

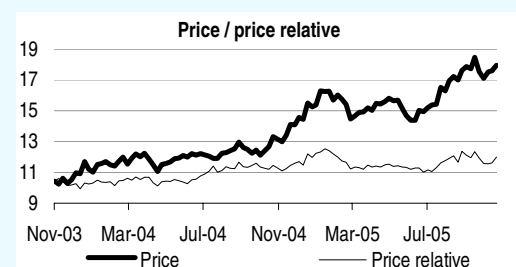
Earnings and TP upgrade

- Hapoalim's Q3 earnings were significantly better than we expected, but the two main drivers, margins and provisioning, should normalise in Q4, in our view.
- Segmental reporting shows that customer business contributed little to earnings growth in 9M05. The increase in operating earnings was driven mainly by treasury activities.
- We have raised our 2005 and 2006 earnings forecasts by 4% and 6% respectively. This is due to strong Q3 results, as well as improvements in asset quality.
- Based on changes in cost of equity and ROE, we are increasing our 12-month target price to ILS 18.6 from ILS 16.3. We keep a Neutral rating on the stock.

Bank Hapoalim is Israel's largest bank with a third of the Israeli market, offering personal, corporate and institutional banking services.

Rating	NEUTRAL*
Price (22 Nov 05)	18.11 (NIS)
Target price (12 months)	18.60 (NIS)
Market cap. (NIS m)	22,782.58
Enterprise value (NIS m)	22,782.58
Region/country	Europe/Israel
Sector	Regional Banks
Analyst's Coverage Universe	Emerging Markets
Weighting (vs. broad market)	0
Date	23 November 2005

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.



The price relative chart measures performance against the Israel TA100 index
On 22/11/05 the Israel TA100 index closed at 762.67
On 22/11/05 the spot exchange rate was NIS5.59/Eu 1. - Eu 0.85/US\$1

Performance over	1mth	3mths	12mths
Absolute (%)	3.2	10.8	38.0
Relative (%)	1.8	5.4	6.1

Year	12/03A	12/04A	12/05E	12/06E
PCC Operating profit	4,421.0	4,908.0	5,166.3	5,354.7
Net income (NIS m)	1,357.0	2,107.0	2,878.8	2,441.0
EPS stated (NIS)	1.09	1.69	2.31	1.96
CSFB adj. EPS (NIS)	0.97	1.46	1.83	1.96
CSFB adj. BVPS (NIS)	11.42	12.15	13.12	13.95
CSFB adj. ROE (%)	8.9	12.4	14.5	14.4
P/E (adj., x)	18.59	12.37	9.89	9.26
P/E rel (%)	58.95	54.25	53.03	65.70
P/BVPS (adj., x)	1.59	1.49	1.38	1.30

Dividend 2005E (NIS)	1.33	Free float (%)	55.1
Dividend yield (%)	7.3	Number of shares (m)	1,258.01
CSFB adj. equity (12/05E, NIS)	16,384.7	Current cost of equity (12/05E, %)	11.0
Net int margin (12/05E, %)	2.8	Tier 1 ratio (12/05E, %)	11.0
Cost/income (12/05E, %)	56.9	52-wk range (NIS)	18 - 13

Source: FTI, Company data, Datastream, CSFB (EUROPE) LTD. Estimates

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Investment Summary

Results recap

Hapoalim's Q3 earnings beat our forecast by 25% owing to both better than expected net interest income and lower provisioning charges. The former was due mainly to treasury's asset liability management, while the latter was impacted mainly by recoveries. According to management, the near-term margin outlook is stable, while provisioning should increase.

Most other items were in line with our expectations. Non-interest income was up strongly - fees from capital markets were up 25% to ILS 402m, driven mainly by a 62% increase in equity market trading volumes, while credit card fees also contributed strongly, up 16%. Personnel costs were slightly disappointing, up 13% on bonus accruals, but other operating costs increased only 12% compared with an 18% increase in Q2.

At 0.4% qoq, loan growth remained weak despite strong macro fundamentals. As in previous quarters, corporates preferred to issue debt. Hapoalim reported a 31% quarterly increase in its exposure to corporate bonds, a total of 1.8% growth in corporate business. Corporate deposits were up 9% in the quarter and 50% year-to-date. This suggests to us that demand for credit will remain weak in the near term.

Segmental performance showed a significant improvement in corporate profitability, we believe mainly due to decline in provisioning charges. This drove a 9% increase in profits from client business, with retail profits up 14%. However, in the nine-month period, corporate profits were still down 10% compared with 2004, and overall client business profits were up a mere 3.5%.

We estimate that of the 40% earnings growth in 9M05, 64% came from disposals and 30% was generated from non-client business. The latter is consistent with management's strategy to increase risk taking in the treasury department.

Change in forecasts and price target

In the conference call, management said that there was a high probability that its 2005 ROE goal of 14% will be exceeded. Following Q3 results, we believe this is certainly going to be the case. We have therefore raised our 2005 adjusted earnings forecast by 4% to ILS 2,286m, which translates into an ROE of 14.5%.

This implies Q4 net profit of ILS 591m, which we believe is consistent with management's view that Q3 provisioning was below what should be expected as average and the fact that a large chunk of net interest margin improvement may not be recurring. We have also increased our 2006 earnings forecast by 6% on the back of both revenue increase and reduction of credit costs. Our 2006 forecasts imply 7% earnings growth.

We maintain a Neutral rating on the stock but we have raised our share price from ILS 16.3 to ILS 18.6. This is driven by a combination of a lower risk free rate and higher ROE forecast, as well as rolling forward by six months. We continue to believe that for a substantial re-rating, a change in client business mix is needed rather than more risk taking in treasury operations.

Figure 1: Price target assumptions*In %, unless otherwise stated*

	2002-2006E	2007E+
Risk-free rate	6.0	6.0
Risk premium	5.0	5.0
Beta (x)	1.00	1.00
Cost of equity	11.0	11.0
Growth in assets	0.7	3.5
ROA	0.7	0.8
Dividend payout	52	77
Dividend growth	15.8	3.6
Average ROE	10.8	12.9
Average E/A	5.8	5.9

*Source: Company data, CSFB estimates***Figure 2: Summary income statement***NIS in millions*

	2003	2004	2005E	2006E
Interest income	9,996	13,549	14,056	14,035
Interest expense	-3,281	-6,478	-6,585	-6,262
Net interest income	6,715	7,071	7,471	7,773
Fee and commission income	2,929	3,199	3,439	3,611
Trading income	3	109	87	89
Other non-interest income	733	907	998	1,053
Total non-interest income	3,665	4,215	4,524	4,752
Total operating income	10,380	11,286	11,995	12,525
Staff costs	-3,526	-3,742	-4,023	-4,224
Other operating costs	-2,433	-2,636	-2,806	-2,946
Total operating costs	-5,959	-6,378	-6,829	-7,170
Operating profit before provisions	4,421	4,908	5,166	5,355
Provision expense	-2,359	-1,768	-1,272	-1,279
Extraordinaries	141	279	593	0
Pre-tax profit	2,203	3,419	4,487	4,076
Taxes	-861	-1,361	-1,639	-1,655
Net profit	1,342	2,058	2,848	2,421
Income from affiliates	63	101	126	120
Minorities	-48	-52	-95	-100
Attributable net profit	1,357	2,107	2,879	2,441

Source: Company data, CSFB estimates

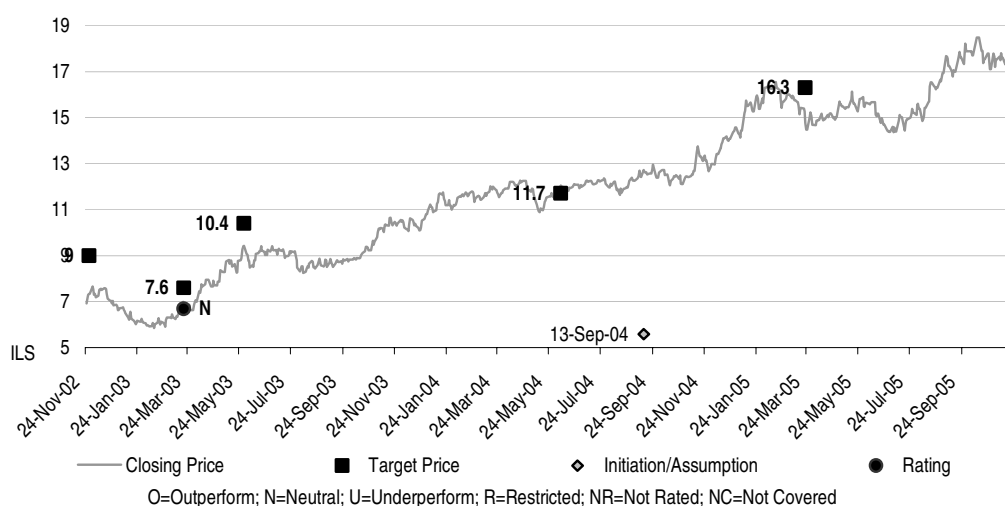
Companies Mentioned (Price as of 22 Nov 05)

Bank Hapoalim (POLI.TA, NIS18.11, NEUTRAL, TP NIS18.60)

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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for POLI.TA

POLI.TA Date	Closing Price Price (ILS)	Target Price Price (ILS)	Rating	Initiation/ Assumption
28-Nov-02	7.34	9		
20-Mar-03	6.69	7.6	NEUTRAL	
30-May-03	9.44	10.4		
07-Jun-04	12.05	11.7		
13-Sep-04				X
23-Mar-05	14.77	16.3		

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*The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and CSFB Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional CSFB Small and Mid-Cap Advisor investment universe.

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****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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Price Target: (12 months) for (POLI.TA)

Method: Price to book versus ROE

Risks: Macroeconomic

See the Companies Mentioned section for full company names.

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