Bank Hapoalim Announces Second Quarter 2022 Results

- **Net profit** in 2Q22 totaled NIS 1,343 million; **return on equity** 12.3%.
- **Net profit** in 1H22 totaled NIS 2,997 million; **return on equity** 13.9%.
- The **credit portfolio** grew by 2.1% QoQ, 14.9% YoY.
- **Total income** increased by 15.7% vs. 2Q21, 6.2% vs. 1Q22, due to growth in the bank's core activity, boosted by the increase in interest rates and higher inflation.
- The **cost-income ratio** dropped to 48.8%.
- **CET-1 ratio** at 11.14%. The board of directors of the bank resolved to resume a trajectory of **ongoing dividend distribution**, and approved a dividend distribution of 30% of second-quarter net profit, in the amount of NIS 403 million.

Tel Aviv, Israel – August 15, 2022 – Bank Hapoalim (TASE: POLI) (ADR: BKHYY) today announced its financial results for the second quarter ended June 30, 2022.

Key highlights

- **Net profit** in the second quarter of 2022 totaled NIS 1,343 million, compared with NIS 1,654 million in the preceding quarter and NIS 1,419 million in same quarter last year. The results in the quarter were supported by the continuous growth in business activity, a high contribution of the CPI, and the initial effect of the rise in interest rates. Both comparable quarters were impacted by high recoveries and provision reversal, which resulted in high income from credit losses.
- **Return on equity (ROE)** for the quarter stood at 12.3%, compared with 15.6% in the preceding quarter and 13.8% in the same quarter last year. Comparable quarters were materially impacted by recoveries and a reversal of COVID-related provision.
- **Total income** increased by 6.2% compared to the last quarter and 15.7% vs. the corresponding quarter last year, to NIS 4.1 billion, mainly driven by an increase in **net financing profit**, as well as in **fees**. **Total expenses** increased by only 1.9% QoQ and 0.8% YoY, generating substantial **positive jaws**, consistently, quarter by quarter.
- **Profit before provision and tax** amounted to NIS 2,092 million, an increase of 10.7% compared with the last quarter and of 34.7% compared with the corresponding quarter last year.
- **The Common Equity Tier 1 (CET-1) capital ratio** as at June 30, 2022, stood at 11.14%, an increase of 18 bps since the beginning of 2022. The **total capital ratio** as at June 30, 2022, stood at 14.45%.
- **LCR** and **NSFR** are at 126% and 132%, respectively.
- Credit quality indicators remained strong and showed improvement; the **NPL ratio** declined to 0.87%, from 0.92% on March 31, 2022.

Balance sheet

- **Net credit to the public** in the second quarter of 2022 totaled NIS 372.0 billion, compared with NIS 364.3 billion in the preceding quarter, an increase of 2.1%. **Net credit to the public** grew by 5.5% compared to the end of 2021, and by 14.9% versus the corresponding quarter.
- **The growth in the credit portfolio in the last 12 months was broad-based, responsible, and driven by high demand.** In the second quarter, the bank aligned its growth pace to current global macroeconomic uncertainties. **Corporate credit** increased by 2.6% and **housing loans** grew by 3.2%, thereby completing 17.7% and 17.3% growth year-on-year, respectively. Commercial credit slightly decreased this quarter, but grew 14.6% versus last year. **Consumer credit** decreased slightly compared to the first quarter of 2022 and increased by 2.7% versus the corresponding quarter last year. **Small business credit** grew by 0.5% and 8.6%, quarter-on-quarter and year-on-year, respectively.
- **Total deposits** reached NIS 529.5 billion, 1.9% growth compared with the preceding quarter and a 9.6% increase compared to the same quarter last year, impacted, among other factors, by the continuous growth in retail deposits. **Retail deposits** totaled NIS 307.2 billion, constituting 58% of total deposits. **The Bank is well positioned for the continued expected Fed and BOI interest-rate hikes – non-interest bearing deposits** accounted for 44% of total deposits, as of June 30, 2022, and a 1% parallel increase in rates would increase income by NIS 1.2 billion.
- **Shareholders' equity** grew by 2.3% versus last quarter and by 4.5% versus June 30, 2021, to NIS 44.2 billion.
- The board of directors of the bank resolved to resume a trajectory of **ongoing dividend distribution**, while continuing to maintain balanced growth. At the date of approval of these financial statements, the board of directors declared the **distribution of dividends** in the amount of NIS 403 million, constituting approximately 30% of the quarterly net profit, to be paid on September 7, 2022.

Income statement

- **Income from regular financing activity** in the second quarter totaled NIS 3,432 million, an increase of 17.9% versus the last quarter and 35.1% compared to the corresponding quarter, driven by the consistent growth in credit volumes and boosted by the increase in the Fed and BOI interest rates and the high CPI. Accordingly, the **financial margin from regular activity** increased by 0.33% points versus the previous quarter.
- **Fee income** totaled NIS 903 million in the second quarter, compared with NIS 889 million in the previous quarter, a 1.6% increase, mainly due to growth in credit cards, account-management fees, and FX fees. Compared to the corresponding quarter, **fees** grew by 12.6%. The growth derived from most areas of activity, with an emphasis on the abovementioned fees, as well as on fees from financing transactions, which reflects the continuous increase in business activity.
- **Operating and other expenses** totaled NIS 1,996 million in the second quarter, compared with NIS 1,958 million in the previous quarter and NIS 1,980 million in the same quarter last year. The increase in expenses was mainly due to an increase in **maintenance and depreciation expenses** and **other expenses,** to support the growth in our business activity. **Salary expenses**, on the other hand, declined substantially, partially as a result of lower provision for performance-based bonuses.
- The **cost-income ratio** for the second quarter of 2022 stood at 48.8%, compared with 56.0% in the corresponding quarter. This quarter again, we achieved significant **positive jaws** due to income outpacing the rise in costs.
- The bank's credit portfolio quality continued to be resilient, as reflected in all credit quality indicators and in the low volume of **credit losses. Credit loss provision** totaled NIS 91 million for the quarter, constituting 0.10% of total credit. **The NPL ratio** is down to 0.87%, from 1.11% at the beginning of the year**.** Nevertheless, the **allowance for credit losses** remained relatively high, at NIS 6 billion, constituting 1.62% of credit RWA.

Recent developments

- **Organizational changes:** The board of directors of the bank approved several organizational changes aimed at optimally focusing and realizing the advantages and assets of the bank, streamlining and simplifying processes for our customers, and enhancing growth capabilities and the maximization of value. In June 2022, the board of directors of the bank approved merging the Innovation and Strategy Division with the other divisions of the bank. Accordingly, corporate business development and the activity of Bit will report to and operate within the Financial Markets and International Banking Division. The Corporate Strategy Unit and the Information and Analytics Unit will report to and operate within the Finance Division, under the CFO. In addition, Accountancy was separated from the Finance Division and reports to the CEO.
- **The bank signed principles of agreement with Isracard:** In the course of the negotiations initiated at the request of Isracard, the parties reached, on July 17, 2022, in-principle agreements for a period of eight years from April 1, 2022, for the issuance and issuance operation of bank credit cards (MasterCard, Visa, and American Express), debit cards, and chargeable cards for customers of the bank. According to the estimates of the bank, if the aforesaid agreements mature into detailed agreements and are signed, the effect on the income of the bank from credit cards will be **an increase of approximately NIS 50 million on average, per quarter** (before tax, based on the volume of activity in 2021). The actual effect will depend on various parameters, including, among other matters, the volume and composition of turnovers and the quantity of credit cards.
- **The bank signed a triple collaboration agreement with Electra and CAL:** On August 10, 2022, the parties signed a detailed collaboration agreement in connection with a customer club, for a period of approximately 12 years (subject to grounds for termination as specified in the agreement). Pursuant to the agreement, the bank and corporations from the Electra Group will be entitled to payments from CAL, and an accounting for expenses will be made between the parties. The agreement is subject to the fulfillment of several suspending conditions.
- **ESG:** Bank Hapoalim led the ESG ratings by Maala again this year, among all organizations in Israel, with a score of AAA. The Maala ESG (Environmental, Social, and Governance) ratings reflect the corporate responsibility performance of organizations, based on corporate governance principles, and their impact on society and on the environment. This is the fifth consecutive year in which the Bank has led the Maala ratings, of all organizations in Israel, thanks to its many years of activity devoted to society, the environment, and economic growth in Israel.

Strategic plan

The strategic plan of the bank, adopted in late 2021, aspires to realize the bank's vision – "Committed to growth through innovative and fair banking for our customers." The performance of the bank this year reflects consistent, resolute execution of its strategy, key elements of which are:

- **Growth in banking activity** – The bank will work to grow the volume of its activity with retail, commercial, and corporate banking customers, while continually improving its value proposition for customers.
- **Development of new banking** – The bank will promote the development of new distribution channels for banking services and products, with an emphasis on new digital distribution channels based on advanced data-analysis capabilities and an outstanding user experience.
- **Building a growth-supporting organizational infrastructure** – The bank will work to drive processes encouraging a customer-centric, growth-supporting organizational culture, enabling it to improve its delivery and time to market.

Conference-call information

Bank Hapoalim will host a conference call today to discuss the results. The call will take place at 5:00 p.m. Israel time / 3:00 p.m. UK time / 10:00 a.m. US Eastern time. To access the conference call, please dial: +1-888-281-1167 toll-free from the United States, +0-800-917-9141 toll-free from the United Kingdom, or +972-3-918-0610 internationally. No password is required. The call will be accompanied by a slide presentation, which, together with the financial statements, will be available on the Bank Hapoalim website at www.bankhapoalim.com, under Investor Relations > Financial Information. A recording of the conference call will be available on the bank's website at the above address one business day following the completion of the call.

Please note: The conference call is not a substitute for perusal of the immediate reports and the financial statements of the bank, including all of the forward-looking information included therein, in accordance with Section 32A of the Israeli Securities Law, 1968.

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About Bank Hapoalim

Bank Hapoalim is Israel's leading financial group. In Israel, Bank Hapoalim operates 174 retail branches, regional business centers, and specialized industry relationship managers for major corporate customers. The Bank Hapoalim Group includes holdings in financial companies engaged in investment banking, trust services, and portfolio management. Internationally, commercial banking services are provided in North America by the New York branch. Bank Hapoalim is listed on the Tel Aviv Stock Exchange (TASE: POLI) and holds a Level-1 ADR program. For more information about Bank Hapoalim, please visit us online at www.bankhapoalim.com.

Please note: This press release was prepared for convenience only. In case of any discrepancy, the bank's reported financial statements in Hebrew will prevail.

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Table 1-1: Condensed financial information and principal performance indicators over time

	For the three months ended		For the six months ended		For the year ended
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021	December 31, 2021
Main performance indicators					
Return of net profit on equity attributed to shareholders of the Bank(1)*	12.3%	13.8%	13.9%	13.7%	11.8%
Return of net profit attributed to shareholders of the Bank on equity excluding extraordinary items(1)(2)*	12.3%	13.8%	13.9%	13.7%	11.9%
Return on average assets(1)	0.84%	1.00%	0.94%	1.00%	0.85%
Ratio of income(3) to average assets(1)	2.56%	2.49%	2.50%	2.56%	2.48%
Ratio of net interest income to average assets(1)	2.00%	1.77%	1.86%	1.70%	1.68%
Ratio of fees to average assets(1)	0.57%	0.56%	0.56%	0.58%	0.58%
Efficiency ratio – cost-income ratio	48.8%	56.0%	49.8%	54.8%	54.2%
Efficiency ratio – cost-income ratio excluding extraordinary items(2)	48.8%	56.0%	49.8%	54.8%	53.9%
Financing margin from regular activity(1)(4)	2.24%	1.87%	2.07%	1.83%	1.79%
Liquidity coverage ratio (LCR)	126%	140%	126%	140%	124%
Net stable financing ratio (NSFR)(5)	132%	-	132%	-	136%**

	As at		
	June 30, 2022	June 30, 2021	December 31, 2021
Ratio of common equity Tier 1 capital to risk components(6)	11.14%	11.61%	10.96%
Ratio of total capital to risk components(6)	14.45%	14.19%	14.22%
Leverage ratio(6)	6.17%	6.50%	6.03%

* Pursuant to the directives of the Banking Supervision Department, the method for the conversion of quarterly return into annualized terms was changed beginning in 2022, from exponential calculation to linear calculation. Comparative figures have been restated for adjustment to the calculation method in 2022.

** Restated.

(1) Calculated on an annualized basis.

(2) Does not include expenses in respect of provisions in connection with the investigation of the Bank Group's business with American customers.

(3) Total income – net interest income and non-interest income.

(4) Financing profit from regular activity (see the section "Material developments in income, expenses, and other comprehensive income," in the Report of the Board of Directors and Board of Management) divided by total financial assets after allowance for credit losses, net of non-interest bearing balances of debtors in respect of credit-card activity.

(5) The net stable financing ratio (NSFR) is calculated beginning with the financial statements as at December 31, 2021. For additional information, see the section "Liquidity and refinancing risk," in the Report of the Board of Directors and Board of Management.

(6) Capital ratios and the leverage ratio as at June 30, 2022, take into account the transitional directives for implementation of the accounting standards concerning expected credit losses. For additional information, see the section "Capital, capital adequacy, and leverage," in the Report of the Board of Directors and Board of Management.

Table 2-2: Condensed statement of profit and loss

	For the three months ended June 30			For the six months ended June 30		
	2022	2021	Change	2022	2021	Change
	NIS millions			NIS millions		
Interest income	4,304	3,209	34.1%	7,707	5,800	32.9%
Interest expenses	(1,117)	(701)	59.3%	(1,804)	(1,059)	70.3%
Net interest income	3,187	2,508	27.1%	5,903	4,741	24.5%
Non-interest financing income	(19)	201	(109%)	129	650	(80%)
Net financing profit*	3,168	2,709	16.9%	6,032	5,391	11.9%
Provision (income) for credit losses	91	(647)	(114%)	(509)	(1,155)	(56%)
Net financing profit after provision for credit losses	3,077	3,356	(8.3%)	6,541	6,546	(0.1%)
Fees and other income*	920	824	11.7%	1,904	1,723	10.5%
Operating and other expenses	1,996	1,980	0.8%	3,954	3,899	1.4%
Profit before taxes	2,001	2,200	(9.0%)	4,491	4,370	2.8%
Provision for taxes on profit	704	803	(12.3%)	1,566	1,629	(3.9%)
Profit after taxes	1,297	1,397	(7.2%)	2,925	2,741	6.7%
The Bank's share in profits of equity-basis investees, after taxes	46	20	130%	73	27	170%
Net profit:						
Before attribution to non-controlling interests	1,343	1,417	(5.2%)	2,998	2,768	8.3%
Loss (profit) attributed to non-controlling interests	-	2	(100%)	(1)	5	(120%)
Attributed to shareholders of the Bank	1,343	1,419	(5.4%)	2,997	2,773	8.1%
Return of net profit**	12.3%	13.8%	(11.2%)	13.9%	13.7%	1.7%

* The profit and loss items above are presented in a different format than in the condensed statement of profit and loss, in order to allow better analysis of the financial results. This change is expressed in the reclassification of non-interest financing income from the item of "non-interest income (expenses)" to the item of "net financing profit."

** Pursuant to the directives of the Banking Supervision Department, the method for the conversion of quarterly return into annualized terms was changed beginning in 2022, from exponential calculation to linear calculation. Comparative figures have been restated for adjustment to the calculation method in 2022.

Table 1-1: Condensed financial information and principal performance indicators over time (continued)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2022	2021	**2022**	2021	2021
Main credit quality indicators					
Total allowance for credit losses* as a percentage of credit to the public	**1.58%**	1.78%	**1.58%**	1.78%	1.65%
Allowance for credit losses in respect of credit to the public as a percentage of credit to the public**	**1.35%**	1.57%	**1.35%**	1.57%	1.43%
Credit to the public, non-accruing or in arrears of 90 days or more, as a percentage of credit to the public*	**0.89%**	1.33%	**0.89%**	1.33%	1.20%
Net charge-offs as a percentage of average credit to the public	**0.00%**	(0.12%)	**(0.03%)**	(0.05%)	(0.06%)
Provision (income) for credit losses as a percentage of average credit to the public	**0.10%**	(0.81%)	**(0.29%)**	(0.73%)	(0.37%)

* Including the allowance in respect of off-balance sheet balances.

** The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022, prospectively. For this purpose:

1) The allowance for credit losses in respect of credit to the public, as a percentage of credit to the public, as at January 1, 2022, after implementation of the CECL directive, is 1.51%.

2) The term “impaired” has been eliminated, and non-accruing credit is presented instead. Comparative figures for previous periods have not been restated. If comparative figures had been restated, for convenience (i.e. accruing debts previously classified as impaired debts would not be included in non-accruing debts under the new directives), credit to the public that is non-accruing or in arrears of 90 days or more as a percentage of credit to the public as at December 31, 2021, would be 1.13%.

Table 1-1: Condensed financial information and principal performance indicators over time (continued)

	As at		
	June 30, 2022	June 30, 2021	December 31, 2021
	NIS millions		
Main balance sheet data			
Total assets	**651,598**	586,344	638,781
Of which: Cash and deposits with banks	**162,579**	170,439	189,283
Securities	**81,506**	69,910	71,105
Net credit to the public	**371,976**	323,757	352,623
Net problematic credit risk	**7,448**	8,448	7,926
Credit to the public not accruing interest income (NPL)*	**3,263**	2,792	2,897
Total liabilities	**607,380**	544,009	596,034
Of which: Deposits from the public	**529,508**	483,090	525,072
Deposits from banks	**9,045**	10,110	11,601
Bonds and subordinated notes	**27,334**	20,944	25,582
Shareholders' equity	**44,217**	42,314	42,735
Additional data			
Share price at end of period (in NIS)	**29.2**	26.2	32.1

* The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022, prospectively. Within this process, the term "impaired" has been eliminated, and non-accruing credit is presented instead. In addition, housing loans in arrears of 90 days or more are classified as non-accruing credit. For convenience, if the balance of credit to the public not accruing interest income (NPL) as at December 31, 2021, were restated, the balance thereof would be NIS 3,955 million. For further details, see Note 1C to the Condensed Financial Statements.