

BKHYY Earnings Call Transcript

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Quarter: 3

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Bank Hapoalim Third Quarter of 2025 Results Conference Call. For your convenience, this call will be accompanied by a PowerPoint presentation. May we suggest if you have not yet done so, that you access the presentation on the bank's website, www.bankhapoalim.com by clicking on Financial Information on the homepage and then click on the Third Quarter 2025 Report Presentation. [Operator Instructions] As a reminder, this conference is being recorded, November 20, 2025. With us on the line today are Mr. Ram Gev, CFO; Mr. Victor Bahar, Chief Economist; and Ms. Tamar Koblenz, Head of Investor Relations. I would like to remind everyone that forward-looking statements for the respected company's business, financial condition and results of its operations are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated. Such forward-looking statements include, but are not limited to, product demand, pricing, market acceptance, changing economic conditions, risk and product and technology development and the effect of the company's accounting policies as well as certain other risk factors, which are detailed from time to time in the company's filings with the various securities authorities. Mr. Gev, would you like to begin?

Ram Gev: Good afternoon to you all, and thank you for joining us today. I'm happy to review the bank's 2025 third quarter results with the highest in the sector quarterly and cumulative net profit. Let's start with Slide 3. This morning, we reported a 16.1% return on equity for the 9 months with net profit of ILS 7.3 billion, both excluding ILS 380 million income from the insurance reimbursement, 8.1% credit growth year-to-date and a profit distribution of 50% of third quarter net profit through cash dividends and share buybacks. These metrics demonstrate that we continue to be well on track to meet our 2025 financial targets. In fact, we are currently exceeding the targets, resulted from higher-than-expected growth and a more favorable macro environment than the market forecasted at the time of the target publication. Not less important is the fact that these results were achieved while we continue to strengthen our balance sheet, build buffers and maintain the high quality of the credit book. The CET1 capital ratio is 12.05%. The allowance ratio is 1.74%. LCR is comfortably above target at 124% and the NPL ratio has declined further to 0.49%. On Slide 4, we see the development of profitability over time. On a quarterly basis, net profit was ILS 2.8 billion and return on equity is 17.6%. Excluding the aforementioned income from insurance, net profit was ILS 2.4 billion and return on equity is 15.2%. EPS came in at ILS 2.1 or ILS 1.81 on an adjusted basis. Next, let's talk about our credit book. Our credit portfolio increased 11.4% in the last 12 months, of which 8.1% since the beginning of the year and 2.2% in the last quarter. Growth was recorded across all segments and in various economic sectors. This is a reflection of our ability as a leading bank to translate the strength of the Israeli economy into growth in the bank's activity. Slide 7 presents our financing income. Income from regular financing activity grew moderately this quarter compared to the previous quarter due to the growth in activity, which was mitigated by the slightly lower CPI. Non-regular financing activities saw a decrease due to, among other things, to customer benefits granted in line with the Bank of Israel voluntary program, which took effect on April 1. In the third quarter, the expense for benefits recorded in financing income was higher than in the previous quarter due to the bank's initiative to grant its customers 2 shares of the bank as part of the benefit program. Our margins stayed strong and grew year-on-year. The financial margin for the first 9 months of 2025 increased to 2.77% versus 2.71% last year. In fact,

Bank Hapoalim has the highest financial margin in the sector and is the only one to present growth in margins in 2025. On fees, the positive trend continues across all types of fees as our business activity continues to expand. The slight reduction in fees versus last quarter is attributed to onetime income from international credit card organizations booked in the second quarter. The significant growth in fees is well demonstrated in the 11.4% increase during the 9 months period. Moving to present our disciplined cost management. Operating and other expenses are lower versus all comparable periods. The growth in income, coupled with the decline in costs as a result of cost restrained efforts brought the cost/income ratio to a very low level of 30.6% for the quarter and 32.7% excluding the onetime income. The cost/income ratio for the 9 months period is impressive as well, 32.7% as reported and 33.4% adjusted. Moving on to discuss provision for credit losses and the quality of our book on Slide 10 and 11. Provision for credit losses amounted to ILS 347 million or 0.29% of our credit book, driven completely by the collective allowance and net automatic charge-offs. The increase in the collective allowance reflects our prudent approach and is due to the growth of the credit portfolio and the continued uncertainty in the economic environment. On credit quality metrics, on the left-hand side, we see the NPLs continue to grow, now at 0.49%, while the NPL coverage ratio continues to rise, now more than triple the NPLs as we continue to increase the collective allowance. On the right-hand side, the allowance to loan ratio remained high at 1.74%. Over 95% of the total allowance is collective. Our deposit base continued to grow 3.6% in the last 12 months. Retail deposits decreased in the last year, but still represent 54% of total deposits. Liquidity ratios, LCR and NSFR continue to be well above the minimum requirement. Now let's move to present our capital position, which continues to benefit from strong organic generation capabilities, 11.5% in the last 12 months and the CET1 capital ratio rose to 12.05%. I'm moving to Slide 14. Total distribution in the quarter continues to be 50% of net profit, 40% as dividend and 10% in share buybacks. Total profit distributed and declared is ILS 1.38 billion in respect of the third quarter, of which ILS 1.1 billion of cash dividend or ILS 0.84 per share. After successfully completing our previous ILS 1 billion share buyback, the Board approved a new plan for a similar amount starting today. Moving to Slide 15 for a brief update on Bit, our unique innovative asset. The number of active customers continues to rise, now reaching 3.45 million users with an average monthly P2P transactions volume of ILS 2.4 billion. Recently, we introduced an exciting new offering, the ability to create savings pockets within the app, allowing customers to deposit up to ILS 20,000 and benefit from 4% interest. Before we review the macroeconomic slides and sum up the call, the important reminder on our financial targets for 2025 and 2026 is on Slide 16. The key assumptions for these targets are detailed in the 2024 financial report. I'm moving to Slide 17 on the macroeconomic environment. We have seen a substantial increase in economic activity in the third quarter with GDP growing at an annualized rate of 12.4%. Private consumption, exports and investments all grew at a rapid pace, more than compensating for the trough caused by the war with Iran in the second quarter. Looking ahead, we still believe that growth will remain high in the coming year, driven primarily by an increase in investments in housing, the rehabilitation of frontier villages and infrastructure. As the war ended, the risk premium declined to levels that prevailed in the first half of 2023 and the shekel appreciated sharply. Inflation has decreased to a year-on-year rate of 2.5% and markets are now pricing less than 2% inflation over the next 12 months. Under these circumstances, we believe that interest rate cuts are imminent, even though medium- and long-term inflation concerns persist as the labor market remains tight and wage inflation is high. I'm moving to Slide 18 to summarize. We delivered strong 9 months results, well on track to meeting our financial targets. ROE of 17.6% in the third quarter or 15.2% adjusted for the income from insurance, cost/income ratio of 30.6% and 32.7% adjusted. Financing income and margins continue to be strong, driven by the growth in activity and assets rollover. The strong growth in credit was broad-based across segments and economic sectors. Credit quality continues to be strong with NPL ratio of only 0.49% and allowance to NPL ratio of 313%. Our capital is organically and substantially growing. This quarter, we declared a 50% profit distribution, including the first tranche of a new share buyback plan. With that said, let's open the call for your questions. Back to you, operator.

Operator: [Operator Instructions] The first question is from Chris Reimer.

Chris Reimer: Can you hear me okay?

Operator: Yes, we can hear you.

Chris Reimer: One on regulatory risk. There has been some headlines about increasing tax rate on banks and separately by the Finance Minister to add a potential tax for mortgages subsidation. Does the bank have any take on these ideas?

Ram Gev: Yes. Chris, thank you for the question. We see from time to time some regulatory initiatives. Some of them are continuing to further legislation, but a lot of them are not continuing. We look and when we analyze them, part of them are pretty populist. You mentioned the one about subsidizing mortgages, et cetera. Those are initiatives in fairly early stages. We are reviewing and monitoring it. But I think what's most important is the position of the Bank of Israel that post these suggestions. So I think the track record that show that populist initiative didn't go further to actual laws, that's the important element. And we think it will be reasonable to assume it will be the same with that. Obviously, there are some other legislation that may continue and be in the form of law, but that's the reason why we are reviewing every, let's say, initiative.

Chris Reimer: Got it. Got it. That's helpful to know. Considering -- just looking at operating expenses, considering your upcoming move of the headquarters, how should we be looking at expenses going into next year?

Ram Gev: Okay. You mentioned our project on centralizing our headquarters. The project continues well. And actually, we are about to finalize the project and start moving about a year from now. So it mainly affect operating costs from 2027 and on. Another major effect that it will have is the ability to sell our current buildings, some of them in major central location and create some material capital gains. But that will be in 2027 and on as well.

Operator: The next question is from Priya Rathod.

Priya Rathod: Just 2 from me. So the first is on capital. I saw that you increased your internal capital target to 11%. Could you just give a bit more color on the reasoning behind increasing this? And did this have any influence on your decision to stick with the 50% payout ratio? Because obviously, we've seen this quarter that a couple of your peers have raised the payout ratio to 75%. So any color on that would be really useful. Secondly is on your coverage ratio. You're like in excess of 300%. What would you need to see or what hurdles would you need to overcome to potentially release some of those provisions going forward?

Ram Gev: Priya, thank you for the questions. As you have seen, the entire banking sector actually has updated its internal capital targets upon approval of the third quarter financial statements. This follows a periodic dialogue that the supervisor of banks conduct with each of the banks. And this year, in addition to the usual consideration and an element of the current economic and geopolitical environment, which in the view of the Bank of Israel still contains a degree of uncertainty, this element was also taken into account. And in light of these factors as well as the surplus capital within the system, the banks have revised their internal targets. Bank Hapoalim's Board of Directors has decided, like you mentioned, to set the minimum internal capital target at 11%. This is the outcome of the ongoing dialogue with each bank, taking into consideration the specific characteristics and what I mentioned about the geopolitical uncertainty. Obviously, the Board of Directors, while deciding about the distribution took into account the internal target. And the Board of Directors decided that given the current surpluses, the desired capital buffers and our significant growth targets, maintaining a 50% distribution rate is the right approach going forward. So that's about capital distribution. About collective allowance, and you mentioned right, we have very high-quality loan portfolio. And it's reflected in all aspects, very low NPLs, very low write-offs level and nearly 0 for the quarter, for example, individual provision. And indeed, we have conservative approach, and we accumulated buffers during the war. And actually, this quarter as well, we continued building the buffers. So we have the highest buffers in the industry. You mentioned allowance to credit ratio, we have 1.74% ratio. It's 20 basis points above the second one in the industry. And the reason is very simple behind our approach. We are indeed in a ceasefire situation, and we are optimistic, very optimistic about the Israeli economy, but uncertainty is still there. And we think that it's too early to release or reverse the buffers like other banks did. And having those buffers allowing us to be best prepared in the sector for 2026 in each scenario. If the pessimistic scenario will happen, we are best immunized for that. And if the optimistic scenario will happen, then we are prepared for 2026 better than others as well. I think that the entry to 2026, everyone will have

more information and more certainty about the stability of the ceasefire, about the stability of the lower level of risk in other fronts and the growth of the Israel economy. So we think that we will benefit from our approach.

Operator: The next question, can you please give us some color on your call decision approach to the Tier seconds callable next year and how you plan to approach the refinancing local versus international markets?

Ram Gev: Yes. Thank you for the question. As for the Tier 2 CoCo bonds dollar, obviously, we can't say now what we will do. But I think we can learn -- you can learn from our track record. Usually, we use this call option, and we understand the investor expectations and that you need very unique circumstances in order not to use this call option. But the best evidence for how we look at that is our track record.

Operator: [Operator Instructions] The next question is a follow-up a question from Priya Rathod.

Priya Rathod: Just a quick on your deposits. I saw this quarter that the deposits from private individuals fell year-on-year and also on a quarterly basis. What are the drivers behind that fall this quarter, please?

Ram Gev: Okay. Thank you, Priya. You're talking about money market funds and change in deposits. This reflects customer awareness to different alternative to investments and to deposits. We are happy with the awareness of the customers, and this reflects the -- what they choose how to manage their funds. From our perspective, we have very good levels of liquidity, and we are balancing growth in that area with profitability. So the very high flexibility we have, for example, you can look at the funding rate from capital markets is relatively low for Bank Hapoalim. So we rely on deposits, and that's enabled us to be flexible, keep disciplined pricing and manage the growth.

Operator: There are no further questions at this time. This concludes the Bank Hapoalim Third Quarter 2025 Results Conference Call. Thank you for your participation. You may go ahead and disconnect.