Bank Hapoalim Announces 2023 Second Quarter Results

- **Net profit** in 2Q23 totaled **NIS 1,922 million**; **return on equity 15.8%.**
- **Net profit** in 1H23 totaled **NIS 3,930 million**; **return on equity 16.4**%.
- **CET-1 ratio** at 11.51%. The board of directors decided to **declare a dividend of NIS 769 million**, 40% of net profit. **Total dividends** declared in respect of the last four quarters' profits amount to **NIS 2.6 billion, a 6.2% dividend yield.**
- **Total income** increased by 40.0**%** vs. 2Q22, 6.8% vs. 1Q23, due to the increase in net interest income, which was supported by the rise in interest rates and higher inflation as well as an increase in non-interest financing income.
- The **cost-income ratio** declined to 38.1% in the second quarter, 38.6% in 1H23.
- The **credit portfolio** grew by 1.5% QoQ, 7.6% YoY.
- Further reserve build of **credit loss allowance** to NIS 7.1 billion, mainly due to an increase in the collective provision, to reflect the rise in macroeconomic uncertainties.

Tel Aviv, Israel – August 14, 2023 – Bank Hapoalim (TASE: POLI) (ADR: BKHYY) today announced its financial results for the second quarter ended June 30, 2023.

<u>Key highlights</u>

- **Net profit** in the second quarter of 2023 totaled NIS 1,922 million, compared with NIS 2,008 million in the preceding quarter and NIS 1,343 million in the same quarter last year. **Net profit** was impacted by the continuous growth in income; on the other hand, there was an increase in credit loss provisions and total expenses.
- **Return on equity (ROE)** for the quarter stood at 15.8%, compared with 17.0% in the preceding quarter and 12.3% in the same quarter last year.
- **Total income** increased by 6.8% compared to the first quarter and by 40.0% vs. the corresponding quarter last year, to NIS 5,725 million. The results in the quarter, compared with the preceding quarter, were supported by the continuous growth in business activity, a positive contribution of the CPI, and the increase in central bank rates, as well as income from adjustment to fair value of derivative instruments.
- **The Common Equity Tier 1 (CET-1) capital ratio** as at June 30, 2023, stood at 11.51%, an increase of 26 bps since the beginning of 2023, vs. a 10.5% internal minimum target and 10.23% minimum regulatory target. The **total capital ratio** as at June 30, 2023, was 14.68%, vs. a 13.5% minimum regulatory target.
- **LCR** and **NSFR** are at 126% and 125% respectively, vs. minimum regulatory targets of 100%.
- **Credit quality indicators** remained strong; despite an increase in total problematic debt, due to classification of borrowers as "special mention," the **NPL ratio** decreased slightly to 0.81%, from 0.85% on March 31, 2023. The **NPL coverage ratio** (balance sheet allowance for credit losses/NPL) improved to 185%, as the bank continued to increase its **collective provision**, further to the increase made in previous quarters, to reflect the rise in macroeconomic uncertainties and the probability of a deceleration.

Balance sheet

- **Net credit to the public** in the second quarter of 2023 totaled NIS 400.1 billion, compared with NIS 394.4 billion in the preceding quarter, an increase of 1.5%, and an increase of 7.6% compared with NIS 372.0 billion in the same quarter last year. Compared to the end of 2022**, net credit to the public** grew by 2.9%.
- The growth in the **credit portfolio** in recent quarters was responsible and aligned with sector and macro dynamics. **Corporate credit** increased by 4.7% compared to the first quarter of 2023, with the growth spread over several economic sectors, such as financial services, electricity and water supply, and real estate. **Commercial credit** increased slightly, by 0.4% during the quarter. The **housing loan portfolio** grew by 0.5% in the second quarter, thereby completing 5.1% growth year-on-year, while **small business credit** decreased compared to comparable quarters; **consumer credit** decreased by 0.7% this quarter, and by 2.6% compared to the same quarter last year. **Total deposits** reached NIS 529.7 billion, a slight increase vs. the preceding quarter, as **retail deposits** continued to grow, by 0.7% in the second quarter. **Retail deposits** amounted to NIS 312.2 billion, constituting 59% of total deposits.
- **Allowance for credit losses** continued to grow, to NIS 7.1 billion as at June 30, 2023, constituting 1.74% of total credit.
- **Shareholders' equity** grew by 2.6% in the quarter and by 11.6% vs. June 30, 2022, to NIS 49.3 billion.
- The board of directors of the bank approved a **dividend** distribution of 40% of second-quarter net profit, in the amount of NIS 769 million, to be paid on September 6, 2023.

Income statement

- **Income from regular financing activity** in the second quarter totaled NIS 4,511 million, an increase of 2.5% vs. the preceding quarter and 31.4% compared to the corresponding quarter last year. This growth was 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** increased slightly vs. the previous quarter and by 0.56 percentage points vs. the corresponding quarter, to 2.80%.

  Looking ahead, we estimate that the supportive macro parameters of the rise in interest rates and inflation are close to being exhausted. Markets imply a gradual decline in the BOI interest rate next year, following a decline in the fed funds rate, and inflation expectations are well anchored below the 3% upper limit of the target range. At the same time, in a persistent high interest rate environment, customers' preferences are translated into more migration from non-interest bearing to interest-bearing deposits.
- **Fee income** totaled NIS 961 million in the second quarter, compared with NIS 968 million in the previous quarter and NIS 903 million in the same quarter last year. In comparison to the corresponding quarter, fees were positively influenced by the growth in activity and the agreement signed with the credit-card company Isracard. Vs. the preceding quarter, the slight decrease was due to the decline in stock-exchange turnover, impacting trading fees, which was offset by an increase in credit-card fees.
- **Operating and other expenses** totaled NIS 2,181 million in the second quarter, compared with NIS 2,094 million in the previous quarter and NIS 1,996 million in the same quarter last year, an increase of 4.2% and 9.3%, respectively. The increase in expenses mainly resulted from an increase in other expenses, as well as in maintenance and depreciation expenses, due to some seasonality and one-time software impairment effects.
- The **cost-income ratio** for the second quarter of 2023 stood at 38.1%, down from 39.1% in the previous quarter and 48.8% in the corresponding quarter.
- In the second quarter, **credit loss provisions** amounted to NIS 579 million (0.56% credit loss ratio), mainly resulting from an increase in the collective provision, due to adjustments in respect of macroeconomic effects, in view of the increase in the probability of economic deceleration and a high interest-rate environment over a long period, as well as improvements in the provision model methodology. This quarter we also recorded a specific provision of

NIS 113 million, following a period of zero to negative specific provisions, which was clearly not sustainable. In total, in the first half of 2023, **credit loss provisions** amounted to NIS 764 million, constituting 0.38% of total credit.

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

- **Targeted benefits for private customers** – In July 2023, the bank announced a series of significant benefits for its customers in the areas of current accounts, deposits, and mortgages:
  - Enhancement of the mechanism for offsetting positive balances against negative balances in current accounts.
  - Reduction of interest rates on negative balances.
  - Proactive encouragement for households to migrate to interest-yielding products.
  - Improvement of interest rates on deposits for retail customers.
  - Absorption of further increases in interest rates on mortgage payments and extension of the existing absorption by six months.
  - Deferral of the next payment of a loan by one or two months, without enlarging or reducing monthly payments (thus extending the term of the loan).

- **Wage agreement** – In July 2023, the bank and the employee union reached accords regarding a wage agreement for 2023-2027, which were approved by the board of directors and board of management of the bank and by the employee council. The agreement will intensify employees' contribution to the performance of the bank; it reflects the bank's preparations for the changes underway in the banking industry and the shifts in the job market, and supports the strategic objectives of the bank within the Poalim 2026 plan.

  The main principles of the agreement are: a nominal wage raise (not in percentage) of up to NIS 1,000 per employee, of which NIS 300 performance-based (minimum of 15% ROE in 2026-2027); the future bonus mechanism decreased to 2.5 monthly salaries per year; payment of a one-time grant in the amount of two monthly salaries; the option to terminate employment due to lack of fit; and agreements regarding the upcoming relocation to the Poalim Center.

  The impact of the agreement is an increase of approximately NIS 200 million in salary and related expenses in the first half of 2023 (of which, NIS 80 million in 2Q23), mainly in respect of the one-time grant.

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 BankHapoalimQ2.2023. 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.

Contact

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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, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022	December 31, 2022
Main performance indicators					
Return of net profit attributed to shareholders of the Bank on equity(1)	**15.8%**	12.3%	**16.4%**	13.9%	14.8%
Return on average assets(1)	**1.14%**	0.84%	**1.18%**	0.94%	1.01%
Ratio of income(2) to average assets(1)	**3.41%**	2.56%	**3.32%**	2.50%	2.78%
Ratio of net interest income to average assets(1)	**2.56%**	2.00%	**2.50%**	1.86%	2.09%
Ratio of fees to average assets(1)	**0.57%**	0.57%	**0.58%**	0.56%	0.57%
Efficiency ratio – cost-income ratio	**38.1%**	48.8%	**38.6%**	49.8%	44.5%
Financing margin from regular activity(1)(3)	**2.80%**	2.24%	**2.78%**	2.07%	2.35%
Liquidity coverage ratio (LCR)	**126%**	126%	**126%**	126%	122%
Net stable financing ratio (NSFR)(4)	**125%**	132%	**125%**	132%	130%

	As at		
	June 30, 2023	June 30, 2022	December 31, 2022
Ratio of common equity Tier 1 capital to risk components(5)	**11.51%**	11.14%	11.25%
Ratio of total capital to risk components(5)	**14.68%**	14.45%	14.70%
Leverage ratio(5)	**6.69%**	6.17%	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 2-2: Condensed statement of profit and loss

NIS millions	For the three months ended			For the six months ended		
	June 30, 2023	June 30, 2022	Change	**June 30, 2023**	June 30, 2022	Change
Interest income	**8,622**	4,304	100.3%	**16,144**	7,707	109.5%
Interest expenses	**(4,327)**	(1,117)	287.4%	**(7,812)**	(1,804)	333.0%
Net interest income	**4,295**	3,187	34.8%	**8,332**	5,903	41.1%
Non-interest financing income	**414**	(19)	(2,278.9%)	**754**	129	484.5%
Net financing profit*	**4,709**	3,168	48.6%	**9,086**	6,032	50.6%
Provision (income) for credit losses	**579**	91	536.3%	**764**	(509)	(250.1%)
Net financing profit after provision (income) for credit losses	**4,130**	3,077	34.2%	**8,322**	6,541	27.2%
Fees and other income*	**1,016**	920	10.4%	**1,998**	1,904	4.9%
Operating and other expenses	**2,181**	1,996	9.3%	**4,275**	3,954	8.1%
Profit before taxes	**2,965**	2,001	48.2%	**6,045**	4,491	34.6%
Provision for taxes on profit	**1,056**	704	50.0%	**2,145**	1,566	37.0%
Profit after taxes	**1,909**	1,297	47.2%	**3,900**	2,925	33.3%
The Bank's share in profits of equity-basis investees, after taxes	**13**	46	(71.7%)	**30**	73	(58.9%)
Net profit:						
Before attribution to non-controlling interests	**1,922**	1,343	43.1%	**3,930**	2,998	31.1%
Loss (profit) attributed to non-controlling interests	**-**	-	-	**-**	(1)	(100.0%)
Attributed to shareholders of the Bank	**1,922**	1,343	43.1%	**3,930**	2,997	31.1%
Return of net profit	**15.8%**	12.3%	28.8%	**16.4%**	13.9%	18.1%

* The profit and loss items above are presented in a different format than in the 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

NIS millions	2023		2022			
	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	**8,622**	7,522	6,374	5,139	4,304	3,403
Interest expenses	**(4,327)**	(3,485)	(2,446)	(1,503)	(1,117)	(687)
Net interest income	**4,295**	4,037	3,928	3,636	3,187	2,716
Non-interest financing income (expenses)	**414**	340	337	115	(19)	148
Total reported financing profit	**4,709**	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	**(143)**	(77)	(173)	4	(14)	46
Profit (loss) from investments in shares	**131**	113	96	(59)	(190)	30
Adjustments to fair value of derivative instruments(1)	**187**	(67)	171	(199)	(77)	(73)
Income (expenses) from hedges and others(2)	**23**	9	(13)	(17)	17	(49)
Total effects not from regular activity	**198**	(22)	81	(271)	(264)	(46)
Total income from regular financing activity(3)	**4,511**	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 in the amount of NIS 382 million in the second quarter of 2023; income in the amount of NIS 266 million in the first quarter of 2023; income in the amount 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)

	For the three months ended		For the six months ended		For the year ended
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022	December 31, 2022
Main credit quality indicators					
Total allowance for credit losses* as a percentage of credit to the public	**1.74%**	1.58%	**1.74%**	1.58%	1.64%
Allowance for credit losses in respect of credit to the public as a percentage of credit to the public	**1.50%**	1.35%	**1.50%**	1.35%	1.40%
Credit to the public, non-accruing or past due by 90 days or more, as a percentage of credit to the public*	**0.89%**	0.89%	**0.89%**	0.89%	0.89%
Net charge-offs as a percentage of average credit to the public	**0.12%**	0.00%	**0.07%**	(0.03%)	(0.03%)
Provision (income) for credit losses in respect of credit to the public as a percentage of average credit to the public	**0.56%**	0.07%	**0.38%**	(0.28%)	(0.02%)

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

NIS millions	As at		
	June 30, 2023	June 30, 2022	December 31, 2022
Main balance sheet data			
Total assets	**668,784**	651,598	665,353
Of which: Cash and deposits with banks	**97,082**	162,579	133,424
Securities	**132,301**	81,506	107,400
Net credit to the public	**400,136**	371,976	388,727
Net problematic credit risk	**6,616**	7,448	6,487
Credit to the public not accruing interest income (NPL)	**3,287**	3,263	3,444
Total liabilities	**619,441**	607,380	618,850
Of which: Deposits from the public	**529,703**	529,508	532,588
Deposits from banks	**10,793**	9,045	8,696
Bonds and subordinated notes	**24,804**	27,334	26,866
Shareholders' equity	**49,342**	44,217	46,502
Additional data			
Share price at end of period (in NIS)	**30.4**	29.2	31.7