select in advance. The service is offered in packages regarding foreign exchange, stock exchange, a customized package for business clients and a free package for all the bank's clients;



The Cardless cash withdrawal screen in the smart-phone application



Branches

Bank Hapoalim branches serve as an anchor and point of origin for all of the services offered and for all customers interested in face-to-face service. The branch channel offers customers of 298 branches, in the most broadly deployed nationwide network of the Israeli banking system. Bank Hapoalim has branches throughout Israel, from city centers to remote regions. Although most of the services provided in the branches are also available through other means of communication with the bank, the physical encounter has a meaningful contribution, mainly in the following areas:

- **The human dimension** - Fostering a relationship of trust between the banker and the customer, and allowing the customer's to be listened to and supported needs at the highest level;
- **Clarification of needs and addressing complex information and execution** - The personal meeting between the customer and the bank supports an orderly, in-depth discussion to understand the customer's needs and present appropriate solutions, with the assistance of the bank's information systems and experts;
- **Customer relationships** - Face-to-face meetings help nurture bonds with customers by maintaining the continuity of the relationship and improving the level of service provided by the bank.

Network Deployment

The bank continued to deploy its branch network in 2011, in accordance with the following principles:

- **More meeting points for the bank and the customer** - Increasing the number of branches relative to the number of customers, and growing the bank's presence in the various regions of Israel;
- **Transition to specialist branches** - Adaptation of the branch deployment to the target audience to be served by each branch, by moving from a model of a large branch serving the full range of customers to a model of specialist in congruence with customers' desire for service in an intimate atmosphere at a smaller branch;
- **Extensive automation and operations external to the branch** - Channeling resources to improve customer service at the branches through an increase of the volume of transactions and services delivered via self-service stations, and through the transfer of technical operations that do not require the customer's presence to a central back office.

The specialized branch approach has given rise to several types of differentiated branches:

Poalim Express branches - Designed to meet the needs of key demographics, such as younger and older customers, who do not need complex banking solutions. The deployment of these branches emphasizes availability and accessibility;

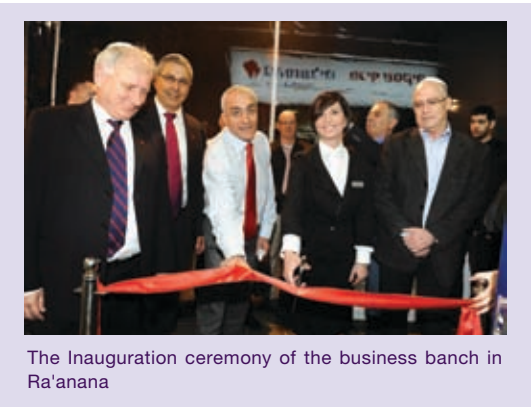
Boutique branches - Designed to serve private banking customers. These branches are aimed at the provision of consulting and private banking services, with an emphasis on comprehensive financial solutions encompassing investment advice as well as a range of credit solutions and additional services. The branches offer extensive self-service solutions while stressing personal connections;

Business branches - Specialized branches established exclusively for business clients over the last two years, as another element of the service package provided by the bank's corporate banking area. These branches provide a skilled, high-quality service experience across all aspects of routine banking activity, offering professional solutions and improving response time and availability to customers. The service offering created at these branches focuses on personal service customized to client needs, full availability including opening hours suited to business clients, professional service by experts, and updates and initiatives for clients. The service package was constructed based on a comprehensive process of learning about customers' needs and expectations. This process was before the branches were opened, through in-depth interviews, focus groups, and surveys. The learning process was designed to realize the vision of setting a standard of innovative, high-quality, proactive service

responsive to the unique needs of business clients and connecting all of the systems that come into contact with the client.

Poalim the Right Way

Poalim the Right Way is an initiative aimed at promoting operational and managerial excellence at the bank's branches. This process encompasses changes being implemented at the branches, on three dimensions:



The Inauguration ceremony of the business branch in Ra'anana

- **Management dimension** - Poalim the Right Way provides branch managers with new management tools;
- **Process dimension** - Primarily via improvement of teamwork. The operational flexibility made possible by the new management tools strengthens connections between all of the departments within the branch. The various departments support one another during busy hours, thereby improving service, shortening wait times, and creating a culture of sharing;
- **Operations dimension** - Activities that do not require the customer to be present are gradually transferred to a central back office. This process has proved successful, generating shared value for the bank, its customers, and its employees by focusing the branches on business activities, providing better service, and providing an option for the development of a second career for long-standing employees who retrain for positions at the central back offices.

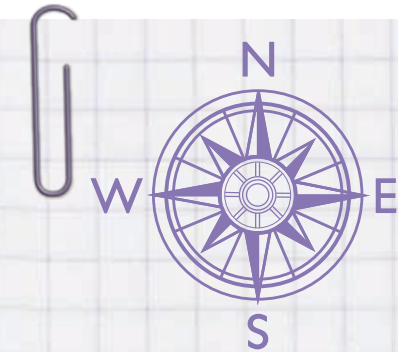
Poalim the Right Way was expanded during 2011 to encompass three areas of the head office, as a pilot project, within the effort to create a shared organizational language for headquarters and the branches. This process has enabled employees to take ownership of the work processes in which they participate, and to redesign such processes, with the help of Poalim the Right Way experts selected by the areas, for a better response to customer needs and an improved work environment.

The focus of the project, which is being conducted as a collaboration between the corporate strategy area and the three participating areas, is the improvement of the following processes: credit applications of commercial clients; bill payment; and securities operation. This move is the first step towards the improvement of additional processes both at the areas participating in the pilot and at the other areas and units.

2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- The bank opened 7 business branches in 2011, and an additional branch in Raanana in early 2012. A total of 22 business branches have been opened since the beginning of 2010;
- In 2011, 87 branches joined the Poalim the Right Way initiative; by the end of the year, 158 branches were implementing this approach.

Distribution of Bank Hapoalim branches, 2009-2011



LOOKING AHEAD

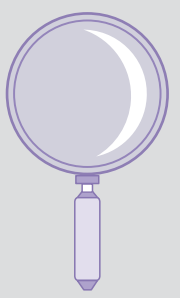
- A launch of 6 branches within the retail banking area during 2012: 4 boutique branches, a private business branch, and a traditional branch;
- Additional branch targeted to business clients would be opened Tel Aviv during 2012, completing a series of 23 business branches;
- In 2012 the Poalim the Right Way initiative would expand to 63 additional branches, thereby completing the its implementation in the bank's branches. In addition, the initiative is expected to expand to 5 other bank units, as well as to the bank's central managements.

PHYSICAL ACCESSIBILITY OF BRANCHES

As part of its corporate social responsibility philosophy, the bank sees accessibilization to disabled persons as an essential issue in promoting the quality of service provided to customers and upholding human dignity. The bank's endeavors to realize this ideal are conducted in two areas: physical and virtual accessibilization (with regard to virtual accessibilization, see the section "Hapoalim Online"). Bank Hapoalim is making its branches accessible with the active assistance of the Access Israel foundation. The foundation awards the Accessibility Seal to each branch when the required adaptations have been completed, including ramps, handicapped parking spaces, structural adjustments, and more.



Accessibilization to visually impaired persons - The bank operates advanced equipment and products at its facilities to assist customers with visual and auditory impairments, in accordance with international and local standards, with the assistance of the Mehalev Israel Communication Access Center and Kilim Electronics. Among other elements, this effort has included trading in older equipment for more sophisticated devices with voice alert units, which provide voice information on cash withdrawals, account balances, work hours, and additional subjects.



DRIVE-THROUGH ATM

In early 2012, Bank Hapoalim completed another important step in the accessibilization of self-service stations for its customers. For the first time in Israel, the bank launched a drive-through ATM, where customers can withdraw cash without leaving their cars. The ATM is situated in a central location (at the gas station adjacent to the Glilot Cinema City compound), in order to allow maximum access and availability, including adaptation for cash withdrawals by customers with disabilities.



The first Drive-through ATM in Israel

Summary: Branch Accessibilization					
	2007	2008	2009	2010	2011
Branches granted Accessibility Seal	52	87	100	112	110*
Branches in process of obtaining Accessibility Seal	1	10	16	20	57
Branches in accessibilization process	29	14	27	23	27
Total accessible branches or branches in accessibilization process	82	111	143	155	194

* The gap between 2010 and 2011 figures stems from branches closed.

2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- The bank operates approximately 70 ATMs providing voice-guided cash withdrawal services, for visually impaired users. A current list of the ATMs is available at the bank's website and at the Access Israel website. Each branch equipped with a voice-guided ATM receives a supply of headphones for distribution to customers;
- 41 branches of the bank were added to the accessibilization effort in 2011.

Poalim Self-Service

The self-service stations, available throughout Israel, operate independently of branch opening hours and allow customers to execute a wide range of transactions at the hours convenient to them. The use of self-service stations saves time, hassle, and resources and enables the bank to provide better, more advanced service. Customers are increasingly using the self-service channels to perform transactions previously conducted through bankers. Starting in 2010, funds can be deposited for third parties and into savings plans through self-service stations.

Adaptation of Self-Service Stations for Additional Uses

The ATMs offer cash withdrawals, balance inquiries, cash and check deposits, payments into certain deposits, and more. The bank's ATMs are widely and extensively distributed throughout Israel. The bank's relative share of total ATMs in Israel is greater than its market share in the Israeli banking sector. The addition of user interfaces in four languages - Hebrew, Arabic, English, and Russian - to the self-service network continued during 2011.

COMMITTED TO CUSTOMER SATISFACTION

Customer service awareness at Bank Hapoalim is an expression of our organizational commitment to customer satisfaction. This philosophy refers to internal customers as well as end users. The approach is broad-based and integrative, and covers the breadth of the bank's operations.

Service at Bank Hapoalim is a value exemplified across the entire organization and all processes, and is not limited to direct, immediate interaction with customers. The direct encounter with both internal and external customers is the initial stage in the service cycle, based on which information is collected and processed. The analysis of this information makes it possible to draw conclusions, learn, and improve, contributing to the development of work processes that improve the level of service. This service cycle enriches the value offered to various customers, creates a flexible organizational framework that is open to feedback, and expresses the bank's organizational commitment to customer satisfaction.

Service from an Organization-Wide Perspective

The organizational commitment to service and to increasing the number of satisfied customers is reflected in all levels of the bank's activity from upper management to the lowest-level employees. Service processes pertaining to the organization as a whole can be classified into three levels:

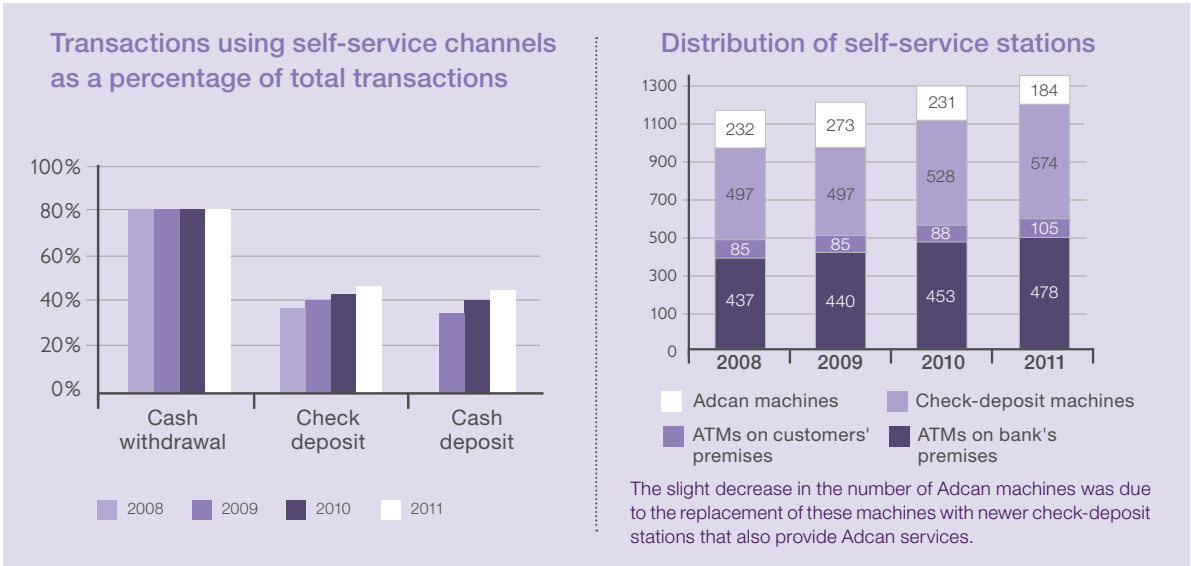
- **Organization-wide culture level** - A focus on organization-wide activities designed to foster a culture of service. These activities include formulation of a service philosophy, improved measurement capabilities, organization-wide implementation, and creation of work routines and remuneration methods;
- **Partner area level** - Areas of the bank not in direct contact with customers provide support for business activities and back the activity conducted at the points of contact with customers. Service is perceived as a key pillar of the promotion of an organizational culture supportive of and focused on better business performance. Activities in the area of service are therefore a key route to organizational success;
- **Client area level** - The service philosophy is an essential aspect of the promotion of customer satisfaction and enhancement of customers' relationship with the bank.

Service activities at Bank Hapoalim are centered on the following three elements:

1. The service philosophy, which sets a uniform standard for internal and external service processes;
2. Service performance measurement, which allows the bank to collect detailed information from its internal and external customers and use this information to improve service;
3. Lateral and vertical implementation of service processes based on uniform standards designed to realize the bank's service philosophy.

2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- The bank has the widest distribution of ATMs in the Israeli banking industry, with 583 ATMs: 478 at branches of the bank and 105 on customer premises;
- Arabic language support: 288 ATMs and 756 combined machines and Adcan stations support the Arabic language, including stations at all of the Express branches opened in Arab-Israeli communities;
- During the year, approximately 150 older ATMs were replaced with new ATMs allowing direct deposits of cash into accounts, without the need to use an envelope;
- In 2011, 6 Dan the Saver machines were installed in various locations in Israel; these machines accept coins in addition to ordinary deposits. These locations join dozens of Dan the Saver machines installed in shopping malls and town centers, targeted to children, with clear language and simple instructions for deposits.



LOOKING AHEAD

- 20 additional ATMs will be fitted for voice-guided operation for visually impaired customers by the end of 2012.

Service Philosophy

As part of the service strategy and the commitment to improve customer service, in 2011 the inter-organizational service concept was developed. Implementation processes were introduced in order to create management infrastructure for the domain and promote the creation of supportive organizational culture. In 2011 the following main steps were taken:

- Intra-organizational service survey - the survey takes place once a year and serves as an opportunity for managers to give feedback on the central services provided by the bank's various units. The survey provides a meaningful tool for evaluating and improving the internal service, leading to improved customer service;
- Assimilating internal service as part of divisional annual work plans – the Assimilation of which is carried out through three main axes:
 1. Organizational culture - including a change in values, worldviews and organizational identity;
 2. Processes - implementing structural changes, defining positions, process improvement, indices adjustment and upgrading technologies;
 3. Business vision - including implementation of the service in the core activity, constant improvement in the quality of the services that were rated low in the intra-organizational service survey, initiation of new services and ongoing examination of the purpose and functions of the division as determined directly by their contribution to the customers and the bank's leading position.

Service Performance Measurement

Continuous measurement and immediate, routine feedback for the branches and internal service providers based on the information collected help keep service issues relevant and motivate action and improvements of performance across all divisions of the bank. Service measurement is based on business objectives, allowing remuneration to be linked to performance.

Comprehensive, extensive measurement was carried out during 2011 in a variety of channels and points of contact with customers:

- Measurement of the customer service experience at branches and on the direct channels;
- Regular feedback for branches based on customer voices, on a weekly basis;
- Thorough measurement at the level of the individual banker through covert and overt customer controls allowing tracking of personal development of service providers;
- Measurement of the quality of the internal service experience of employees and managers within the organization.

Assimilating Service Values

Employees and managers at the bank were provided with practical tools during 2011, encompassing a range of methods and channels, designed to assimilate an organizational culture reflecting the bank's Service Compass:

- Periodic service meetings at branches;
- Service workshops at the Poalim Campus and branches;
- Observation of service processes and feedback for personal learning and development;
- Service training tailored and relevant to business processes;
- Implementation of learning and improvement processes through processing of customer inquiries; and more.

Training sessions on service were held in the branch network and at the head office, to highlight the bank's commitment to these values and to promote uniform implementation. The implementation process was performed with the management stratum, so that managers would lead the change and impart service values to their employees. In order to support the process of assimilating service values and emphasize the service aspect of everyday activities, the bank commends twenty branches for outstanding service each quarter. The branches receive appreciation certifications and a gift.

Processing Inquiries and Requests

The customer contact center oversees processing of incoming contact from customers through all channels: Internet, fax, telephone, etc. This year, the center handled about 21,000 inquiries. The service philosophy at the customer contact center is based on the following principles:

- The bank sees the inquiry as an opportunity to provide an appropriate response to the customer's needs and improve the customer's trust and level of satisfaction;
- The bank uses inquiries as a means of monitoring the quality and professional skill of customer service;
- Inquiries serve as a sensor indicating customer expectations, enabling to better prepare for the future;
- Inquiries present an opportunity to learn and draw conclusions for the improvement of performance on the business, service, and operational levels;
- Centralized management of customer inquiries: prioritization according to the type and seriousness of the inquiry, processing on a predefined schedule, monitoring through specialized software, and more.

Processing of Inquiries - From Localized Resolution to Organizational Learning

Organizational learning - The customer contact center monitors complaints and inquiries with systemic implications, such as recurring events at various units, problems with organization-wide procedures or work processes, and more. These inquiries are presented to the appropriate professionals at the bank for study and potential improvement of the relevant procedures and processes. When an inquiry is classified as systemic, the process and progress of resolution are monitored via a formal procedure.

Event analyses of systemic inquiries appear in the service zone on the organizational portal, in order to assimilate the use of inquiries as a driver for learning at the branches. Service inquiries and events are analyzed in branch staff meetings from time to time.

Localized resolution - Localized inquiries without implications for the lateral activity of the bank are handled appropriately through a shared process by the customer contact center and the source of the issue; for example at the end of the process, a letter or report summarizing the resolution is sent to the customer who initiated the inquiry and to the branch. The branch is also issued with recommendations for improvement and instructions for action aimed at avoiding similar incidents in the future.

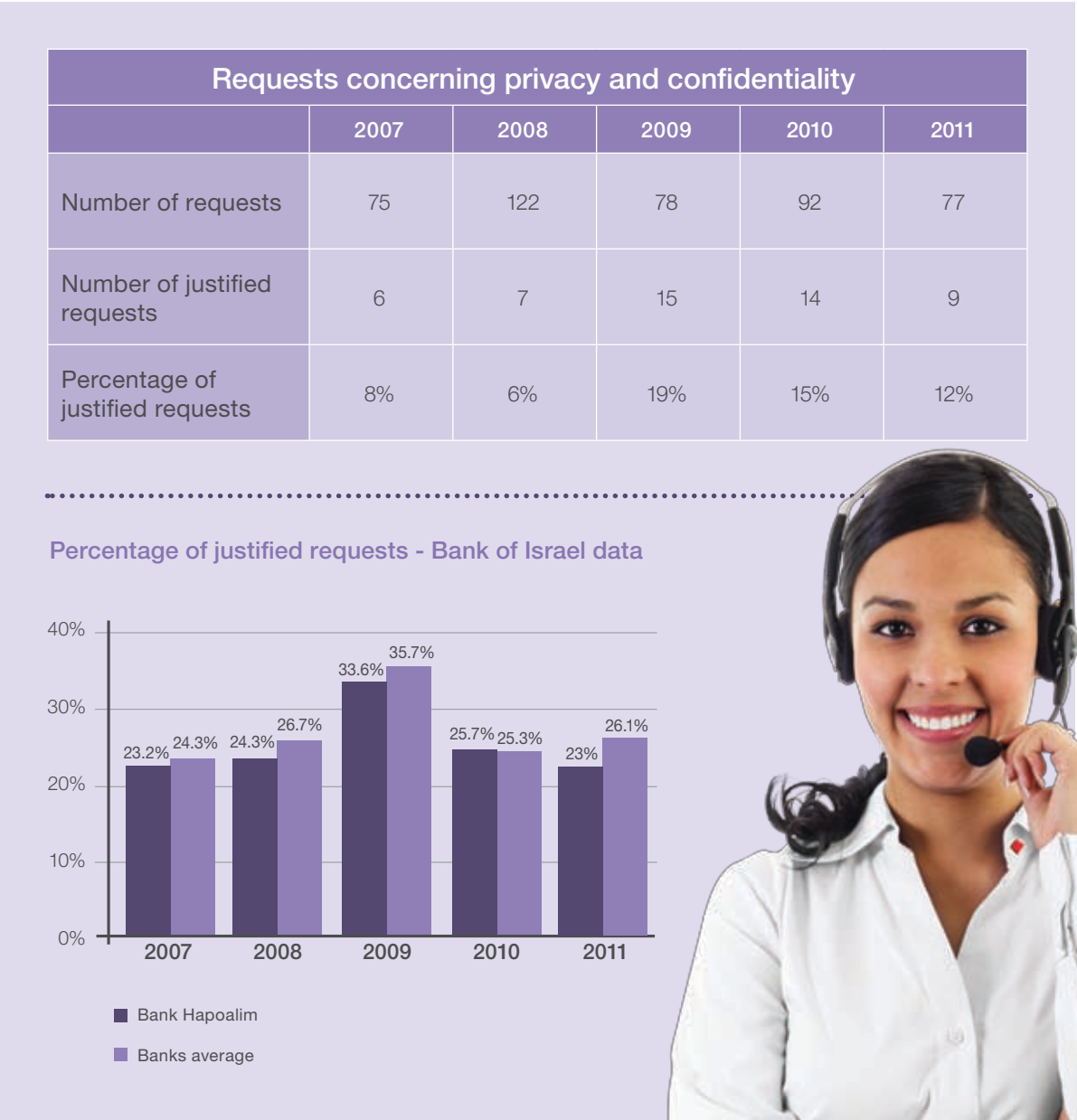
Information about Banking Products and Services

The bank is subject to laws that impose due-disclosure requirements concerning information to be delivered to customers regarding banking products and services. These directives apply to all products and services of the bank. Bank Hapoalim strictly adheres to the directives, through designated mechanisms subject to controls and audits. Fundamental principles underlying consumer-protection directives:

- Due-disclosure duty (transparency) towards customers;
- Protection of customers' right to receive advice and service from the bank.

In this context, as a leading business organization in the Israeli economy, the bank exercises caution in its advertising, marketing, and sales promotion, and applies several levels of rigorous screening and controls. All messages published by the bank conform to the law - the first and most essential level. In addition, the bank consults with advertising experts on the essence, content, and style of its advertisements, according to the service or product and the target audience of the messages. The third level consists of internal controls applied by the bank's experts in this field, including further review of the preceding two stages.

Compliance with laws and regulations concerning marketing communications: No significant fines or nonmonetary sanctions were imposed on the bank for noncompliance with laws and regulations in the area of marketing during 2011.



SERVING A DIVERSE CLIENTELE

Markets Served by the Bank

The activity of the Bank Group is conducted via six operating segments. The division into operating segments is based on types of products and services or on types of customers. The board of management of the bank uses this division to make decisions and to analyze the group's business results. The operating segments are presented according to characteristics stipulated by the Supervisor of Banks:

Households Segment: Provides a range of banking services and financial products to households.

Private Banking Segment: Provides a range of advanced multi-channel banking services and financial products, including investment advisory services, to private customers of medium to high net worth in Israel and abroad.

Small Business Segment: Provides a range of banking services and financial products to small businesses. This segment includes customers with a turnover of less than NIS 30 million, with debt to the bank of up to NIS 6 million.

Commercial Segment: Provides a range of banking services and financial products to middle-market business clients. This segment includes customers with an annual turnover of NIS 30 million to NIS 400 million, or with debt to the bank of NIS 6 million to NIS 100 million, or total debt (to the bank or to other lenders) of NIS 6 million to NIS 250 million.

Corporate Segment: Provides a range of banking services and financial products to major international companies, in Israel and abroad. The main area of activity in this sector is credit granting. This segment also includes clients in the communities and local government sectors.

Financial Management Segment: Responsible for the management of the Bank's proprietary portfolio, management of overall market and liquidity risks, and support for the development and pricing of financial products in order to market them to customers of the various segments. The activity of the bank's dealing rooms is also included in this segment. In addition, this segment is responsible for activities aimed at raising sources of financing and secondary capital for the bank through issuances.

Cultivating Relationships with Additional Sectors

Bank Hapoalim accords high importance to cultivating a stronger relationship with its customers in the Haredi (ultra-Orthodox) and Arab-Israeli sector, in the view that these communities are catalysts for growth of the Israeli economy. Based on this perspective, and as part of the bank's vision and strategy, the bank continually endeavors to create value offers and develop services tailored to the specific needs of these customers. Over the last few years the bank has achieved a leap forward in marketing to customer segments within the retail banking area, and it continues to expand its community and business activities in these sectors.

LOOKING AHEAD

- In 2012 there will be an additional internal service survey. In order to enable a wide organizational view, the survey results would be analyzed consistent with the findings of the organizational climate survey conducted in 2011;
- During March - June 2012 internal service training for all managers would be held. The training would take place in heterogeneous groups of managers from various units and ranks, in conjunction with Poalim Campus. At the end of the training managers would train their employees in their prospective units;
- In 2012, as part of the internal service measurement process, all the divisional work plans would be systematically measured, using the Balance score card system;
- In 2012 the various divisions' availability would be measured based on their predefined service level agreement (SLAs) as described in the dynamic service charter. The charter includes dozens of core processes and availability goals aimed to meet the required service level as determined in the joint process with the internal customers;
- In 2012 excelling internal service providers would be chosen. These employees would be selected by a unique system in the organizational portal, available to all employees and based on the recommendations of the various unit managers and division directors;
- In 2012, a customer forum will be established as a venue for dialogue with the bank's customers, for feedback on improvement of the efficiency of customer-centered processes and improvement of the customer experience in all channels.

The Haredi Sector

22 branches operate in communities with large observant and Haredi populations. The bank offers a specialized package of services and products to Haredi sector customers.

Branches operating in the Haredi sector have been adapted to these customers' needs. Each branch has a reading library, decorated with Judaica pieces and stocked with religious works, which customers can peruse while waiting; pictures on branch walls and marketing materials are adapted to this customer segment. Thus, for example, a Mishkan brochure, a multi-channel loan pamphlet, and other materials have been adapted for this sector.



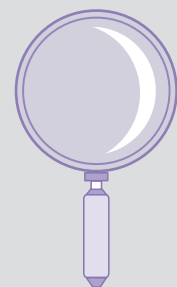
The Read and Succeed campaign for the Haredi Sector

The Arabic-Speaking Sector

The bank has an extensive network of branches serving the Arabic-speaking population. The bank also employs minorities, in all areas of Israel, as described in the chapter on employees. In 2011, the bank continued the process of expanding this network and improving access to services, including a marketing website in Arabic presenting information about the products and services offered by the bank. The self-service stations are gradually being adapted for use in the Arabic language.

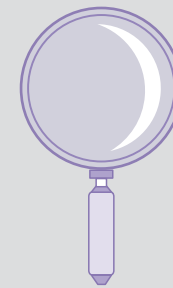


Dan the saver campaign in Arabic



INTEREST-FREE DEPOSITS FOR TARGETED SECTORS

As part of the bank's customer segment management, two types of interest-free deposits have been introduced in response to the needs of observant customers in the Haredi and Arab-Israeli sectors. The new deposits allow customers to deposit funds with the bank and benefit from linkage to the exchange rate of the shekel, US dollar, or euro, or linkage to the CPI. The development of these products is another step in the ongoing expansion of the bank's product offering, stemming from an understanding of the individual needs of its customers, with the goal of helping customers achieve prudent financial behavior.



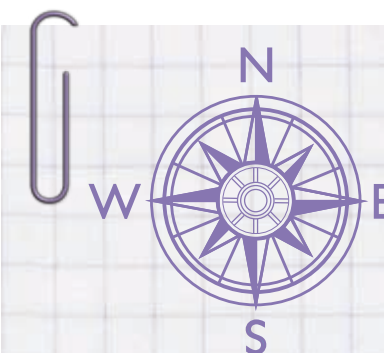
EXPANDING ACCESS FOR A DIVERSE CLIENTELE

Within its outreach to a range of different population segments, the bank launched two targeted websites during 2011:

- A site for Arabic-speaking customers of the bank, at www.bankhapoalim.co.il/arabic. This site contains key content, translated into Arabic, on subjects such as account management, loans, the capital market, deposits, and savings;
- A site for the Haredi sector, at www.bankhapoalim.co.il/bsd. The site serves Haredi and observant customers and is adapted to the norms of these communities. Customers can use the site to access their accounts, receive routine banking information, and execute various transactions.



- Two Express branches were opened, in Bnei Brak and Modi'in Ilit, serving Haredi population centers;
- The bank introduced its Read & Succeed project (see the Community chapter) in the Arab-Israeli sector, and continued it for the second year in the Haredi sector;
- In 2011, two Express branches were opened in Araba and Reina, joining 35 other branches located in towns and cities with Arabic-speaking populations;
- Self-service stations are gradually being adapted for use in the Arabic language. As of 2011, 288 ATMs and 675 combined machines and Adcan machines provide information in Arabic.



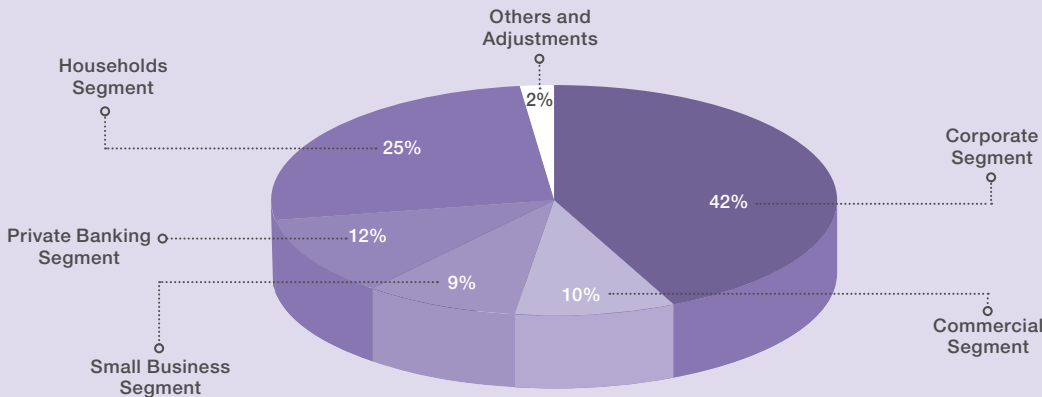
LOOKING AHEAD

- In 2012, the bank will continue to emphasize the introduction of products and services adapted to the needs and lifestyle of customers in the Haredi and Arab-Israeli communities.

Segmentation of Borrowers

Total credit to the public amounted to approximately NIS 246 billion in 2011, up 9.4% from 2010. The development of balance-sheet balances of credit to the public is described below.

Credit to the public by operating segment, 2011



Summarized Development of Balance-Sheet Balances of Credit to the Public by Operating Segment

Balance-sheet balances of credit to the public as of December 31 (in NIS millions)				
	2011	2010	Change	change %
Households Segment	61,685	57,666	4,019	7.0%
Private Banking Segment	28,509	23,932	4,577	19.1%
Small Business Segment	22,911	21,384	1,527	7.1%
Commercial Segment	24,405	21,575	2,830	13.1%
Corporate Segment	104,839	96,760	8,079	8.3%
Others and Adjustments	4,146	3,971	175	4.4%
Total	246,495	225,288	21,207	9.4%
Of which, consumer credit in Israel excluding housing loans				
Households Segment	26,814	25,301	1,513	6.0%
Private Banking Segment	10,767	10,166	601	5.9%
Small Business Segment	19,258	18,592	666	3.6%
Total	56,839	54,059	2,780	5.1%
Housing loans in Israel	48,868	42,929	5,939	13.8%

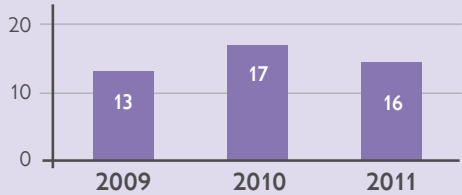
PROTECTING CUSTOMER SAFETY, HEALTH, AND SECURITY

Bank Hapoalim takes all necessary measures to ensure the safety and health of its customers during their presence in its branches and facilities. The safety and security department has the objective of preventing safety incidents or reducing such events to the extent possible, and when incidents do occur, minimizing injuries and property damage. This is achieved by taking measures including the following:

- Defined actions formalized in procedures and in the multi-year work plan; implementation of the plan is reported to the institutional safety committee of the bank;
- Involvement in the planning process of new buildings and of additions and renovations to branches and other buildings of the bank;
- Continuous response and availability for emergencies such as fires, fire extinguishing equipment operation, work accidents, health hazards, medical emergencies, etc.;
- Investigating accidents and injuries in order to draw and implement conclusions. Thus, for example, work has been performed in order to add texture to smooth floors and place anti-slip stickers on existing stairs. Anti-slip floor tiles are installed at new or renovated branches.

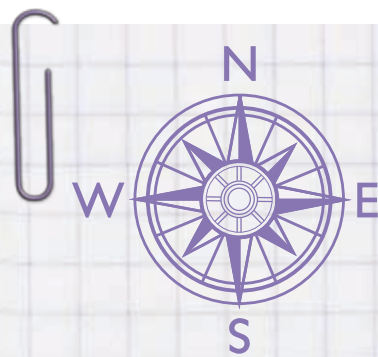
As part of the bank's sustainability and corporate social responsibility plan, accidents on the premises of the bank were analyzed in detail and reported to the insurance department.

Number of reported accidents involving customers of the bank, 2009-2011



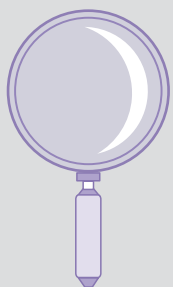
The findings point to a very small number of accidents: A relatively minor number of accidents is reported each year, relative to the immense number of customer visits to the 298 branches of the bank each day. This year, 9 customer accidents involved women, while 7 involved men.





LOOKING AHEAD

- In 2012 the bank would create an educational safety software for construction inspectors;
- As part of new contracts and, in conjunction with corporate procurement center, in 2012 the safety training of employees employed by contractors working with the bank;
- As part of safety and health practices implementation among employees, tutorials and training of employees and managers would continue in 2012;
- In 2012 strengthening cooperation and fostering work interfaces with the Fire Department would be emphasized.



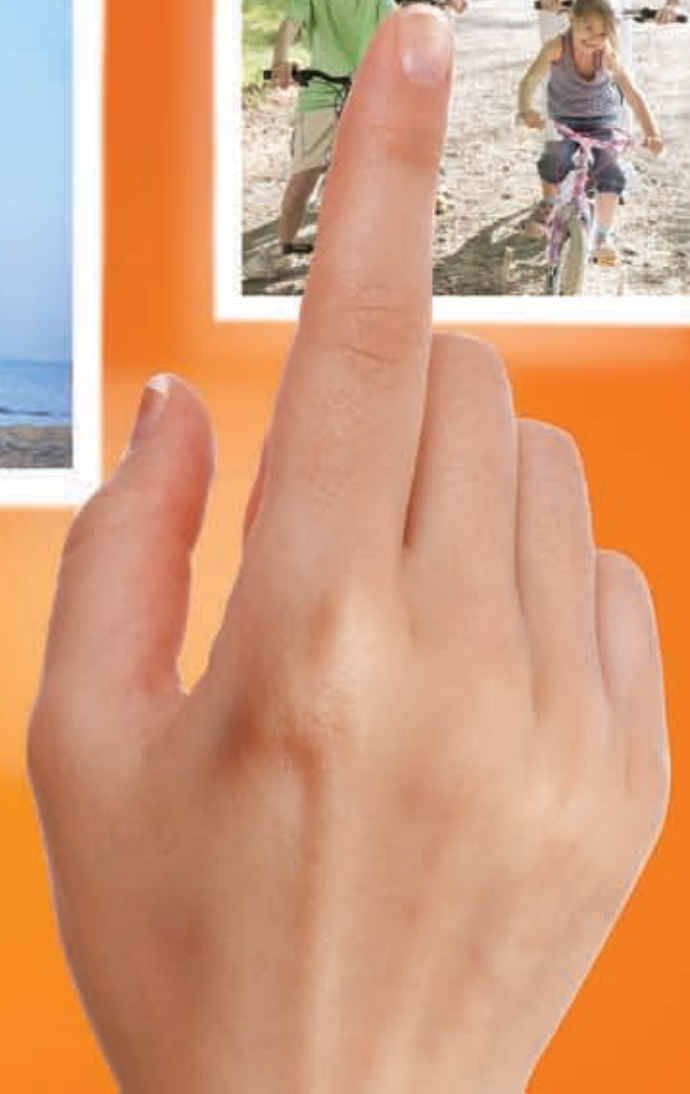
WORKING FOR BUSINESS CONTIGUITY

In July, the bank received certification of compliance with the Israeli and international standard BS 25999, which concerns the management of a business continuity system in emergencies. The standard reflects knowledge and expertise from around the world, and aggregates strict rules for the management of a business continuity system, requiring each emergency scenario to be addressed with an appropriate response. The certification marks the culmination of a twenty-month effort by the bank, including a comprehensive analysis of processes in the organization and of the resources required to operate such processes under routine and emergency conditions. During this period, action plans and emergency procedures were created, and several emergency drills were held, with the participation of units from all parts of the organization. The bank is committed to business continuity at all times, under all circumstances, for all of its customers, and strives to continually preserve and improve its emergency preparedness.



OPERATING PROACTIVELY

EMPOWERING COMMUNITY AND SOCIETY



ECONOMIC IMPACT ON THE STATE AND SOCIETY OF ISRAEL

The positive economic impact of Bank Hapoalim is reflected both in its annual earnings and in its contribution to the Israeli economy, through taxes, local purchasing, and employment.

As Israel's largest bank, Bank Hapoalim is an economic entity of considerable power in the Israeli economy. Its economic impact is not confined to its annual or quarterly earnings as reported in its financial statements, which are addressed primarily to shareholders and investors. This section of the report reviews the broad economic impact of Bank Hapoalim and describes its added value, including its contributions to the national economy through tax payments, local purchasing, and employment of workers. Bank Hapoalim pays state and municipal taxes, and receives no financial aid or support from the state.

The following table presents key data regarding the economic performance and value added generated by the bank (based on the consolidated financial statements of the bank, in millions of NIS):

	2009	2010	2011
Profit from financing activities*	6,718	7,775	8,231
Total income (financing profit + operating income)	11,757	12,827	13,083
Operating costs	7,457	8,291	8,365
Wages and related expenses	4,016	4,631	4,759
Donations and investments in the community	43	44	47
Shareholders' equity	20,097	22,561	23,845
Dividends paid to shareholders of the bank	-	-	270
Interest to debt or bond holders	1,970	1,529	2,060
Provision for taxes (tax benefit) on operating profit	990	1,342	809
Provision for doubtful debts	2,017	1,030	1,202

*Before expenses for credit losses

The following table presents the economic value added of the bank, which includes gross wages (including wage-related items), taxes, profits, and more (in millions of NIS). This value reflects the contribution of the bank to the Israeli economy, as a large organization that maintains economic interactions with many stakeholders (employees, suppliers, the community, government agencies, etc.).

Economic value of the Bank Hapoalim Group, in NIS millions				
	Breakdown	2009	2010	2011
Economic value created by the group	Total income (including extraordinary income)	11,757	12,827	13,088
Economic value distributed to stakeholders by the group (operating and other expenses plus provisions for taxes and dividends)	Operating and other expenses (including municipal tax; excluding depreciation)	6,778	7,576	7,610
	Wages and related expenses (within operating and other expenses)	4,016	4,631	4,759
	Donations and sponsorships (within operating and other expenses)	43	44	47
	Provision for taxes (tax benefit)	1,004	1,342	809
	Dividends declared	0	0	270
	Total	7,782	8,918	8,689
Economic value retained	Difference between the group's income and its operating and other expenses, provisions for taxes, and dividends	3,975	3,909	4,399

A Nationwide Employer

Bank Hapoalim maintains a network of 289 branches (as of the end of 2011), broadly distributed throughout Israel. About 20% of the branches are located in National Priority Areas, and approximately 45% of the branches are outside the Gedera-to-Hadera central region. Employees and managers at the branches usually reside in the vicinity of the branch. Recruitment procedures are identical for all branches; consequently, the bank employs an equal proportion of residents of peripheral and central regions.

Bank Hapoalim operates two call centers and a central back office, which provide approximately 1,550 jobs. One of the call centers is located in central Israel, at the industrial zone in the Azor Regional Council, and the other, for reasons including social responsibility considerations, is in the northern town of Nesher. The central back office is located outside Tel Aviv, in the Beit Dagan area. The central back office in Beit Dagan also operates through regional offices throughout Israel, located in Beer Sheba, Mevaseret Zion, Nesher, Givat Olga, Hatzor Haglilit, Revadim, and the Emek Hefer industrial zone.

Buying Locally Made Products

Bank Hapoalim performs almost all of its procurement in Israel from local manufacturers or importers. The bank does not import products or services directly from abroad (except purchases of a negligible volume, mainly professional literature or hardware not manufactured in Israel). Bank Hapoalim strives to obtain the largest possible proportion of its purchasing from Israeli manufacturers and endeavors to find local supplies whenever possible. Within its policy of purchasing Israeli products, the bank sometimes gives priority in its purchasing considerations to peripheral regions and border areas subject to confrontation. In addition, as part of the social considerations applied to the selection of suppliers, priority is given to suppliers who employ a substantial percentage of workers with disabilities. For example, the national flags distributed by the bank each year in honor of Independence Day are manufactured by the Hameshakem sewing workshop, which employs workers with disabilities.

Additional Indirect Economic Impact

Bank Hapoalim works to benefit the public as a whole. Some of the services for public benefit include extensive activity in the area of financial freedom (see details in the Clients section), opening nature reserves and museums to the public free of charge during holidays, running exhibitions to sell handicrafts created by people with disabilities, and more.



Trister Shoshana, In-House Art

EXAMINING THE SUPPLY CHAIN

As part of its sustainability and corporate social responsibility plan, Bank Hapoalim also examines its social responsibility in terms of the inclusion of social and environmental considerations in the choice of suppliers and ensuring protection of the rights of workers employed at the bank through contractors.

Managing Supplier Relationships

The bank undertakes a process together with its suppliers to define its needs and coordinate expectations, and maintains routinely used channels to address issues that arise in the course of the relationship with the supplier. In order to maintain routine contact with suppliers, a regular buyer has been appointed for each supplier, to conduct ongoing business and receive feedback from suppliers regarding their relationship with the bank.

Integrating Social and Environmental Considerations in the Selection of Suppliers

Bank Hapoalim applies various social and environmental considerations when selecting and contracting with suppliers. For example, the bank requires contractors who employ workers on the premises of the bank to meet legal requirements regarding employees' wages and benefits, to avoid employing illegal workers, and in some cases to comply with various ISO standards (such as IS 9001 - Quality Management Systems or IS 14001 - Environmental Management Systems).

These requirements include considerations such as appropriate physical conditions for workers, as well as workplace safety and hygiene on the supplier's premises; avoidance of discrimination, on any grounds; avoidance of excessive employee turnover and improper treatment of employees; compliance with environmental standards; meeting the terms of current licenses and permits; a clean record in the area of environmental and labor-related compliance; and more.

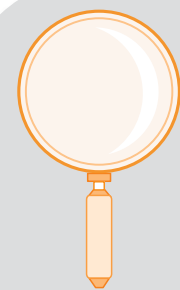
Protecting the Rights of Workers Employed by Contractors on the Bank's Premises

To meet its needs, the bank enters into agreements with various contractors for the provision of security, cleaning, and cafeteria services, through employees of the contractor who are assigned to the bank. In order to ensure the protection of these workers' rights, the agreements between the bank and the contractors stipulate the obligation of the contractors to provide the following to their employees, among other matters: minimum wage, and other rights granted to workers in Israel under its labor laws; social benefits; prevention of harmful employee turnover; and due disclosure to employees of their rights.

To ensure that contractors meet these obligations, and as a means of supervision of the contractors, the bank requires contracting firms operating on its premises to submit detailed quarterly reports covering these areas. These reports are examined by an independent external company, and the examination is fully financed by the bank. Contractors are required to submit a report to the bank listing names and turnover of employees assigned to the bank as well as the reasons for any turnover. This enables the bank to determine whether the contractors are meeting their obligation to avoid excessive turnover of their employees.

In 2011, as in previous years, contractors' reports submitted to the bank were reviewed. Any problems uncovered are investigated with the contractors until a satisfactory resolution has been achieved.

Within the due disclosure requirement, the bank requires contractors to give their employees full disclosure of all of their rights. In addition, the bank insists that employees are able to inquire about every aspect of their employment relationship and receive an appropriate and fair response. The bank is also attentive to any complaints regarding harmful employment.



UPDATE OF THE ETHICAL CODE FOR CONTRACTOR EMPLOYEES



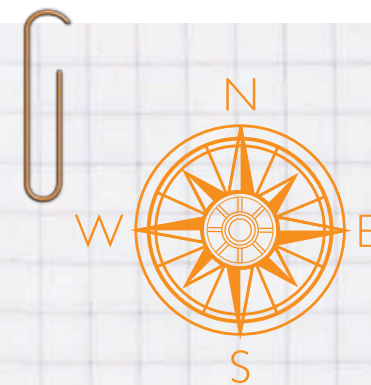
The Ethical Code in Amharic, Russian and Arabic.

In 2011, as part of the process of assimilating corporate social responsibility, the bank created an ethical code, in collaboration with its contractors, relevant to contractor employees working in security, food service, and cleaning on the premises of the bank. This code was communicated to all contractor employees working on the bank's premises. These employees received and read the code, and signed the code document. The bank received a report of the completion of this process from the company employing the workers, signed by the general manager of the company. The content of the code was distributed in Hebrew, Russian, Arabic, and Amharic.

As of 2011, all new and existing suppliers are required to communicate the content of the new code, annually, to every employee they assign to the bank. This process is noted in the employee's personal file. Accordingly, suppliers are required to submit an annual report on the number of employees who have received and read the code, for control purposes.

Human Rights Training for Security Guards

The Bank conducts courses, over five full days, to train its security guards in the various areas related to their routine duties. Guidance for these courses is provided by the Israel Police. The content covered includes human rights. The topic of human rights is discussed in a series of talks given by an attorney specializing in this field. All security guards working at the bank's branches and head office have undergone instruction on human rights as part of their training and periodic refresher courses.



LOOKING AHEAD

- In 2012, as part of the implementation of the Law for Increased Enforcement of Labor Laws, 2011, purchasing contracts at the bank will be updated to include changes designed to ensure the protection of the rights of contractor employees working at the bank, and a system for processing communications from contractor employees will be established to ensure the protection of their rights and provide a response to such communications during their work at the bank's facilities;
- In 2012, as part of the promotion of the bank's influence on its suppliers, the field of purchasing in the area of banking will be reexamined, and new criteria will be defined, including expanded environmental and social threshold conditions for the provision of goods and services to the bank.



CREATING DIALOGUE WITH STAKEHOLDERS IN OUR SOCIETY AND COMMUNITY

One of the key elements in the implementation of corporate social responsibility is to foster dialogue with stakeholders on issues relevant to them, with the aim of creating shared value for the bank and the various stakeholders.

Mechanisms for Collaboration and Dialogue

The bank's dialogue with stakeholders in its society and community is based on four building blocks:

- Transparency and reliable information - By making information accessible in a transparent, reliable, and clear fashion, the bank informs its stakeholders of its activities, its focus, and its future plans;
- Obtaining feedback - Dialogue with stakeholders makes it possible to assess the quality of the shared value created during the course of its activities and to enhance it in ways that increase the mutual benefit;
- Involvement in decision-making and mutual empowerment - Through the study of mutual needs, the bank creates partnerships with its various stakeholders. These partnerships are dedicated to advancing shared goals and to the creation of value for all parties concerned. In this manner, the bank is not only a contributor to the partners involved in these processes, but also derives benefit;
- Application of the bank's range of business capabilities - Enhancement of work processes with the various stakeholders through implementation of the core business capabilities in shared activities.

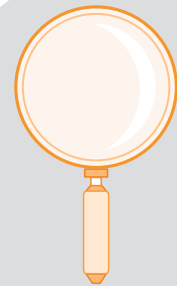


Dialogue with Stakeholders and Expansion of the Bank's Sphere of Influence

The bank conducts regular, continuous dialogue with its stakeholders. Within this effort, during 2011 the bank held meetings and discussions including the following:

Academia	Active dialogue is in progress with academic and management personnel at universities and colleges with regard to academic programs and projects in the area of social responsibility. In addition, the Corporate Social Responsibility Administration holds meetings with university students to present the bank's approach and professional experience in this field, and advises student teams working on various academic projects;
Non-profit organizations	The bank maintains ongoing relationships with various non-profit organizations regarding social responsibility, in order to receive feedback, exchange knowledge, and offer mutual assistance;
Entrepreneurs and businesses in the field of sustainability	The bank has an open-door policy for businesses operating in various "green" sectors: green construction, energy efficiency, solar energy, water, etc. Within this area, the bank exchanges knowledge, examines options for assistance and connection with additional parties, considers possibilities for pilot projects in this area, and more. The bank also provides support for professional conferences in this field, professional websites, and more;
Connections with colleagues	As part of the implementation of corporate social responsibility, the bank maintains close contact with business organizations and with Maala, for shared discussions and mutual assistance in coping with professional issues and challenges;
Government agencies and local authorities	In another element of this dialogue, representatives of the bank conduct meetings and give talks in order to exchange knowledge and insights with representatives of government agencies and local authorities. In this context, joint projects, aimed at addressing environmental issues, are promoted.

EXPANSION OF THE BANK'S SPHERE OF INFLUENCE IN ISRAELI SOCIETY



THE SOCIAL-ENVIRONMENTAL-ECONOMIC PROJECT FOR COLLECTION OF ELECTRONIC WASTE AND EMPLOYMENT OF PERSONS WITH DISABILITIES

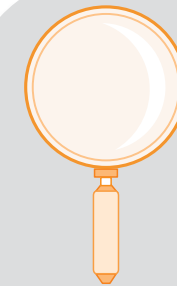
During 2011, the bank, in collaboration with the city of Holon, organized a pioneering community project to create a comprehensive system designed to deal with electronic, electrical, and metal waste, including collection, removal, and recycling of the waste in Holon. This project was created based on the philosophy of promoting the values of sustainability and CSR, and expanding the bank's sphere of influence in Israeli society.



The electronic waste receptacle in Holon

The pilot project was the first of its kind in Israel, presenting a systemic solution for organized treatment of electronic, electrical, and metal waste while promoting environmental, social, and national causes. The waste was recycled by the collection and recycling company Ecommunity (Ecology for a Protected Community), which employs people with disabilities. The company collects and disassembles the waste into components for recycling, contributing to carbon offsetting. This serves the goal of preserving the environment while also meeting the essential social goal of promoting the employment of disabled workers.

The project encompasses the setup of twenty designed waste collection receptacles, which were developed and manufactured in Israel, supplied for this purpose by the bank, and situated throughout the city of Holon in early 2012. The receptacles were placed in accessible, high-traffic locations protected from theft, in response to the need for proper collection and treatment of electronic waste. The project also aims to encourage and raise awareness of collection and recycling activities for Holon residents, as part of everyday routines and as a way of life.

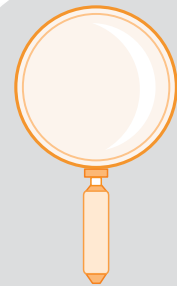


The project entails multiple benefits on the economic, social, and environmental dimensions, both in Holon and on the national level:

- Improvement of the environment in the city and its surroundings;
- Prevention of the emission of greenhouse gases and other toxic gases released during improper recycling of electronic waste;
- Reduction of the volume of urban waste (savings on transportation costs and waste burial levies);
- Promotion of the city's agenda, in line with its vision as an ecological community;
- Community involvement - the project is consistent with the environmental and social needs of the city's residents;
- Promotion of a national goal - employment of persons with disabilities;
- Manufacturing of the receptacles and operation of the project through local Israeli companies;
- Education of the public and of youth on environmental values.

Bank Hapoalim initiated this project, and as a partner of the city of Holon, fully financed the development, design, and manufacture of the receptacles, which were placed at the disposal of the city. In collaboration with the city, the bank served as the key promoter of the advertising and communication of the project, through formulation of the concept, message, and range of channels, which included a brochure distributed to every household in Holon to explain the project. After the receptacles were set up, the bank, jointly with the city and the recycling supplier, monitored the overall process, particularly the quantity of material collected in the receptacles, the recycling process, and the quantification of carbon offsetting as a result of the collection of the electronic waste.

Holon mayor Moti Sasson commented on the project: "I am very happy, and I would like to thank Bank Hapoalim for its partnership in this important project. I know the bank has declared a vision of innovation and leadership alongside the promotion of social and environmental causes. In this case, the bank proved that its actions match its words."



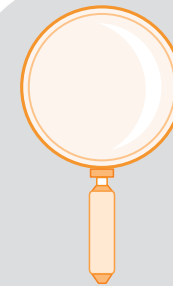
PROMOTION OF ENVIRONMENTAL ALTERNATIVES IN TRANSPORTATION



Sarrussi Gantz Amira, In-house Art

In recent years, the bank considered developing an initiative for the operation of a direct transportation shuttle system for its employees. The initiative is aimed at reducing pollution caused by cars by offering a convenient, efficient solution for transportation to the workplace, as an alternative to the existing means. This initiative has not been realized due to economic disadvantages involved in operating such a system on a small scale, for only one organization.

Consequently, efforts were made to find partners for the creation of a shared shuttle system for several business organizations in the business district of Tel Aviv, with the sponsorship of the city of Tel Aviv and of Israel Railways. The knowledge accumulated during the internal planning process at the bank would be shared with the various partners. This dialogue bore fruit in 2011, when the city of Tel Aviv, through the company Ahuzot Hahof, undertook responsibility for the project and began to promote it vigorously, in cooperation with several banks and with Israel Railways.



According to the current plans, the proposed shuttle system will offer service from the Hashalom and Hahagana rail stations to the banking centers and back, at an attractive subsidized price, for interested employees. This initiative has direct benefits both for workers and for the environment:

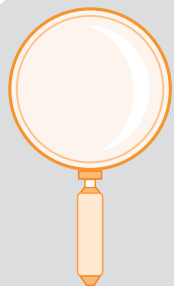
- Savings on expenses for vehicle maintenance, gas, and parking;
- Reduced time in traffic;
- Reduced driving time and time looking for parking at the office;
- Contribution to the reduction of air pollution.

One of the key elements in the bank's internal feasibility test of the initiative was the direct involvement of the employees in the process, as part of the ongoing dialogue with them, through the identification of the daily need for transportation to and from work at the bank.

A survey on this subject made it possible to derive a precise outline of the demand for the project. The survey was conducted in collaboration with the human resources division, in coordination with the employees' union, and was targeted to the relevant employees, in an effort to address each employee's individual needs. Of all employees exposed to the survey, over 650 responded to all questions and expressed interest in using the service. About two-thirds of the employees interested in participating said they would be willing to forgo the use of a personal vehicle and use the proposed train and shuttle service.

The project, through dialogue and cooperation with additional stakeholders, expands the bank's sphere of environmental influence by reducing harm to the environment, and involve the maximum number of employees working in the Tel-Aviv city area who benefit from cost savings and from convenient, organized transportation to work.





ENERGY EFFICIENCY CAMPAIGN

As part of the strategic drive at Bank Hapoalim to adopt sustainability and CSR values and to apply these values to the everyday life of its employees, society, and community while advancing national goals, the bank led a broad campaign on energy efficiency, for several months starting in late 2011. The campaign was part of the extensive activities initiated to make valuable financial information accessible to the public, with an emphasis on households. This effort encompasses information regarding rational expense management and budget control, and methods of saving and deriving genuine added value from savings on expenses, while protecting the environment.

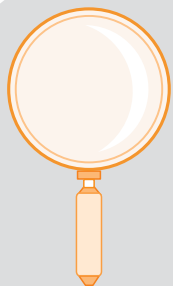


The Energy efficiency campaign

The campaign targeted the general public in Israel. Based on the environmental protection guide published by the bank (see details in the Environment section), the campaign exposed its audience to a series of ideas for easy savings on household energy expenses, explaining how the implementation of the suggestions could lead to savings on electricity, water, gas, and more on a scale of hundreds to thousands of NIS per family each year. The campaign served as a direct value offer for the public, with economic and environmental elements in tune with the spirit of the time.

The campaign achieved wide exposure in the Israeli public. Messages of the campaign were managed in two stages:

- The first stage began in late 2011, through the leading websites in Israel; millions of exposures of visitors to the sites were measured, with about 125,000 active pages poened by users of the environmental protection and energy efficiency guide;



- The second stage was conducted during the first quarter of 2012, through integration of content from the campaign into the daily reports on the "Big Brother" reality television show on the website Mako. The various campaign messages appeared several times in each daily video, with an energy saving tip shown on screen and matched to the situation presented in the video. In addition, concurrent with the insertion of the messages into the daily report videos, to increase the campaign's visibility, the messages were also displayed at the Big Brother compound, on the daily report site, and on the main Mako website. This stage also resulted in millions of exposures to the Israeli public.



The Energy efficiency campaign



LOOKING AHEAD

- Recycling electronic waste and employing disabled workers: In 2012, the project launched in Holon is planned to expand to the cities of Ashdod, Rehovot, Yavneh, and others, with the aspiration of assimilating the habit of recycling currently untreated waste in the general public and creating hundreds of new jobs for workers with disabilities;
- The train station shuttle system: In 2012, Ahuzot Hahof, the company owned by the city of Tel Aviv, plans to implement this plan. Bank Hapoalim will assist in every way in involving as many of its employees as possible in the shuttle program.

Examples of community events in which the bank took part in 2011:

- **Tevet Conference on Diverse Employment** - As part of the promotion of workplace diversity, the bank's human resources division hosted the semiannual executives' conference organized by Tevet (Employment Momentum, founded by the JDC and the Israeli government) on the subject of green employment. In accordance with the policy delineated by the board of management and board of directors, the bank is committed to promoting the employment of population groups underrepresented in the labor market;
- **Aliyah Assistance** - As part of the collaboration between the bank and the Nefesh B'Nefesh organization, which has aided the successful immigration of over 25,000 Olim (new immigrants) from the United States, Canada, and Britain, the board of management launched an exciting new community activity, in cooperation with the employees' union: assistance for families of Olim in their first months in Israel. The families involved in this project met and connected with the Olim families, in some cases even before they reached Israel, through a special social website set up for this purpose. In addition, shared events were held for the employees' families and the Olim families, including one-day trips and activities to get to know the land, culture, and language of Israel, fully financed by the bank;
- **Sponsorship of the Milbat Foundation** - The bank sponsored an event held to celebrate the thirty-year anniversary of the non-profit organization Milbat, which works to raise the level of independence of children and adults with disabilities. The event included a tour of an exhibition of selected projects, initiated by the foundation, for the development of products for special-needs populations. Participants in the exhibition were professionals and students in the areas of design, engineering, rehabilitation, and electronics, as well as disabled persons who had developed unique devices to enhance the well-being of a target group. Products displayed at the exhibition included a pen that attaches to a finger, a voice system to locate products when grocery shopping, a wheelchair for dogs, and more. The event, MC'd by the Honorable Judge (retired) Dr. Eliyahu Winograd, culminated in the announcement of the establishment of a new research and development center and an award ceremony for the winners of the competition, sponsored by the bank;
- **Conferences in the Negev and Galilee Regions** - As part of the annual cooperation between the bank's corporate banking area and the Manufacturers' Association, a conference on "The Currency Wars - Implications and Practical Coping Tools" was held in June 2011 for industrialists from the Negev region. At the Arab Business Council held in Nazereth in May, the Chairman of the Board of Directors announced the continuation of the scholarship program for Arab-Israeli students and expansion of the activity of non-profit organizations working with the Arab-Israeli community.

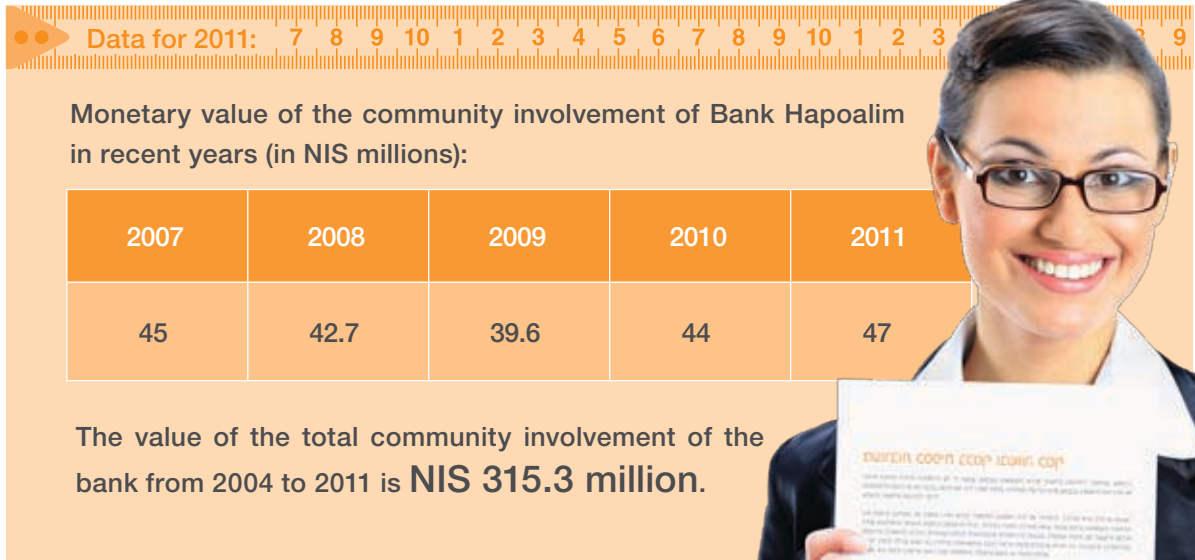


Bank employees welcoming new olim

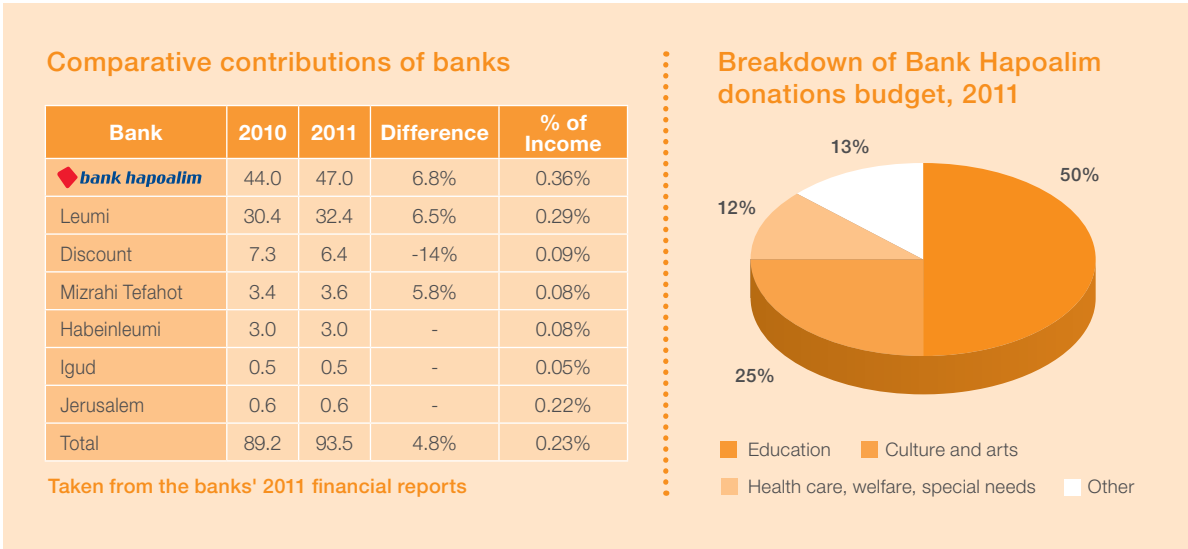
FINANCIAL AND EQUIVALENT CONTRIBUTIONS

Assistance to the numerous organizations supported by the bank is delivered through the Poalim for the Community Forum. The Forum, which consists of senior executives, manages all of the bank's donations according to criteria established in the policy of the Poalim for the Community (Registered Non-Profit Organization) foundation.

As in previous years, the foundation made contributions in many different areas in 2011, including assistance to children and youth, reinforcement of disadvantaged population groups, and support for institutions in the areas of education, culture, welfare, health care, and science. The bank provides aid through the foundation for higher-learning institutions, scholarships for disadvantaged university students and schoolchildren, realization of educational enrichment and advancement initiatives for children and youth, and assistance for children who are hospitalized and need special support to make progress academically. The bank does not donate money or equivalents to political parties, politicians, or political institutions.



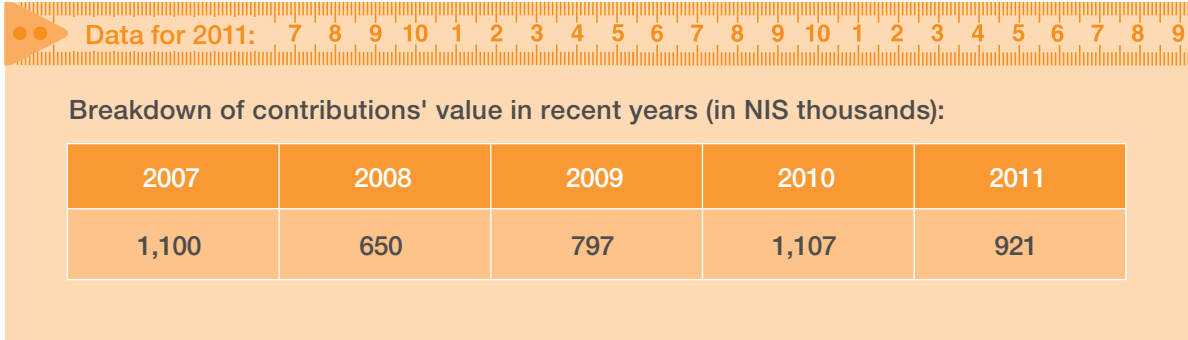
As in recent years, in 2011 Bank Hapoalim made more community contributions than any other bank in Israel, accounting for half of the aggregate total. Bank Hapoalim's community contributions totaled NIS 47 million in 2011, up 6.8% from 2010. Community contributions constituted 0.36% of the bank's revenues, the highest rate of any Israeli bank.



Donations of Computers

Recognizing the great importance of investment in technological equipment for the education and advancement of children and youth, the bank donates large numbers of computers and related equipment each year. The bank's IT division is responsible for computer donations, through the technology administration. The process of donating computers is conducted in a similar manner to any business process at the bank: professionally and objectively, with a continual effort to attain optimal service and operating efficiency. **In 2011, the bank donated approximately 1,173 items of computer systems and auxiliary equipment, at a value of NIS 921 thousand.**

The monetary value of the computer systems donated by the bank in 2007-2011 is approximately NIS 4.6 million.



POALIM FOR THE COMMUNITY

Committed through Our Strategy and Vision



As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives.

This involvement, implemented through Poalim for the Community (Registered Non-Profit Organization), is part of an advanced managerial approach stating that an organization that operates within the community, and draws both its employees and customers from it, should take a leading role in the advancement and improvement of conditions for all members of the community, especially those who are underprivileged. In the spirit of this business philosophy, the bank conducts a varied and extensive range of community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities in which both members of management and employees participate. Activity on behalf of the community is an important factor in cultivating employees' sense of pride and cohesion. As noted, the bank's community-oriented activity is organized within the Poalim for the Community foundation. Ms. Shelly Amir, head of community relations at the bank, is responsible for this activity.

Creating Strategic Partnerships

Bank Hapoalim exercises its community involvement through nationwide projects, including projects targeted to geographical, economic, and social peripheries, with the assistance of experts in the understanding of community needs. These projects strive to realize the underlying philosophy of the principles of socio-community development. The distinction between aid and socio-community development is an important one; such development is based on the following principles:

- Focus on a core issue closely related to the bank's essence and crucial to Israeli society;
- Long-term projects, rather than temporary action;
- Measurement of the project according to the effectiveness of attainment of its objectives, with conclusions drawn and implemented throughout the course of the project;
- Strategic partnerships with additional parts of the community, including professional partners, rather than stand-alone projects.

The bank maintains strategic partnerships with a range of leading community organizations. These include collaborations with the ORT network of science and technology schools, museums, the National Parks Authority, the Israel Association of Community Centers, the Batsheva Dance Company, the Israel Philharmonic Orchestra, the Israel AIDS Task Force, and the IDF. The bank also collaborates with a large number of non-profit organizations on unique projects in each of their fields.

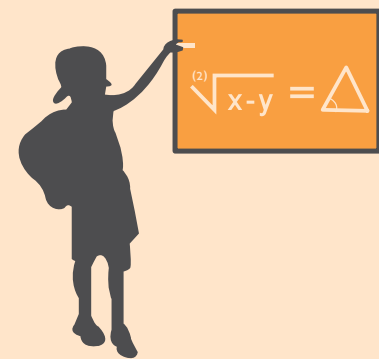
Notable organizations include Hayim - For Children with Cancer in Israel, Etgarim (Challenge), Paamonim - The Responsible Way, Lasova (hunger prevention), Latet - Israeli Humanitarian Aid, Beit Issie Shapiro, ELEM - Youth in Distress in Israel, Beterem - Safe Kids Israel, The Council for a Beautiful Israel, and Be-Atzmi - Employment for Youth at Risk.

Promoting Educational Projects

The key focus of the bank's community activities is education. About 50% of the budget of the Poalim for the Community Forum is dedicated to activities in the area of education.

Poalim from Three to Five Project

Bank Hapoalim, through the ORT Alumni Association, is participating in the effort to help students with lower socioeconomic backgrounds improve their academic achievement in scientific and technological subjects. Poalim from Three to Five is designed to promote a vision of social change, in which geographically remote communities in northern and southern Israel are brought closer to academic centers, with a substantial increase in the number of students from these areas who take matriculation examinations in mathematics and sciences. The aim of this effort is to help reduce social inequalities. The project includes students in grades 9 through 12 from Israel's Jewish, Arab, Bedouin, and Druze communities.



8,406 STUDENTS HAVE PARTICIPATED IN THE PROJECT

Since its launch, 8,406 students in 1,052 groups have participated in the From Three to Five Project.

Read & Succeed

Starting in 2004, the Poalim for the Community Forum has led a focused initiative aimed at changing the reading habits of Israeli children and youth. This project continued in 2011. The Read & Succeed

project includes a public informational campaign, distribution of books, funding of story hours throughout Israel, activities during National Book Week, and collaboration with the Children's Channel and other media.

Read & Succeed in the Arab-Israeli Sector

After launching Read & Succeed for the Jewish religious sector last year, in 2011 the bank expanded the project's reach with the introduction of Iqra Tinajah - Read & Succeed in Arabic. The launch event was held on July 10, in Umm al-Fahm, and was attended by Bank Hapoalim chairman Yair Seroussi, MK Dr. Afu Agbaria, deputy mayor Mustafa Ghalin Mahajneh, and dozens of businesspeople, educators, Arab-Israeli sector activists, and senior executives of the bank. The bank held book fairs in sixteen Arab-Israeli communities throughout Israel, offering ten children's books for NIS 10 per book. The books on sale at the fairs included Arabic translations of the best global literature for children as well as original children's literature by Arab authors.



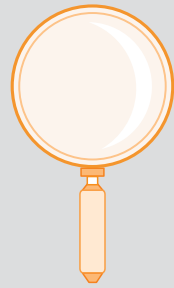
The Read & Succeed event, in Umm al Fahm

The Mobile Library

This project, launched in early 2010, continued in 2011, in cooperation with the Key Books Foundation. The project consists of mobile lending libraries housed in trucks that travel throughout Israel, allowing children and youth to enjoy a wealth of children's theater, creative writing workshops, lectures, story hours, and enrichment classes.

National Book Week

During National Book Week in June 2011, a storytellers' tent called the Read & Succeed World was erected in Rabin Square in Tel Aviv, for the seventh consecutive year. The tent hosted story hours and conversations with authors during the afternoon hours, tailored to different age groups. Over the course of ten days, the activities in the tent attracted great interest from parents and children visiting Book Week and hosted 500-600 children and parents each day.



A PASSWORD FOR EVERY STUDENT

As part of its support for technology integration in education, in 2011 the bank joined the educational initiative "A Password for Every Student," which combines education and today's technology as a way of acquiring learning and developing abilities. Within its support for this project, the bank has adopted ten schools in communities in need of special reinforcement throughout Israel (Mitzpeh Ramon, Ramla, Acco, Kiryat Gat, and more) for the next three years. The first school supported by the bank through this program is Sapir in Lod, which will serve as an initial model for a school equipped and connected for the twenty-first century digital age. Goals of the project: to create a technological infrastructure allowing all users to work and create using a central portal, from any location; to assimilate a view of the school as a computerized organization; and to create a computerized educational environment within the school.

Objectives:

- **A computerized organization** - Use of computers as a communications tool, development of the school portal as a component of the computerized organization, and mastery of basic computer skills and software;
- **Computerized education** - Creation of class sites for social and educational purposes, computerized activities, and a shared pool of educational materials;
- **Collaboration** - Promotion of collaboration among all users of the computer systems: teachers, students, and parents;
- **Independence** - Making schools independent as computerized organizations managing a computerized learning environment.

Financial Literacy in Secondary Schools at the ORT Network

Bank Hapoalim, in collaboration with the ORT Israel Development Center, offers a program of study for secondary-school students designed to provide personal financial education, teach skills that students will need as independent adults, and impart the tools and knowledge necessary to make sound personal financial decisions. The program consists of fifteen hours of instruction, with a blend of face-to-face teaching and virtual learning, in ten self-contained modules covering subjects such as investment, savings, income, smart consumerism, money and means of payment, personal budget management, bank accounts, and the capital market.

Adoption of the Zeil ORT Multidisciplinary Center in Lod

In 2011, the bank continued the program in which it adopted the Zeil ORT School in the city of Lod, launched in 2010 through its IT division. The adoption is a long-term commitment aimed at promoting educational activities, especially in the area of technology. This project is part of a wide-ranging, unique relationship with the 190 educational institutions of ORT Israel.

The goal of this multi-year project is to make the multidisciplinary center a city leader, improve the center's environment and infrastructures, promote wellbeing and the community, and increase the number of students joining the center. Elements of the project include assistance in funding for all-day childcare at the school, improved infrastructure, technological equipment, establishment of an Excellence Center, assistance for weaker students, and more.

The systemic assistance provided to the center reflects the bank's range of business capabilities, including the following initiatives:

- Establishment of a long-term thinking group on raising resources for the school, from the bank and from other sources;
- Involvement of the school's staff in the bank's professional training center in Shfayim, for professional advancement and professional and personal enrichment experiences for teachers;
- Personal coaching in management offered to the school's principal by the bank;
- A five-year plan formulated for improvement of the physical appearance of the school, with the help of bank employees who have volunteered to assist improving infrastructure, who visit once every few months and help with gardening and painting;
- Participation by bank employees in a wide range of activities of their choice in areas such as poetry, sports, healthy lifestyles, etc.

In 2011, the bank continued to provide comprehensive support for this program throughout the year. This activity included guidance for students in the school's core technological subjects, enrichment lectures, mapping of the school's needs with an emphasis on technological equipment, and joint activities by employees and students to contribute to the community and promote education, through various events related to school activities, holidays, and Israeli heritage.

Promoting Culture and the Arts

The philosophy of Poalim for the Community places special emphasis on assistance in the area of culture and the arts. Each year, the bank contributes to the promotion of culture and the arts through donations and sponsorships. As part of this effort, the bank provides assistance to museums throughout Israel. The bank also provides support through multi-year agreements for internationally recognized cultural institutions committed to leadership and excellence in their field. For example, the bank supports the activity of the Batsheva Dance Company through three-year scholarships for dancers, and supports the Israel Philharmonic Orchestra and the Cameri Theater under three-year and five-year agreements respectively. The bank also holds art exhibits at its Head Office building, with revenues devoted to the various foundations that participate in this initiative.



The Israeli arts exhibition in the head office building

Poalim for Culture and Nature in Israel

Since 2005, Poalim for the Community has conducted a special project each Passover, in which all Israelis are invited to visit a variety of sites throughout Israel free of charge during the holiday week. In 2011, 50 sites were included in the project. Bank Hapoalim believes that closeness to our heritage and culture is of the utmost importance, and has therefore resolved to make it possible for parents and children throughout Israel to travel during holidays and enjoy a variety of sites all over the country at no cost, while promoting culture and the arts.

Welfare and Health Care

Poalim for the Community is involved in various community activities through community-oriented sponsorships, primarily encouraging excellence in sports, funding cultural events, and assisting health-care institutions. The numerous projects led by the bank in the areas of welfare and health care this year include the following:

Exhibitions Dedicated to Community Causes

The internal space of the bank's head office building resembles a museum, with open galleries on

every floor. For several years, the bank has arranged exhibitions in this building as fundraising efforts for important community causes. The exhibitions are professionally curated, transforming the building into a museum for the duration of each show. The bank leverages its system of social and business relationships to bring an audience of stakeholders and donors to these events.

Non-Profits Exhibition

For the sixth year, the bank invited the Israeli public to buy holiday gifts sold by non-profit organizations that offer products lovingly handmade by children, adolescents, and adults with special needs and disabilities. All income from the sale of these products is dedicated to the activity of the foundations. The creations offered for sale include paintings, photographs, sculptures, furniture, toys, handicrafts, potted plants, rugs, Judaica objects, music CDs, jewelry, clothes, wine, chocolate, cakes and cookies, organic food products, and more.



Zion Kenan, the bank's CEO visting the art's exhibition

Israeli Art Exhibition for the Israel AIDS Task Force

This exhibition, in memory of Leah Rabin, one of the earliest supporters of the battle against AIDS, was held for the twelfth year at the bank's head office building. Artwork donated by hundreds of artists was displayed. All of the funds raised through the sale of the artwork at this event, in the amount of NIS 1.6 million, are devoted to the Israel AIDS Task Force.

LOOKING AHEAD

- In 2012 the promotion of financial freedom through financial assistance, guidance, and training as well as the development of initiatives and support groups for specific target groups, such as the Ultra-Orthodox sector and the Arab-Israeli sector would continue;
- Creation of the Bankopedia website for information, enrichment, and education of the general public on banking and financial subjects.

2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- 756 students, of which 20% were minorities, participated in the From Three to Five project in the current school year (2011-2012). This year, the project included 93 groups at 27 schools in 17 towns;
- The number of schools participating in the Financial Literacy program grew from 30 in the 2010-2011 school year to 50 in 2011-2012;
- The Read & Succeed World tent at National Book Week 2011 hosted 5,000 children and parents. The tent, targeted to a range of age groups, was set up at Rabin Square in Tel Aviv during National Book Week and hosted story hours and conversations with authors each afternoon;
- The Read & Succeed mobile library program added a mobile library in Kiryat Shmona, in addition to the financing of the town library;
- In the joint project with Nefesh B'Nefesh (Soul To Soul), dozens of bank employees welcomed hundreds of new immigrants at Ben Gurion Airport during the year;
- For the seventh consecutive year, the bank distributed Israeli flags in honor of Independence Day, in recognition of the importance of the unifying and shared dimensions of Israeli society. The flags, all made locally in Israel, were manufactured by various suppliers, including Hameshakem, which employs 2,700 workers with disabilities, in 40 Israeli towns including development regions and border communities.



Story telling in the bank's Read & Succeed world tent, during the the national book week, 2011

VOLUNTEERING

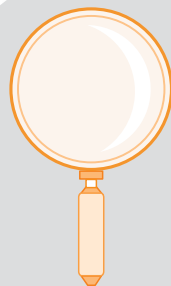
The bank has established a nationwide network of volunteers, encompassing thousands of employees from various parts of the country. The frequency and type of volunteer work vary widely among the units, with weekly, monthly, or quarterly activities, or activities held on holidays. Bank Hapoalim has the widest geographical deployment among the financial organizations in Israel. This enables to respond to the needs of local communities and adopt activities on a local basis, so that the local branch of the bank becomes a center for aid to the community or assistance during various types of crises. Employees volunteer in their spare time, some privately and independently, and some with the leadership of the bank, in collaboration with the various foundations.



MANAGEMENT OF VOLUNTEER WORK

This year, the board of management made a decision, in line with the bank's vision and as a strategic step, to promote volunteering through integrative management of this area. As part of this process, a new organizational structure for volunteer work is gradually being constructed. This structure includes the following components:

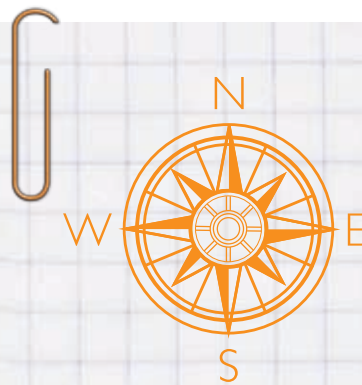
- **Senior manager** - Appointed within the bank to hold overall responsibility for management of this area;
- **Steering committee** - Provides strategic support within the new structure through the exposure and selection of models and of potential strategic partners in the community; formulates policies for recognition and appreciation of volunteers, marketing of the activities in the organization, and recruitment of volunteers;
- **Core social leaders** - 46 leaders to be selected by division/region heads, responsible for promotion of the Poalim Volunteers program and its goals and objectives in their division/region, development and management of partnerships and volunteering programs on the regional and local level with community partners, motivation of employees, and management and guidance of the network of social leaders;
- **Social leaders network** - 400 leaders to be selected by department and branch heads, serving direct liaisons to all employees and leading the volunteering drive at the level of the units and branches;
- **Retiree social leader** - Leads volunteering by retired employees of the bank, in cooperation with the retirees' union; responsible for involving thousands of bank retirees in routine activity on behalf of the community.



The new organizational structure promotes volunteering as a core activity of the bank and will allow management, absorption, measurement, control, and guidance of the volunteering system. These activities will make it possible to create a volunteering infrastructure and to better integrate a large number of employees and units into volunteer work and community activities, on the national and regional level, according to community needs. This process will also serve as a practical expression of the creation of maximum value in community-oriented activities through the realization of core capabilities in the various projects.

Promotion and management activities performed in this area include:

- Mapping and diagnosis of community activities currently conducted at the bank;
- Discussion of fundamental questions to formulate the bank's policies on community involvement;
- Formulation of criteria for the selection of headline social issues;
- Formulation of policies on project positioning, including the aspects of the public, marketing, public relations, communication to customers, and more;
- Guidance, monitoring, and supervision of activities and development of plans.



LOOKING AHEAD

- Creating a volunteering site within the organizational portal, to include information about volunteering opportunities, personal experiences of employees from these activities, reports on appreciation and commendation events, and reports on award ceremonies for outstanding community volunteers;
- Strengthening relationships and cooperation with other community organizations, such as Youth Business Leadership, the Reut community mental health foundation, Hinuch Lepsagot (College for All), the Gvachim foundation, and more;
- Building infrastructure for a management system to allow qualitative and quantitative measurement of volunteering at the bank;
- Development of the Synergy program to involve executives as members of the governing boards of foundations.

2011 in Numbers: 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- It is estimated that the employees volunteered a total of 160,000 hours to the community;
- Hundreds of employees received professional training this year to enable them to provide classes, as volunteers, on financial education, advice on family budget management, and financial enrichment for small businesses. Some of the courses were held during the year;
- During the Jewish holidays, 1,300 employees participated in activities in several locations: distributing gifts at hospitals, elder care homes, and after-school childcare programs; assembling food packages in Bnei Brak and Jerusalem; helping to transport food in Jaffa; and picking vegetables on agricultural farms;
- During Hanukkah and Christmas, 1,000 employees distributed gift packages at hospitals, at elder care homes in Jaffa, to children in after-school childcare programs, and to children and adults with special needs throughout Israel;
- Before the beginning of the 2011-2012 school year, 80 bank employees worked to paint group homes for children at risk in Carmiel, Horphish, Kibbutz Farod, Hacfar Hayarok, Ramat Gan, and Rishon Lezion;
- 41 courses on financial and general subjects were conducted by employees in 38 schools, in cooperation with the Different Lesson foundation;
- About 1,400 employees volunteer on a regular basis. This activity has been conducted over the course of the last five years;
- As part of the Poalim Volunteers effort, the Good Works Day was held for the fifth time in April 2011. Over 1,500 employees participated in volunteer activities during the work day.



Bank employees in various volunteering projects

ASSIMILATING THE ETHICAL CONDUCT CODE

In 2004, Bank Hapoalim adopted an ethical code addressing the values of accountability, trust, integrity, and respect. The ethical code defined the relationship between employees and their environment - the bank, other employees, customers, and the community. The ethical guidelines stress employees' respectful behavior towards their environment and the commitment of the bank to treat employees fairly and respectfully. In 2009, the bank carried out an update of the code, in which the phrasing was renewed, content was expanded, and the code became a global ethical code. In 2010, the code was officially launched for the employees of the bank. The process of assimilating the code was conducted on three organizational levels: the individual level, the level of leading forums, and the level of the organization. This process was aimed at reinforcing the status of the code as a significant element of the bank's organizational culture. The ethical behavior code is divided into four sections:



- My work at the bank - Defines the relationship between the bank and its employees;
- Customer relationships - Defines the relationship with the customers of the bank;
- Relationships with external parties, suppliers, and competitors - Defines the relationship with external parties, suppliers, and competitors;
- Promoting the environment, society and community in Israel - Deals with the bank's social involvement, environmental responsibility, employee quality of life and welfare services and the bank's customers' wellbeing.

An organizational structure has been established in order to promote a culture of conduct congruent with the content of the ethical code, including work processes and reporting channels in this area. Within the new structure, the head of the Human Resources, Logistics and Procurement Area has been appointed the head of ethics at the bank. Areas within her purview include matters related to the update and absorption of the ethical code, such as training and learning processes, the creation of a channel for inquiries by employees, and more. An ethics committee has been established at the bank, headed by the head of ethics. The committee's role includes:

- Discussing ethical issues raised by employees through the various reporting channels at their disposal;
- Discussing cases of violation of the code;
- Assisting in the development and absorption of the ethics plan.

The committee is authorized to resolve ethical dilemmas and issues raised by employees, and to make decisions regarding disciplinary measures in cases of ethics violations. The committee consists of senior executives from the various areas of the bank. In addition, an officer responsible for ethics was appointed at the Human Resources Division, in the Leadership and Organizational Development Unit. Among other matters, the ethics officer coordinates the activity of the committee and helps assimilate the code; the officer is responsible for processing employee inquiries regarding ethics and ensuring

that such inquiries are transferred to and addressed by the authorized parties at the bank. In order to ensure that employees who submit inquiries are protected and are not harmed as a result of their report, the organizational portal offers the option of sending an anonymous message directly to the ethics officer.

2011 Summary: 7 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9

- The bank's ethical code was updated during the year. The update was carried out in the area of fairness in internal work relationships between employees of the bank;
- All employees of the bank reviewed the content of the code, through a tutorial, and were required to take a knowledge test at the end of the process;
- The bank's ethics committee began to work actively and identified ethical issues in audit reports of the bank and issues from daily life at the bank;
- A procedure for inquiries on ethical matters was written, describing the contact channels and addresses for consultation or reports regarding ethical dilemmas;
- Employee inquiries regarding ethics were responded to and addressed routinely;
- A meeting of the ethics committee was held, with the participation of senior executives of the bank, in which the committee resolved to address ongoing ethical matters;
- In 2011, the bank created an ethical code relevant to contractor employees in the areas of security, cafeteria services, and cleaning working at its facilities, in collaboration with its contractors. Subsequently, this code was communicated to all contractor employees working on the bank's premises (for details, see the Community section).

LOOKING AHEAD

In 2012, as part of the process of assimilating the ethical code, a refresher program will be conducted, through a tutorial on the ethical code and a game, at the various units of the bank.

THE BANK'S PROFILE

The Bank was founded in 1921 by the central institutions of the Jewish Settlement (the Yishuv) at the time, the Zionist Histadrut and the Histadrut General Federation of Hebrew Workers in Eretz Yisrael, and incorporated as a limited company under the Companies Ordinance. The Bank is a "banking corporation" and holds a "bank" license under the directives of the Banking Law. In 1983, within an arrangement formulated between the Israeli government and the banks, the shares of the Bank were brought under the control of the state. The Bank was privatized in 1997, with the controlling interest transferred to the current controlling shareholders and others.

Information of the Bank in Israel (excluding subsidiaries) for December 31 st , 2011	
Headcount (incl. external personnel)	11,085
Total profit (Profit from financing activity and operating income) for 2011 (unified)	13,083 Million NIS
Equity	23,845 Million NIS
Total capital to risk-adjusted assets	14.1%
Shareholders' equity to total assets	6.7%

Activities of the Bank Group in Israel

The Bank Group operates in Israel in all of the various areas of banking through two main units: the Corporate Area and the Retail Area.

The Corporate Area provides service to most of the Bank's business customers; activities with large corporate clients are conducted through sectors specializing in specific industries, which operate within the Head Office, while middle-market clients are served through eight Business Centers located throughout Israel.

The various banking services are provided to all customers of this Area through the Bank's branches. A network of business branches was created in response to customers' business needs, consisting of 21 branches as at the end of 2011; additional branches are planned to open during 2012. The Retail Area, through the network of branches, serves customers including households, private banking clients, and small businesses; is responsible for operating direct-channel services: Internet services, Poalim by Telephone, and mobile services; and also oversees consumer credit and mortgage activities. The Retail Area operates through 277 branches, which provide the full range of banking services.

In addition to its banking business, the Bank Group also engages in related activities, mainly in the areas of credit cards and the capital market. In the credit-card sector, the Bank Group, through a subsidiary (the "Isracard Group"), issues, operates, and markets credit cards, within and outside the Bank, for use in Israel and overseas, and clears transactions executed using its credit cards as well as credit cards issued by others. The Bank Group's capital-market activity includes the provision of services for the execution of trading transactions in securities (brokerage), securities custody services, research and consulting, services for financial asset managers, investment portfolio management, and issuance underwriting and management.

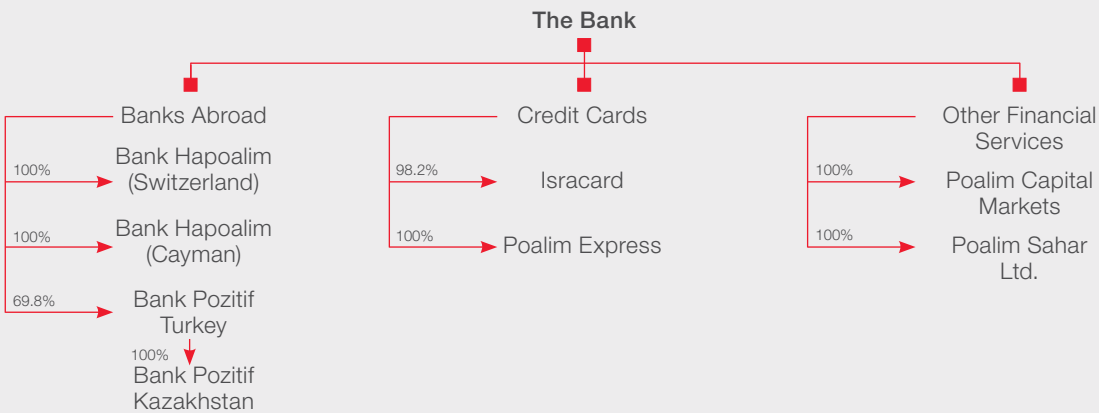


Activities of the Bank Group Abroad

Alongside its activities in Israel, the Bank Group also operates overseas, in the private-banking sector and in the corporate sector. This activity encompasses Israel, Europe, the United States, Canada, Latin America, Australia, Hong Kong, and Singapore, by means of branches, representative offices, banking subsidiaries, and asset-management subsidiaries.

The Bank Group also operates in the households sector and in the commercial sector in Turkey and Kazakhstan. In its private-banking activity, the Bank Group provides its high-net-worth customers abroad with advanced professional products and services, including investment products and global asset management. Corporate sector activity abroad includes the provision of credit to local and foreign borrowers, mainly through the acquisition of participation in credit organized by leading banks abroad; the provision of credit to borrowers with an affinity to Israel; and investments in bonds. As part of its international activity, the Bank Group maintains ties with over 2,400 foreign banks around the world (hereinafter: "correspondent banks"). The Bank's strategy is currently aimed at the development and expansion of its international activity, both in the area of Global Private Banking and in the business activities of its London and New York branches. The Bank aims to continue to expand its service package and improve its capabilities in the areas of products, marketing, and customer service.

Set out below is a chart of the Bank's main holdings*:



The chart includes the principal companies held directly by the Bank or indirectly through private subsidiaries under the full ownership of the Bank. The wholly-owned subsidiaries through which the companies in the above chart are held do not appear in the chart. For the purposes of this chart, a principal company is a company engaged in business operations which in the opinion of the Board of Management of the Bank is a principal company in the Group, and in which the Bank's investment is at least 1% of the shareholders' equity of the Bank, or the Bank's share of whose net operating profit (loss) attributed to shareholders of the Bank exceeds 5% of the net operating profit (or loss) attributed to shareholders of the Bank (similar to the criterion established in Public Reporting Directive No. 662 of the Supervisor of Banks regarding the statement of data on principal subsidiaries in financial statements of banking corporations).

Rating of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

In Israel, in local currency, the Bank is rated AA+ by S&P Maalot Ltd. and Aaa by Midroog.

In August 2011, the rating agency Midroog published a rating of Aaa for long-term deposits and P-1 for short-term deposits of the Bank, for the first time. These ratings are the highest possible for a financial institution in Israel.

Ratings of the Bank and of Israel by the international rating agencies:

	Rating agency	Long-term Foreign currency	Short-term Foreign currency	Rating outlook	Last update
Israel - sovereign rating:					
	Moody's	A1	P-1	Stable	April 2011
	S&P	A+	A-1	Stable	September 2011
	Fitch Ratings	A	F1	Stable	May 2011
Bank Hapoalim:					
	Moody's	A2	P-1	Stable	April 2011
	S&P	BBB+	A-2	Stable	December 2011
	Fitch Ratings	A-	F2	Stable	June 2011

Control of the Bank and Legal Organization

The holder of the permit for control of the Bank, near the date of publication of the financial statements, is Ms. Shari Arison. Her stake in the Bank is held through several trusts that have holdings in the Israeli companies noted below, which own shares of the Bank.

Arison Holdings (1998) Ltd. ("Arison Holdings") holds shares comprising approximately 20.20% of the Bank's share capital near the date of publication of the financial statements, which constitute the "controlling interest" of the Bank (as defined in the control permit issued by the Governor of the Bank of Israel). Arison Investments Ltd. (a sister company of Arison Holdings; hereinafter : "Arison Investments"), through a wholly-owned subsidiary, holds the entire share capital of Salt Industries Ltd., which holds shares comprising approximately 2.40% of the share capital of the Bank. Near the date of publication of the financial statements, the Arison Group (through Arison Holdings and Arison Investments) holds a total of approximately 22.60% (22.37% fully diluted) of the share capital of the Bank.

The issued and paid-up share capital of the Bank, as at December 31, 2011, is NIS 1,323,805,735 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital following the subtraction of 5,183,853 ordinary shares purchased by the Bank, as detailed below:

- In 2011, and up to the date of publication of the financial statements, an increase of approximately 5,296,168 ordinary shares occurred in the issued and paid-up capital of the Bank, as a result of the conversion of 5, 296,168 options allocated to employees of the Bank under the plan from May 2004. The remaining option notes granted to employees of the Bank under this program amount to 7,146,954 option notes;
- The last packet of options pursuant to the extension plan of September 30, 2009, consisting of 4,332,998 share option notes, was allocated in February 2012. Near the date of publication of the Financial Statements, 12,526,743 option notes had been allocated and not yet exercised; these options will be converted into shares, as described above, from the pool of shares to be purchased for this purpose.

CORPORATE GOVERNANCE

As a part of the banking system in Israel, Bank Hapoalim operates in a broad legislative environment including primary legislation, standards, and regulations with which the bank is obligated to comply: the Banking Ordinance, the Bank of Israel Law, the banking laws concerning licensing and customer service, the rules of the governor of the Bank of Israel, directives of the Supervisor of Banks, and more. All of these regulate the activities of the bank on various levels, including requirements with respect to its capital and ways of managing capital, exercise of internal and external auditing, and the areas in which the bank is permitted to engage. According to the Companies Act, shareholders can suggest discussion issues for the next general meeting. Bank employees are able to appeal to the bank's board according to the bank's procedures and legal requirements.

The Board of Directors: Composition, Activity, and Committees

The board of directors of the bank operates in accordance with corporate governance guidelines established by law, including the Proper Conduct of Banking Business Directives of the Bank of Israel, the SOX Act, and more. The bank implements all of the directives set forth in the legislation, standards, and regulations with regard to the prevention of conflicts of interest within the board of directors. As part of the separation of duties required between management in practice and the formulation of policy and supervision, the chairperson of the board of directors does not serve as an executive at the bank. Directors of the bank are selected pursuant to the directives of Israeli law - the Companies Law, 1999, and the derived regulations; the Securities Law, 1968; and the Proper Conduct of Banking Business Directives of the Bank of Israel - as well as the articles of the bank.

According to Israeli law, a director of a bank is required to be an individual with knowledge, experience, or expertise in one or more of the following areas: banking, finance, economic or business activities, law, management, or accounting.

The financial expertise and professional qualification of directors are evaluated by the board of directors. The range of considerations include the director's education, experience, and knowledge in areas and issues related to the activity of the bank, as detailed in the Companies Regulations (Conditions and Tests for Directors with Accounting and Financial Expertise and Directors with Professional Qualification), 2005.

An application to appoint a director, with a declaration filled out by the director, pursuant to Proper Conduct of Banking Business Directive No. 301, is sent to the Supervisor of Banks for review; the appointment of the director is subject to advance approval by the Supervisor of Banks.

●●

Data for 2011: 7 8 9 10 1 2 3 4 5 6 7 8 9 10 1 2 3 4 5 6 7 8 9


■ As of the end of 2011, the board of directors of Bank Hapoalim consisted of 15 members, including 4 external directors, as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel, and 2 additional external directors, as defined in Section 240 of the Companies Law.

■ As of the reporting date, the number of directors with "accounting and financial expertise" and "professional qualification," according to their education, skills, and experience, in accordance with the requirements of the Companies Regulations, is 15. The number of directors with "accounting and financial expertise" and "professional qualification" who are members of the audit committee of the board of directors is 5, in accordance with the requirements of the Companies Law, 1999, and the regulations.

The Board's Composition

Men	Women	Total
10	5	15

THE BOARD OF DIRECTORS HELD 41 MEETINGS IN 2011



In the course of 2011, the Board of Directors held 41 meetings in plenary session and 203 meetings of its committees.

The Board of Directors and its committees

During 2011, the Board of Directors of the Bank continued its work of formulating strategy, policy, and fundamental principles for the activity of the Bank in Israel and overseas, while establishing guidelines on various matters, in accordance with the requirements of updates in legislation and in accordance with the new Directive 301 of the Bank of Israel. As part of this process, the Board of Directors set forth policy for the activities of subsidiaries in Israel and abroad, limits for exposure to various

risks, bond issuance, share capital issuance, execution and realization of fixed investments, and the execution of buyout offers and mergers. The Board of Directors addressed the approval of the quarterly and annual financial statements; dividend distribution policy; the organizational structure of the Bank; establishment of policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and supervision and control over ongoing business operations executed by the Board of Management and the congruence of these operations with the policies of the Bank.

The directors' duties under the law are uniform for all types of directors. The basic duty is to act in the best interest of the company. These duties include the duties of care, the fiduciary duties, the corporate governance duties, the avoidance of conflicts of interest, and other duties applicable to boards of directors, by law and pursuant to the directives of the Bank of Israel.

The plenum of the board of directors receives and discusses routine reports regarding execution plans in the area of sustainability and corporate social responsibility at the bank. The reports and discussions include both status reports on the bank's progress in this area, under its CSR plan, and discussion and approval of future work plans. In addition to the discussions by the plenum of the board of directors, the activity of the members of the board of directors of the bank is conducted through the committees.

The management and senior executive remuneration program links between the bank's long-run overall business performances and the remuneration paid, based on risk adjusted profit and the capital price.

The program sets a negative bonus for goals not met, as well as a long-term payment spread mechanism, in order to discourage risks beyond the bank's risk appetite. The annual bonus is based on the bank's performance (reflecting the management's responsibility to the banks overall performance, beyond their specific responsibility for their division's/unit's performance),meeting personal goals (KPI's), including risk management and compliance indicators, regulatory demands and procedures and supervisor assessment. In addition, part of the management bonus has been given since 2010 in the form of Blocked Stock, with a blocking and ripening period of a few years. This mechanism creates a long-term link between the management's remuneration and the other stakeholders, and does not encourage assuming excessive risks, as option based mechanisms, common in some companies in Israel and around the world, may do.

Board of Directors Meetings in 2011

Name of the committee	Members of the committee	No. of meetings
The Credit Committee	Y. Seroussi - Chairperson, I. Izakson, M. Baron, N. Dror, I. Tov, and M. Koren.	48
The Transactions with Related Parties Committee	M. Baron - Chairperson, N. Dror, I. Tov, and M. Koren.	48
The Audit Committee	N. Dror - Chairperson, M. Baron, N. Zichlinsky, I. Tov, Y. Yarom, and Y. Peer	32
The Human Resources - Salaries and Remuneration Committee	Y. Seroussi - Chairperson, A. Dick, N. Dror, I. Tov, E. Peled, and M. Koren.	21
The Risk Management and Control Committee	I. Izakson - Chairperson, N. Dror, I. Tov, Y. Seroussi, E. Peled, and M. Koren.	15
The Overseas Banking and International Activity Committee	Y. Seroussi - Chairperson, A. Dick, M. Wietchner, I. Tov, E. Peled and N. Ronen.	7
The New Products Committee	Y. Seroussi - Chairperson, I. Izakson, M. Baron, N. Dror, and M. Koren.	7
The Corporate Governance Committee	Y. Seroussi - Chairperson, N. Dror, N. Zichlinsky, I. Tov, E. Peled and N. Ronen.	9
The Investment Approval Committee	Y. Seroussi - Chairperson, A. Dick, Y. Tauman, I. Tov, and M. Luhmany	4
The Information Technology Committee	M. Wietchner - Chairperson, A. Dick, and N. Zichlinsky.	7
The Finance and Prospectus Committee*	I. Izakson - Chairperson, N. Dror, I. Tov, Y. Seroussi, Y. Peer, E. Peled and M. Koren.	5

To read more about the bank's committees, Please see the Annual Report, pp. 210-219.

Principal Changes in the Authority and Structure of the Committees in 2011

Audit committee - On February 6, 2011, the board of directors affirmed that in addition to the roles of the audit committee, it would also discuss the periodic and annual financial statements and present its recommendations regarding the approval thereof to the board of directors. Within this process, the audit committee will discuss estimates and evaluations performed in connection with the financial statements, including with regard to doubtful debts; internal controls related to financial reporting; the completeness and fairness of the disclosure in the financial statements; accounting policies adopted and accounting treatment applied with regard to material matters; and evaluations, including the underlying assumptions and estimates, on which the financial statements are based. The committee will also examine the effectiveness of the key internal controls over financial reporting at the bank.

The resolution of the board of directors was passed in light of the directives established in the Companies Regulations (Directives and Terms for the Financial Statements Approval Procedure), 2010, and the updates of Proper Conduct of Banking Business Directive No. 301 concerning the board of directors.

Finance and prospectus committee - On February 6, 2011, the board of directors resolved to establish the finance and prospectus committee (following its decision to dissolve the balance sheet committee and the prospectus committee).

Roles of the finance and prospectus committee: To review the business performance of the bank, as it arises from the draft financial statements, and to discuss its economic implications; to discuss the accounting policies adopted on critical matters in the financial statements and the implications thereof; to discuss estimates regarding doubtful debts and material evaluations in the financial statements, while considering implications and courses of action in the area of business. Within this discussion, the committee will receive reports on problematic borrowers in Israel and at the overseas branches. The committee will also discuss dividend distribution, in accordance with the policy established by the board of directors, and make recommendations to the board of directors regarding the approval thereof; and the committee will discuss the bank's prospectuses, including shelf prospectuses and shelf offer reports, and present its recommendations regarding the approval thereof to the board of directors. The members of the committee are: I. Izakson - Chairperson, N. Dror, I. Tov, Y. Seroussi, Y. Peer, E. Peled, and M. Koren.

On August 26, 2009, the board of directors resolved to establish a committee on corporate governance. The committee discusses and makes recommendations to the board of directors regarding policies, procedures, and guidelines designed to assimilate corporate governance principles in the work of the board of directors and its committees, and to enable the bank to comply with the appropriate corporate governance principles, as adjusted to legal directives, including establishment of the bank's policy and supervision of the board of management and the subsidiaries of the bank, as required by the Proper Conduct of Banking Business Directives of the Bank of Israel.

On December 21, 2011, the board of directors resolved to revise the procedure document concerning the work of the board of directors. The document approved by the board of directors is based on three elements:

1. The first element is the legal directives concerning corporate governance. The bank's activity in this area is dictated by the provisions of the Companies Law, 1999 (the "Companies Law") and the derived regulations; the Securities Law, 1968 (the "Securities Law") and the derived regulations; rulings of the Israel Securities Authority; and the Proper Conduct of Banking Business Directives of the Supervisor of Banks.

2. The second element consists of the corporate governance rules set forth in the articles of the bank and in the permit for control of the bank, to the extent that they do not contradict unconditional legal directives.

3. The third element encompasses additional or stricter requirements undertaken by the bank of its own volition, in the recognition that the adoption of such standards can improve its conduct. These requirements are also based on the corporate governance principles expressed in the recommendations of professional organizations in Israel and elsewhere, including the corporate governance rules proposed by the Goshen Committee, which examined the corporate governance code in Israel; the first addendum to the Companies Law; and the corporate governance principles set forth by the Basel Committee.

The corporate governance rules detailed in the procedure approved by the board of directors are based on an approach in which each of the elements is intended to add to the preceding elements, rather than detracting from them. Accordingly, the board of directors has stated that in any case of discrepancy between the procedure approved by the board of directors and the binding directives established in legislation, in the Proper Conduct of Banking Business Directives, in the control permit, or in the articles of the bank, the aforesaid directives shall take precedence over this procedure.



COMPLIANCE AND PREVENTION OF MONEY LAUNDERING AND TERRORIST ACTIVITY

The responsibilities of the chief compliance officer of Bank Hapoalim are derived from Proper Conduct of Banking Business Directive No. 308, the Prohibition of Money Laundering and Terrorism Financing Law, and Proper Conduct of Banking Business Directive No. 411. The chief compliance officer unit encompasses the compliance department and the anti-money laundering department, as well as two additional units. The first is the international compliance unit, which is responsible for ensuring compliance and the prohibition of money laundering at the bank's offices outside Israel. Compliance staff at the bank's overseas branches now report directly to this unit, on both the professional and the managerial level. The second unit is an administrative unit (operations, coordination, and control), which assists the chief compliance officer with the execution of systemic and operational assignments.

The activity of the Chief Compliance Officer Unit is supervised through three channels:

- The board of directors' committee on risk management and control and Basel II implementation;
- The board of management committee on compliance, headed by the CEO;
- Quarterly and annual reports to the board of directors of the bank, the CEO, and the heads of the areas. The reports include updates on the main exposures and risk areas in the group; progress on work plans; and activities performed, including controls, mapping of knowledge gaps, organizational learning, technological and other projects in this field, reports submitted to the Israel Money Laundering Prohibition Authority, violations, and reports of exceptional events.

Upon the establishment of the chief compliance officer unit, the board of directors of the bank established a new group-level compliance policy for the bank. The new policy sets forth rules regarding all of the component areas of the prohibition of money laundering and compliance with consumer-protection directives. The policy emphasizes corporate control and the interaction with subsidiaries and branches outside Israel, based on Proper Conduct of Banking Business Directive No. 308, the Money Laundering Prohibition Law, the Terrorism Financing Prohibition Law, and Proper Conduct of Banking Business Directive No. 411. This policy took effect at the end of December 2010, and was updated in December 2011.

In order to comply with legislative directives and with the group-level compliance policy, several activities are being conducted by the chief compliance officer unit, such as: identifying the main exposures and risk areas; applying process-based, qualitative, and quantitative controls to ensure adherence to the directives that regulate relationships between the bank and its customers and the prohibition of money laundering and terrorism financing; developing training systems and knowledge management on the organizational portal; infrastructure surveys; analysis of new products and services; development of systems in the area of compliance and the prohibition of money laundering; and many other activities.

The main activities of the chief compliance officer unit in 2011 are summarized below.

The Anti-Money Laundering and Terrorism Financing Prevention Department

The anti-money laundering department is responsible for fulfillment of the duties imposed upon the banking corporation, and supervision of the execution of such duties. The department is also responsible for ensuring that the bank's policies and procedures are implemented at the group level. Within these responsibilities, a regulatory rating model in the area of the prohibition of money laundering was developed; a new system for subjective reports was developed; an abridged Know Your Customer questionnaire for transactions by walk-in customers was implemented; expanded and corporate Know Your Customer questionnaires were updated; an expanded due diligence (EDD) questionnaire was implemented in the branch network; and more.

The Compliance Department

The compliance department assists the board of management and the board of directors in fulfilling requirements in the areas under its responsibility, reducing the corporation's exposure to legal claims, and protecting the corporation's reputation. During the year, the compliance department reviewed work processes at various units; held working meetings with professional units supporting the execution of the new compliance policy; made visits to branches and regional managements; ran training sessions on matters related to consumer-protection directives, with a focus on account closures; developed a new tutorial on consumer-protection directives that regulate the relationship between the Bank and its customers; and more.

The International Compliance Unit

The international compliance unit oversees the compliance officers at the bank's overseas branches, from the professional perspective, and works to ensure that the compliance system at the subsidiaries operates in accordance with the policies of the board of directors and the local regulatory directives. In 2011, the unit continued its activities aimed at creating a uniform compliance infrastructure and procedures for communication and reporting by all units of the bank around the world. The unit worked to update the group policy document in order to resolve gaps relative to legislative directives and local standards, and performed controls in the field. In addition, upgrades of the automated control systems at the branch compliance units were completed, in order to improve monitoring efficiency and improve the ability to track exceptional activities; and more.

The Coordination, Operations, and Control Department

The coordination, operations, and control department is responsible for coordination, monitoring, and control of the activities of the chief compliance officer unit and for maintaining contact with the compliance system of the bank, among other matters. In addition, the department is responsible for managing the

Profile Disclosure	GC Principle	Description	Level	Page / Reason for Omission
3.7 (Core)	NR	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	✓	9
3.8 (Core)	NR	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	✓	The report does not refer to the bank's subsidiaries and activity abroad.
3.9 (Core)	NR	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	✓	10
3.10 (Core)	NR	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	✓	46-47, 53, 67
3.11 (Core)	NR	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	✓	23-27
3.12 (Core)	NR	Table identifying the location of the Standard Disclosures in the report.	✓	197-206
3.13 (Core)	NR	Policy and current practice with regard to seeking external assurance for the report.	✓	11-19
4. Governance, Commitments, and Engagement				
4.1 (Core)	1-10	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	✓	188-193
4.2 (Core)	1-10	Indicate whether the Chair of the highest governance body is also an executive officer.	✓	4
4.3 (Core)	1-10	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	✓	188-189
4.4 (Core)	1-10	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	✓	188
4.5 (Core)	1-10	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	✓	189-190
4.6 (Core)	1-10	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	✓	188
4.7 (Core)	1-10	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	✓	188
4.8 (Core)	1-10	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	✓	28-29, 84, 182-183
4.9 (Core)	1-10	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	✓	190
4.10 (Core)	1-10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	✓	189-193
4.11 (Core)	7	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	✓	Not relevant to bank's activities
4.12 (Core)	1-10	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	✓	30-31

Profile Disclosure	GC Principle	Description	Level	Page / Reason for Omission
4.13 (Core)	1-10	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	✓	30-31
4.14 (Core)	The Global Compact COP is part of the CSR and Sustainability Report, which is the base for stakeholder dialogue	List of stakeholder groups engaged by the organization.	✓	23-26, 68-69, 84-86, 108-109, 160-168
4.15 (Core)		Basis for identification and selection of stakeholders with whom to engage.	✓	22-23, 84, 160-168
4.16 (Core)		Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	✓	22-23, 84, 160
4.17 (Core)		Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	✓	84-85, 108-109, 160-168
STANDARD DISCLOSURES PART II: Disclosures on Management Approach (DMAs)				
DMA EC		Disclosure on Management Approach EC	✓	
	Aspects	Economic performance	✓	29, 154-156
		Market presence	✓	29, 154-156
		Indirect economic impacts	✓	29, 154-156
DMA EN		Disclosure on Management Approach EN	✗	
	Aspects	Materials	✓	29, 36-39, 40
		Energy	✓	29, 36-39, 46
		Water	✓	29, 36-39, 53
		Biodiversity	X	Not applicable: not relevant to bank's activities
		Emissions, effluents and waste	✓	29, 36-39, 57
		Products and services	✓	29, 36-39
		Compliance	✓	29, 36-39
		Transport	✓	29, 36-39, 60-61
		Overall	✓	29, 36-39
DMA LA		Disclosure on Management Approach LA	✓	
	Aspects	Employment	✓	29, 72
		Labor/management relations	✓	29, 72
		Occupational health and safety	✓	29, 72
		Training and education	✓	29, 72
		Diversity and equal opportunity	✓	29, 72
		Equal remuneration for women and men	✓	29, 72

Profile Disclosure	GC Principle	Description	Level	Page / Reason for Omission
DMA HR		Disclosure on Management Approach HR	✔	
	Aspects	Investment and procurement practices	✓	28-31
		Non-discrimination	✓	28-31, 79
		Freedom of association and collective bargaining	✓	28-31,74
		Child labor	✓	There is no child labor practice
		Prevention of forced and compulsory labor	✓	There is no forced labor practice
		Security practices	✓	28-31, 103
		Indigenous rights	X	Not applicable: not relevant to bank's activities
		Assessment	✓	28-31
		Remediation	✓	28-31
DMA SO		Disclosure on Management Approach SO	✓	
	Aspects	Local communities	✓	29, 154
		Corruption	✓	29
		Public policy	✓	29
		Anti-competitive behavior	✓	194-196
		Compliance	✓	29, 143
DMA PR		Disclosure on Management Approach PR	✔	
	Aspects	Customer health and safety	X	Not material
		Product and service labeling	✓	29, 142
		Marketing communications	✓	29, 142
		Customer privacy	✓	29, 141
		Compliance	✓	29, 143
STANDARD DISCLOSURES PART III: Performance Indicators				
Economic				
Economic performance				
EC1	NR	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	✓	155
EC2	7	Financial implications and other risks and opportunities for the organization's activities due to climate change.	✓	118-122
EC3	NR	Coverage of the organization's defined benefit plan obligations.	✓	100-101
EC4	NR	Significant financial assistance received from government.	✓	154

Profile Disclosure	GC Principle	Description	Level	Page / Reason for Omission
Market presence				
EC5 (Additional)	1	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	✓	82-83
EC6 (Core)	NR	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	✔	156
EC7 (Core)	6	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	✓	156
Indirect economic impacts				
EC8 (Core)	NR	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	✓	162-163, 166-181
EC9 (Additional)	NR	Understanding and describing significant indirect economic impacts, including the extent of impacts.	✓	156
Environmental				
Materials				
EN1 (Core)	8	Materials used by weight or volume.	✓	43, 64
EN2 (Core)	8, 98	Percentage of materials used that are recycled input materials.	✓	42, 64
Materials				
EN3 (Core)	8	Direct energy consumption by primary energy source.	✓	64
EN4 (Core)	8	Indirect energy consumption by primary source.	✓	51
EN5 (Additional)	8, 9	Energy saved due to conservation and efficiency improvements.	✓	51
EN6 (Additional)	8, 9	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	✓	43, 118-119
EN7 (Additional)	8, 9	Initiatives to reduce indirect energy consumption and reductions achieved.	✓	46-50, 164-165
Water				
EN8 (Core)	8	Total water withdrawal by source.	✓	53
EN9 (Additional)	8	Water sources significantly affected by withdrawal of water.	X	Not applicable: not relevant to bank's activities
EN10 (Additional)	8, 9	Percentage and total volume of water recycled and reused.	X	Not applicable: not relevant to bank's activities
Biodiversity				
EN11 (Core)	8	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	X	Not applicable: there aren't such areas in bank owned, leased, or managed land
EN12 (Core)	8	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	✓	68-69, The bank has no significant direct impacts on biodiversity
EN13 (Additional)	8	Habitats protected or restored.	✓	68-69
EN14 (Additional)	8	Strategies, current actions, and future plans for managing impacts on biodiversity.	✓	36-39, 68-69
EN15 (Additional)	8	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	X	Not applicable: not relevant to bank's activities

Profile Disclosure	GC Principle	Description	Level	Page / Reason for Omission
Emissions, effluents and waste				
EN16 (Core)	8	Total direct and indirect greenhouse gas emissions by weight.	✓	67
EN17 (Core)	8	Other relevant indirect greenhouse gas emissions by weight.	✓	67
EN18 (Additional)	7, 8, 9	Initiatives to reduce greenhouse gas emissions and reductions achieved.	✓	66
EN19 (Core)	8	Emissions of ozone-depleting substances by weight.	✓	67
EN20 (Core)	8	NOx, SOx, and other significant air emissions by type and weight.	X	Not applicable: not relevant: no air emissions in bank's operations
EN21 (Core)	8	Total water discharge by quality and destination.	X	Not applicable: not relevant to bank's activities
EN22 (Core)	8	Total weight of waste by type and disposal method.	✓	57-60, 62
EN23 (Core)	8	Total number and volume of significant spills.	X	Not applicable: not relevant to bank's activities
EN24 (Additional)	8	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	X	Not applicable: not relevant to bank's activities
EN25 (Additional)	8	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	X	Not applicable: not relevant to bank's activities
Products and services				
EN26 (Core)	7	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	✓	66, 118-120
EN27 (Core)	8	Percentage of products sold and their packaging materials that are reclaimed by category.	X	Not applicable: not relevant to bank's activities
Compliance				
EN28 (Core)	8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	✓	36-37
Transport				
EN29 (Additional)	8	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	✓	64
Overall				
EN30 (Additional)	7, 8, 9	Total environmental protection expenditures and investments by type.	X	Not reported
Social: Labor Practices and Decent Work				
Employment				
LA1 (Core)	NR	Total workforce by employment type.	✓	75, 82
LA2 (Core)	6	Total number and rate of new employee hires and employee turnover by age group.	✓	75-76

Profile Disclosure	GC Principle	Description	Level	Page / Reason for Omission
LA3 (Additional)	NR	Benefits provided to full-time employees that are not provided to temporary or part-time employees.	✓	77
LA15 (Core)	1, 3	Return to work and retention rates after parental leave.	✓	74
Labor/management relations				
LA4 (Core)	1,3	Percentage of employees covered by collective bargaining agreements.	✓	74
LA5 (Core)	3	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	✓	101
Occupational health and safety				
LA6 (Additional)	1	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	X	Not relevant; where isn't such a committee
LA7 (Core)	1	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	✓	105
LA8 (Core)	1	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	✓	100-101
LA9 (Additional)	1	Health and safety topics covered in formal agreements with trade unions.	X	Not applicable: not relevant to bank's activities
Training and education				
LA10 (Core)	NR	Average hours of training per year per employee by gender, and by employee category.	✓	97-98
LA11 (Additional)	NR	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	✓	88-89, 97-98
LA12 (Additional)	NR	Percentage of employees receiving regular performance and career development reviews, by gender.	✓	93
Diversity and equal opportunity				
LA13 (Core)	1,6	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	✓	74-76, 82, 189
Equal remuneration for women and men				
LA14 (Core)	1,6	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	✓	82
Social: Human Rights				
Investment and procurement practices				
HR1 (Core)	1,2,3,4,5,6	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns.	X	Not applicable: not relevant to bank's activities
HR2 (Core)	1,2,3,4,5,6	Percentage of significant suppliers.	✓	157-159
HR3 (Additional)	1,2,3,4,5,6	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations.	✓	159, 183

Profile Disclosure	GC Principle	Description	Level	Page / Reason for Omission
Non-discrimination				
HR4 (Core)	1, 2, 6	Total number of incidents of discrimination and corrective actions taken.	✓	79
Freedom of association and collective bargaining				
HR5 (Core)	1, 2, 3	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	✓	77
Child labor				
HR6 (Core)	1, 2, 5	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	✓	There is no child labor practice
Prevention of forced and compulsory labor				
HR7 (Core)	1, 2, 4	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	✓	There is no forced labor practice
Security practices				
HR8 (Additional)	1, 2	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	✓	159
Indigenous rights				
HR9 (Additional)	1, 2	Total number of incidents of violations involving rights of indigenous people and actions taken.	x	Not applicable: not relevant to bank's activities
Assessment				
HR10 (Additional)	1, 2	Percentage and total number of operations that have been subject to human rights reviews and/ or impact assessments.	✓	85, 159, 183
Remediation				
HR11 (Additional)	1, 2, 6	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	✓	79
Social: Society				
Local communities				
SO1 (Core)	NR	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	✔	162-163, 166-181
SO9 (Core)	NR	Operations with significant potential or actual negative impacts on local communities.	✓	121-122
FS13 (Core)	NR	Access points in low-populated or economically disadvantaged areas by type.	✓	132, 145-147
FS14 (Core)	NR	Initiatives to improve access to financial services for disadvantaged people.	✓	108-115, 136-138, 145-147
SO10 (Core)	NR	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	✓	121-122

Profile Disclosure	GC Principle	Description	Level	Page / Reason for Omission
Corruption				
SO2 (Core)	10	Percentage and total number of business units analyzed for risks related to corruption.	✓	194
SO3 (Core)	10	Percentage of employees trained in organization's anti-corruption policies and procedures.	✓	196
SO4 (Core)	10	Actions taken in response to incidents of corruption.	✓	194-196
Public policy				
SO5 (Core)	1-10	Public policy positions and participation in public policy development and lobbying.	✓	30-31
SO6 (Additional)	10	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	✓	154
Anti-competitive behavior				
SO7 (Additional)	NR	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	✓	196
Compliance				
SO8 (Core)	NR	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	✓	196
Social: Product Responsibility				
Customer health and safety				
PR1 (Core)	1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement.	✓	149
PR2 (Additional)	1	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle.	x	Not applicable: not relevant to bank's activities
Product and service labeling				
PR3 (Core)	8	Type of product and service information required by procedures.	✓	142
PR4 (Additional)	8	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling.	✓	143
PR5 (Additional)	NR	Practices related to customer satisfaction.	✓	139-143
FS15 (Additional)	NR	Policies for the fair design and sale of financial products and services.	✓	108-109
FS16 (Additional)	NR	Initiatives to enhance financial literacy by type of beneficiary.	✓	109-117, 175, 181
Marketing communications				
PR6 (Core)	NR	Programs for adherence to laws	✓	142
PR7 (Additional)	NR	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications	✓	143

Profile Disclosure	GC Principle	Description	Level	Page / Reason for Omission
Customer privacy				
PR8 (Additional)	1	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	✓	143
Compliance				
PR9 (Core)	NR	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	✓	196
SECTOR SUPPLEMENT: Product and Service Impact				
Product portfolio				
FS1 (Core)	NR	Policies with specific environmental and social components applied to business lines.	✓	109-122
FS2 (Core)	NR	Procedures for assessing and screening environmental and social risks in business lines.	✓	109, 121-124
FS3 (Core)	NR	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	✓	108-109
FS4 (Core)	NR	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	✓	99, 108-109, 121-122
FS5 (Core)	NR	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	✓	108-109, 157, 160-169
FS6 (Core)	NR	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.	✓	148
FS7 (Core)	NR	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.	✓	109-117
FS8 (Core)	NR	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.	✓	118-120
Audit				
FS9 (Core)	NR	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	✓	108-109, 118
Active ownership				
FS10 (Core)	NR	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.	X	Not applicable: Hapoalim is a commercial bank rather investment institution
FS11 (Core)	NR	Percentage of assets subject to positive and negative environmental or social screening.	X	Not applicable: Hapoalim is a commercial bank rather investment institution
FS12 (Core)	NR	Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.	X	Not applicable: Hapoalim is a commercial bank rather investment institution



Statement GRI Application Level Check

GRI hereby states that **Bank Hapoalim** has presented its report "SUSTAINABILITY REPORT 2011: ECONOMIC, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 2 July 2012



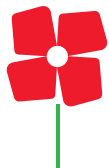
Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative



The "+" has been added to this Application Level because **Bank Hapoalim** has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

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**SOCIAL
RESPONSIBILITY**
IT'S IN OUR HANDS. BANK HAPOLIM

