bank hapoalim

press release
May 22, 2023

Bank Hapoalim Announces 2023 First Quarter Results

- **Net profit** in 1Q23 totaled **NIS 2,008 million**; **return on equity 17.0%.**
- **Total income** increased by 39.3% YoY, due to the increase in interest rates, growth in the bank's core activity, and higher inflation.
- The **cost-income ratio** dropped to 39.1% in the first quarter.
- The **credit portfolio** grew by 1.5% QoQ, 8.3% YoY.
- **CET-1 ratio** at 11.36%. The board of directors decided to **increase the dividend payout ratio to 40%** of net profit. **NIS 803 million** dividend declared in respect of 1Q23. **Total dividends** declared in the last twelve months amount to **NIS 2.3 billion, a 5.2% dividend yield.**

Tel Aviv, Israel – May 22, 2023 – Bank Hapoalim (TASE: POLI) (ADR: BKHYY) today announced its financial results for the first quarter ended March 31, 2023.

Key highlights

- **Net profit** in the first quarter of 2023 totaled NIS 2,008 million, compared with NIS 1,750 million in the preceding quarter and NIS 1,654 million in the same quarter last year. The results in the quarter were supported by the continuous growth in business activity and a high contribution of the increase in central bank rates, as well as a high contribution of the CPI.
- **Return on equity (ROE)** for the quarter stood at 17.0%, compared with 15.3% in the preceding quarter and 15.6% in the same quarter last year.
- **Total income** increased by 2.4% compared to the fourth quarter and by 39.3% vs. the corresponding quarter last year, to NIS 5,359 million, mainly driven by an increase in **net financing profit**, as well as in **fees**. **Total expenses** increased by 2.3% QoQ and 6.9% YoY, generating substantial **positive jaws**.
- **The Common Equity Tier 1 (CET-1) capital ratio** as at March 31, 2023, stood at 11.36%, vs. the 10.5% internal minimum target and 10.23% minimum regulatory target. The **total capital ratio** as at March 31, 2023, stood at 14.53%, vs. the 13.5% minimum regulatory target.
- **LCR** and **NSFR** are at 127%, vs. minimum regulatory targets of 100%.
- **Credit quality indicators** remained strong and showed continued improvement; the **NPL ratio** decreased slightly to 0.85%, from 0.87% on December 31, 2022, and the **NPL coverage ratio** (balance sheet allowance for credit losses/NPL) increased to 166%. In the first quarter of 2023, the bank continued to increase its collective provision, further to the increase made in previous quarters, to reflect potential macroeconomic effects and uncertainties.

Balance sheet

- **Net credit to the public** in the first quarter of 2023 totaled NIS 394.4 billion, compared with NIS 388.7 billion in the preceding quarter, an increase of 1.5%, and an increase of 8.3% compared with NIS 364.3 billion in the same quarter last year.
- The growth in the **credit portfolio** in recent quarters was responsible and aligned with market dynamics. **Corporate credit** increased by 5.0% compared to the end of 2022 and by 14.9% compared to the first quarter last year. **Commercial credit** increased slightly, by 0.4% during the quarter and by 6.4% in the last year. The **housing loan portfolio** grew by 0.8% in the first quarter and by 7.9% compared to the corresponding quarter. **Small business credit** decreased compared to comparable quarters; **consumer credit** stayed flat this quarter, and decreased by 1.0% compared to the same quarter last year.

- **Total deposits** reached NIS 528.9 billion, a slight decline compared to the end of 2022. **Retail deposits**, however, continued to grow, by 0.4% in the first quarter, to NIS 309.9 billion, constituting 59% of total deposits.
- **Allowance for credit losses** totaled NIS 6.7 billion as at March 31, 2023, of which NIS 5.9 billion in collective allowance. The total allowance constitutes 1.65% of total credit.
- **Shareholders' equity** grew by 3.5% in the quarter and by 11.3% in the last twelve months, to NIS 48.1 billion.
- At the date of approval of the financial statements, the board of directors decided to increase the **dividend payout ratio** to 40%. Accordingly, the board declared an NIS 803 million **dividend**, constituting 40% of first quarter net profit, to be paid on June 14, 2023.

<u>Income statement</u>

- **Income from regular financing activity** in the first quarter totaled NIS 4,399 million, an increase of 5.1% versus the preceding quarter and 51.2% compared to the corresponding quarter last year, driven by the increase in the BOI and Fed interest rates, the consistent growth in credit volumes, and the high CPI. Accordingly, the **financial margin from regular activity** in the first quarter increased by 0.13 percentage points compared to the preceding quarter and by 0.86 percentage points versus the corresponding quarter, to 2.77%.
- **Fee income** totaled NIS 968 million in the first quarter, compared with NIS 929 million in the previous quarter and NIS 889 million in the same quarter last year. In comparison to the corresponding quarter, fees were influenced by the agreement signed with the credit-card company Isracard. Growth compared to the preceding quarter was recorded in fees from securities activity, financing transactions, and conversion differences.
- **Operating and other expenses** totaled NIS 2,094 million in the first quarter, compared with NIS 2,046 million in the previous quarter and NIS 1,958 million in the same quarter last year, an increase of 2.3% and 6.9%, respectively. The increase in expenses mainly resulted from an increase in bonuses and from an increase in current salaries.
- The **cost-income ratio** for the first quarter of 2023 stood at 39.1%, similar to the previous quarter and versus 50.9% in the corresponding quarter. This quarter, again, we continue to demonstrate significant **positive jaws** on a year-on-year basis, due to income growth significantly outpacing the rise in costs.
- The bank's **credit portfolio quality** continued to be robust, as reflected in quality indicators and in the relatively low volume of credit losses. In the first quarter, credit loss expenses amounted to NIS 185 million (0.19% credit loss ratio), mainly resulting from an increase in the reserve of the collective provision.

Strategic plan

At the end of 2022, the board of management and the board of directors of the bank approved a multi-annual strategic plan for 2023-2026. The plan is aimed at reinforcing the position of Bank Hapoalim as a leading bank in Israel. The principles of the plan support continued responsible growth, preservation of the bank's leadership, and a leap forward in customer service. The plan is focused on performance, value for customers, optimal utilization of infrastructures and resources, and development of differentiating and influential innovation.

The Poalim 2026 plan is built upon three pillars:

a. Strengthening the leadership of Bank Hapoalim in core banking
b. Optimizing the use of resources and enhancing productivity
c. Differentiating and influential innovation

Recent developments

In April, we released the Bank Hapoalim ESG Report for 2022 – our sixteenth consecutive annual report (the English version will be available in June). The report, written according to the GRI and SASB standards, reflects the bank's approach to ESG issues and our responsibility to promote impact banking.

Implementing the concept of impact banking, the Social Banking Unit at Bank Hapoalim continued to work over the last year to reduce social inequalities through support for hundreds of initiatives promoting diverse employment, social mobility, and inclusion of people from every part of the broad tapestry of Israeli society. The Financial Growth Center expanded its offering of tools and knowledge on astute financial behavior, providing individual guidance for households and small businesses and creating targeted content, including content adapted for ultra-Orthodox and Arab society, women entrepreneurs, and small businesses.

We remain committed to coping with the crucial challenges posed by the climate crisis. Over the years, we have provided more financing for projects promoting a green environment than any other financial institution in Israel. **In 2022, we reached the goal we had set for financing of these projects by 2030 – NIS 20 billion; as a reflection of our ambition to continue to generate positive environmental impact in the coming years, we therefore set a new goal of NIS 37 billion in green project financing by 2030**. At the same time, we are working to further reduce the bank's environmental impacts and carbon footprint. **Over the last decade, we have lowered the bank's operational carbon footprint by 60%; we are targeting another 60% reduction relative to the baseline set in 2020**. We are also developing climate and environmental risk management processes within our business activities.

The activity and impact of the bank in environmental, social, and governance matters are reflected, each year, in high scores on local and international ESG ratings. **The bank holds the top position on the local ESG indices by Maala and Entropy, among all companies in Israel, and ranks with leading global banks on international ESG metrics**. For example, the bank was included in the S&P Yearbook, for the second consecutive year; rated in the top 12% on the Sustainalytics index; and rated AA on the MSCI index.

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, +0-800-917-5108 toll-free from the United Kingdom, or +972-3-918-0609 internationally. No password is required. Access in listen-only mode is also available via the link BankHapoalimQ1.2023. The conference 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 163 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 year ended
	March 31, 2023	March 31, 2022	December 31, 2022
Main performance indicators			
Return of net profit attributed to shareholders of the Bank on equity(1)	17.0%	15.6%	14.8%
Return on average assets(1)	1.21%	1.05%	1.01%
Ratio of income(2) to average assets(1)	3.24%	2.43%	2.78%
Ratio of net interest income to average assets(1)	2.44%	1.72%	2.09%
Ratio of fees to average assets(1)	0.59%	0.56%	0.57%
Efficiency ratio – cost-income ratio	39.1%	50.9%	44.5%
Financing margin from regular activity(1)(3)	2.77%	1.91%	2.35%
Liquidity coverage ratio (LCR)	127%	123%	122%
Net stable financing ratio (NSFR)(4)	127%	134%	130%

	March 31, 2023	March 31, 2022	December 31, 2022
Ratio of common equity Tier 1 capital to risk components(5)	11.36%	11.17%	11.25%
Ratio of total capital to risk components(5)	14.53%	14.44%	14.70%
Leverage ratio(5)	6.53%	6.12%	6.34%

(1) Calculated on an annualized basis.
(2) Total income – net interest income and non-interest income.
(3) 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.
(4) For additional information, see the section "Liquidity and refinancing risk," in the Report of the Board of Directors and Board of Management.
(5) For additional information, see the section "Capital, capital adequacy, and leverage," in the Report of the Board of Directors and Board of Management.

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

	For the three months ended		For the year ended
	March 31, 2023	March 31, 2022	December 31, 2022
Main credit quality indicators			
Total allowance for credit losses* as a percentage of credit to the public	1.65%	1.60%	1.64%
Allowance for credit losses in respect of credit to the public as a percentage of credit to the public	1.40%	1.36%	1.40%
Credit to the public, non-accruing or past due by 90 days or more, as a percentage of credit to the public*	0.88%	0.94%	0.89%
Net charge-offs as a percentage of average credit to the public	0.01%	(0.06%)	(0.03%)
Provision (income) for credit losses as a percentage of average credit to the public	0.19%	(0.66%)	(0.02%)

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

Table 2-2: Condensed statement of profit and loss

	For the three months ended		Change
	March 31, 2023	March 31, 2022	
	NIS millions		
Interest income	**7,522**	3,403	121.0%
Interest expenses	**(3,485)**	(687)	407.3%
Net interest income	**4,037**	2,716	48.6%
Non-interest financing income	**340**	148	129.7%
Net financing profit*	**4,377**	2,864	52.8%
Provision (income) for credit losses	**185**	(600)	130.8%
Net financing profit after provision (income) for credit losses	**4,192**	3,464	21.0%
Fees and other income*	**982**	984	(0.2%)
Operating and other expenses	**2,094**	1,958	6.9%
Profit before taxes	**3,080**	2,490	23.7%
Provision for taxes on profit	**1,089**	862	26.3%
Profit after taxes	**1,991**	1,628	22.3%
The Bank's share in profits of equity-basis investees, after taxes	**17**	27	(37.0%)
Net profit:			
Before attribution to non-controlling interests	**2,008**	1,655	21.3%
Loss (profit) attributed to non-controlling interests	**-**	(1)	(100.0%)
Attributed to shareholders of the Bank	**2,008**	1,654	21.4%
Return of net profit	**17.0%**	15.6%	9.4%

* 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."

Table 7-1: Quarterly developments in total net financing profit

	2023	2022			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Interest income	**7,522**	6,374	5,139	4,304	3,403
Interest expenses	**(3,485)**	(2,446)	(1,503)	(1,117)	(687)
Net interest income	**4,037**	3,928	3,636	3,187	2,716
Non-interest financing income (expenses)	**340**	337	115	(19)	148
Total reported financing profit	**4,377**	4,265	3,751	3,168	2,864
Excluding effects not from regular activity:					
Income from realization and adjustments to fair value of bonds	**(77)**	(173)	4	(14)	46
Profit (loss) from investments in shares	**113**	96	(59)	(190)	30
Adjustments to fair value of derivative instruments(1)	**(67)**	171	(199)	(77)	(73)
Income (expenses) from hedges and others(2)	**9**	(13)	(17)	17	(49)
Total effects not from regular activity	**(22)**	81	(271)	(264)	(46)
Total income from regular financing activity(3)	**4,399**	4,184	4,022	3,432	2,910

(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.

(2) The effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.

Of which, in respect of the effects of changes in the CPI: income of NIS 266 million in the first quarter of 2023; income of NIS 202 million in the fourth quarter of 2022; income in the amount of NIS 330 million in the third quarter of 2022; income in the amount of NIS 516 million in the second quarter of 2022; and income in the amount of NIS 301 million in the first quarter of 2022.

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

	As at		
	March 31, 2023	March 31, 2022	December 31, 2022
	NIS millions		
Main balance sheet data			
Total assets	**666,665**	637,625	665,353
Of which: Cash and deposits with banks	**95,918**	178,317	133,424
Securities	**137,338**	68,604	107,400
Net credit to the public	**394,399**	364,257	388,727
Net problematic credit risk	**6,637**	8,077	6,487
Credit to the public not accruing interest income (NPL)	**3,388**	3,394	3,444
Total liabilities	**618,549**	594,394	618,850
Of which: Deposits from the public	**528,897**	519,776	532,588
Deposits from banks	**9,284**	11,370	8,696
Bonds and subordinated notes	**26,417**	27,411	26,866
Shareholders' equity	**48,115**	43,230	46,502
Additional data			
Share price at end of period (in NIS)	**29.8**	31.8	31.7