

◆ bank hapoalim

# Annual Financial Review

2021

---

20  
21



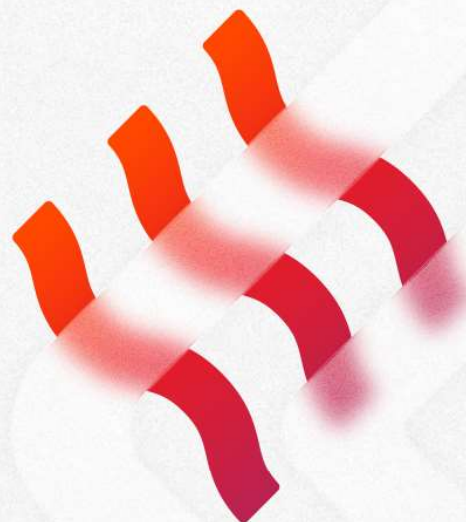


**CEO, Dov Kotler**  
Opening

---

**CFO, Ram Gev**  
Financials & strategy

---







## Disclaimer

This presentation includes condensed information and selected data from Bank Hapoalim's 2021 annual financial results.

This presentation is not a substitute for the Bank's 2021 Annual Financial Statements which include the full financial information including forward-looking information. The financial statements are available on the Bank's website at [www.bankhapoalim.com](http://www.bankhapoalim.com) - Investor Relations/Financial Information.

Some of the information in this presentation that does not refer to historical facts constitutes forward-looking information, as defined in the Securities Law. Forward looking statements regarding the Bank's business, financial condition and

results of operations, are subject to risks and uncertainties, that may 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, risks in product and technology development and the effect of the Bank's accounting policies, as well as certain other risk factors which are detailed from time to time in the Bank's filings with the securities authorities.

Special items in ROE and net profit refer to provision made in relation to the investigation of the US authorities and related legal proceedings, the effect of the

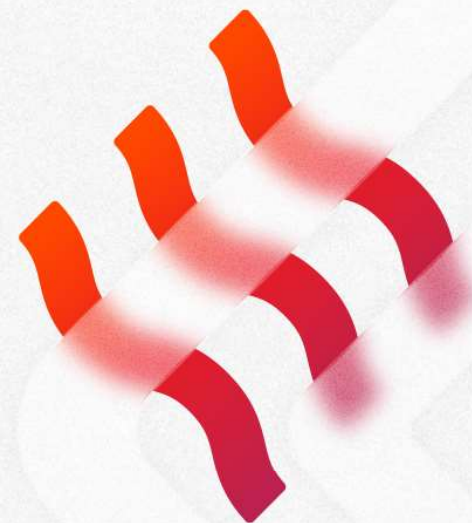
closure of the Bank's private banking activities overseas, loss/profit from the separation from Isracard, and loss from impairment relating to Bank Pozitif. Special items in expenses refer to provisions made in relation to the investigation of the US authorities (including exchange rate differentials) and related legal proceedings, and the effect of the closure of the Bank's private banking activities overseas.



---

**CEO, Dov Kotler**

Opening





## 2021 - a remarkable year for Bank Hapoalim

**4.9<sup>Bn</sup>**  
**Net  
profit**

**16.8%**  
**Total  
credit  
growth**

**9.2%**  
**Total  
income  
growth**

**11.8%**  
**ROE**

**54.2%**  
**Cost-  
income  
ratio**

**10.96%**  
**CET-1  
ratio**

## A year of significant advancements across all business lines

In view of the high demand in the market, we identified the potential for growth in credit, expanded our capacity accordingly, and strengthened our response to customers

We restrained expenses and allocated our resources and employees to growth-supporting activities

The growth has been reflected in increased income, at a significantly higher level than just last year

We maintained portfolio quality and an adequate cushion of provisions

We developed additional revenue streams alongside core banking, most notably "Poalim Equity"

We developed bit app lines of business and took further steps towards its monetization

Significant capital surpluses, profitability achieved during the year, and the Tier 2 issuance allowed us to attain growth outpacing the industry, while distributing substantial dividends to shareholders

We introduced an updated code of ethics and formulated values supporting an organizational culture that promotes business growth, which are embedded in our work routines



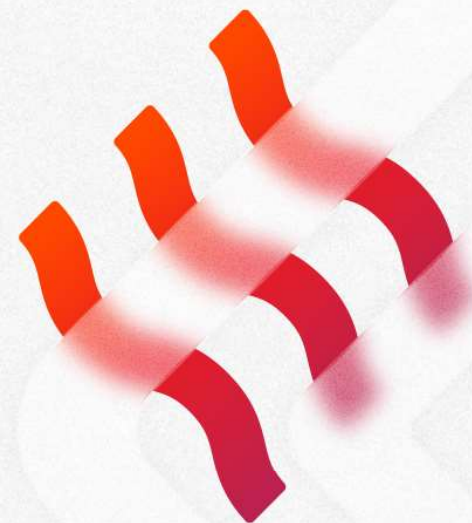
**Entering 2022 with proven execution capabilities**





**CFO, Ram Gev**

Financials & strategy



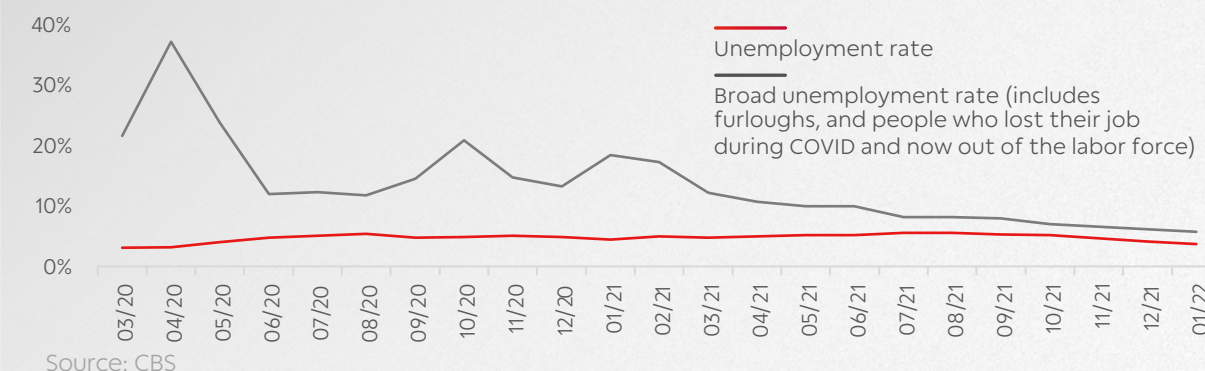
# Tight labor market and higher inflation are expected to lead to a first rate hike

## A rebound in GDP

Real GDP growth

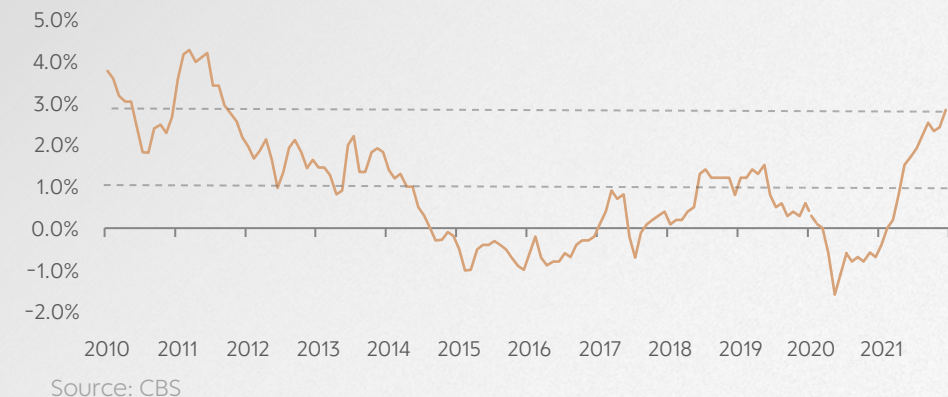


## Unemployment rate declined to pre-COVID levels



## Inflation is up, albeit lower than in most advanced economies

CPI, year-on-year rate of change



## Long-term rates have increased; rate hikes are now implied

10-year government bond yield, Israel

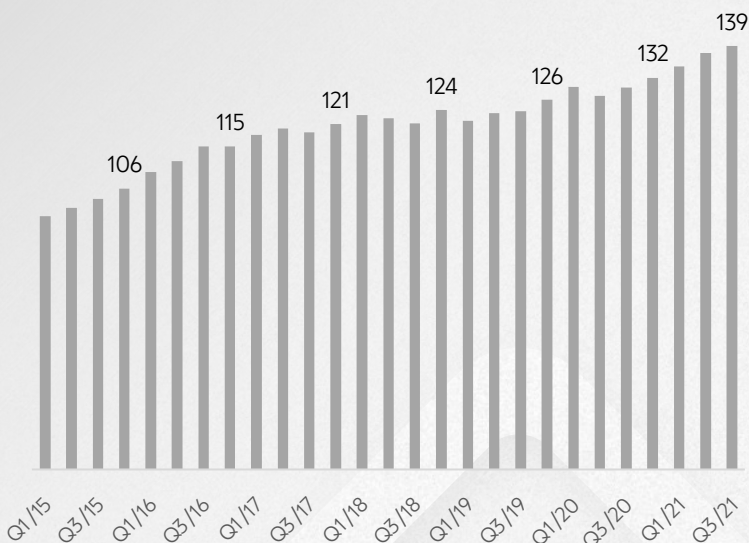




# The macroeconomic environment was supportive for the bank's balance-sheet and P&L

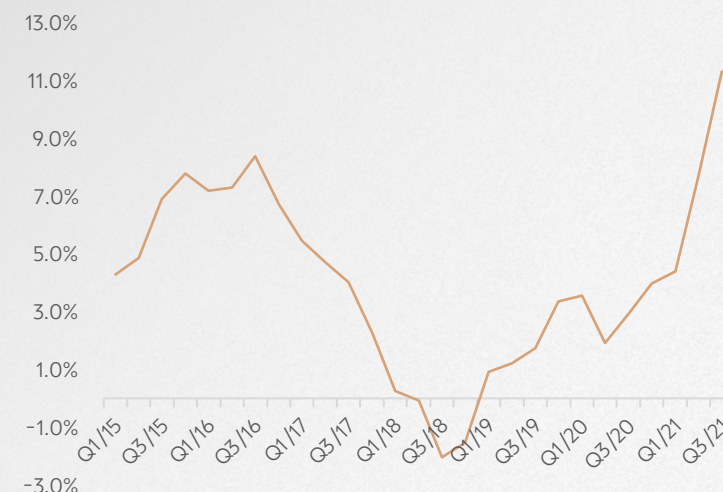
## Construction activity has increased

No. of apartments under active construction, thousands



## Higher real estate prices fuel the credit market

YoY rate of change in housing prices



## C&I activities higher than in the pre-COVID period

Revenue indices of total economy



## Strong business drive and results

### Robust profitability

Increase of 9.2% YoY in total income as we captured business opportunities across all segments of operations

Income from credit losses due to reversal of collective provision and lower individual provision

ROE

11.8%

2021

9.1%

4Q21

### Significant credit growth; outpaced the market

Economic rebound and our preparedness to meet the increased demand, led to 24.8% and 23.3% growth YoY, in corporate and commercial credit, respectively

Mortgages increased 16.1% YoY, supported by the all-time highs in the market

Credit to the public

16.8%

YoY

5.2%

QoQ

### Reversal of most of COVID-19 reserve; asset quality remained resilient

NPL ratio at pre-COVID level

Problematic debt declined by 20.2%, constituting 2.7% of total credit vs. 4.0% at the end of 2020

Reserve maintained high, more than double the NPL balances

Credit deferrals down to 0.4% of the book

LLP ratio and NPL ratio

-0.37%

2021 provisions ratio

0.81%

December 31 NPL ratio

### Capital management

Large capital surplus coupled with strong organic capital generation allowed enhanced credit growth

Distributed NIS 1.5 Bn in respect of 2020-2021 profits

USD 1 Bn Green Tier 2 issuance to support credit growth and improve capital structure

CET-1 ratio and dividend

10.96%

December 31 CET-1 ratio

1.5 Bn

Dividend distributed during 2021



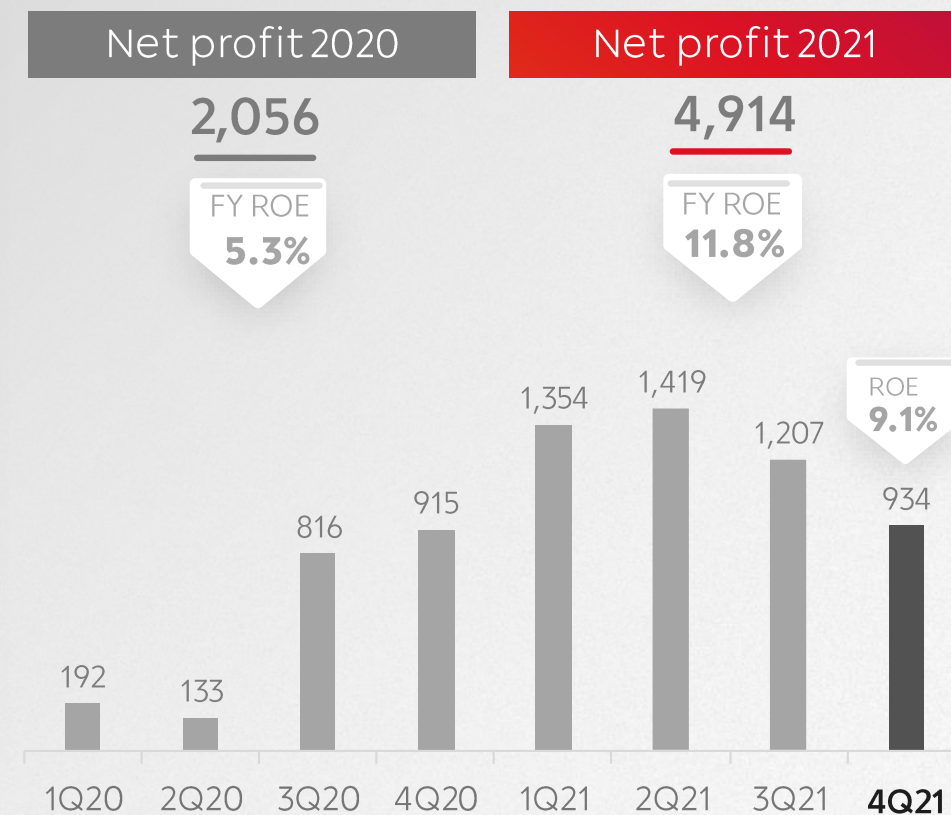
# Strong profitability in 2021

NIS million

## P&L highlights

	4Q20	3Q21	4Q21	2020	2021
Total net financing profit	2,492	2,777	2,680	9,885	10,848
Fees and other income	845	867	954	3,291	3,544
<b>Total income</b>	<b>3,337</b>	<b>3,644</b>	<b>3,634</b>	<b>13,176</b>	<b>14,392</b>
Operating and other expenses	1,908	1,999	1,905	7,501	7,803
<b>Profit before provisions and taxes</b>	<b>1,429</b>	<b>1,645</b>	<b>1,729</b>	<b>5,675</b>	<b>6,589</b>
Provision for credit losses	-187	-252	187	1,943	-1,220
<b>Profit before taxes</b>	<b>1,616</b>	<b>1,897</b>	<b>1,542</b>	<b>3,732</b>	<b>7,809</b>
<b>Net profit</b>	<b>915</b>	<b>1,207</b>	<b>934</b>	<b>2,056</b>	<b>4,914</b>
<b>ROE</b>	<b>9.6%</b>	<b>11.8%</b>	<b>9.1%</b>	<b>5.3%</b>	<b>11.8%</b>

## Net profit



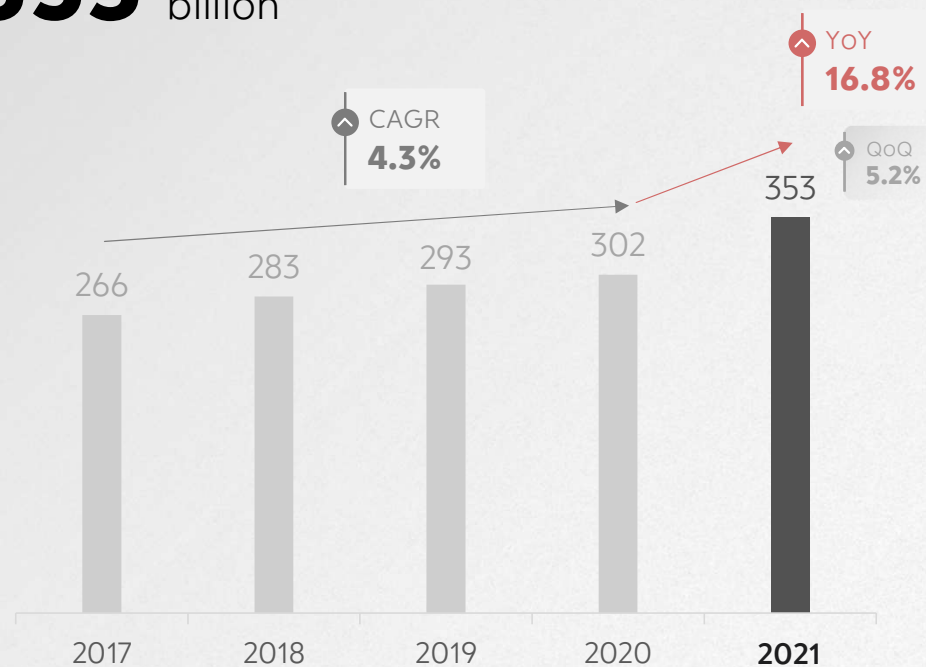
Notes: 1. Excluding special items, net profit for 1Q20 totaled NIS 313 million, net profit for 2Q20 totaled NIS 161 million, net profit for 2020 totaled NIS 2,205 million (ROE of 5.7%), net profit for 4Q21 totaled NIS 977 million (ROE of 9.5%) and net profit for 2021 totaled NIS 4,957 million (ROE of 11.9%).

2. For a full profit and loss disclosure, please refer to the Bank's financial statements for 4Q21.

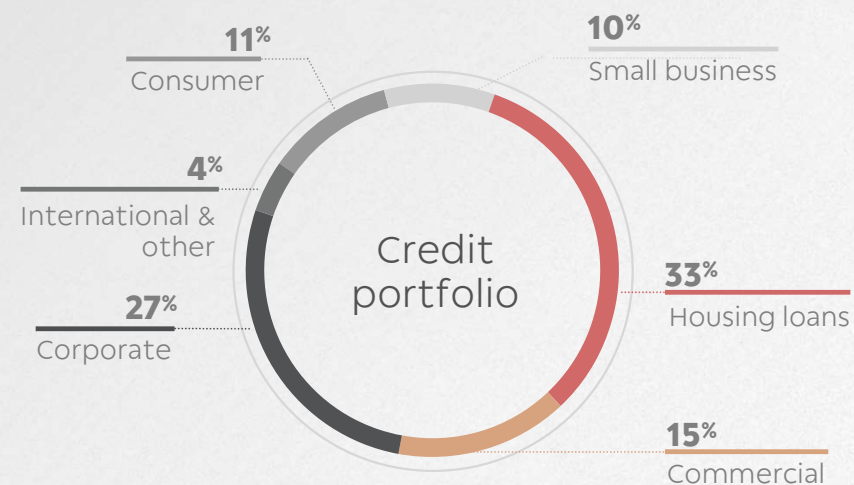
## Robust credit growth; demonstrated ability to meet high demand

### Credit portfolio

**353** NIS  
billion



### Well-diversified credit portfolio





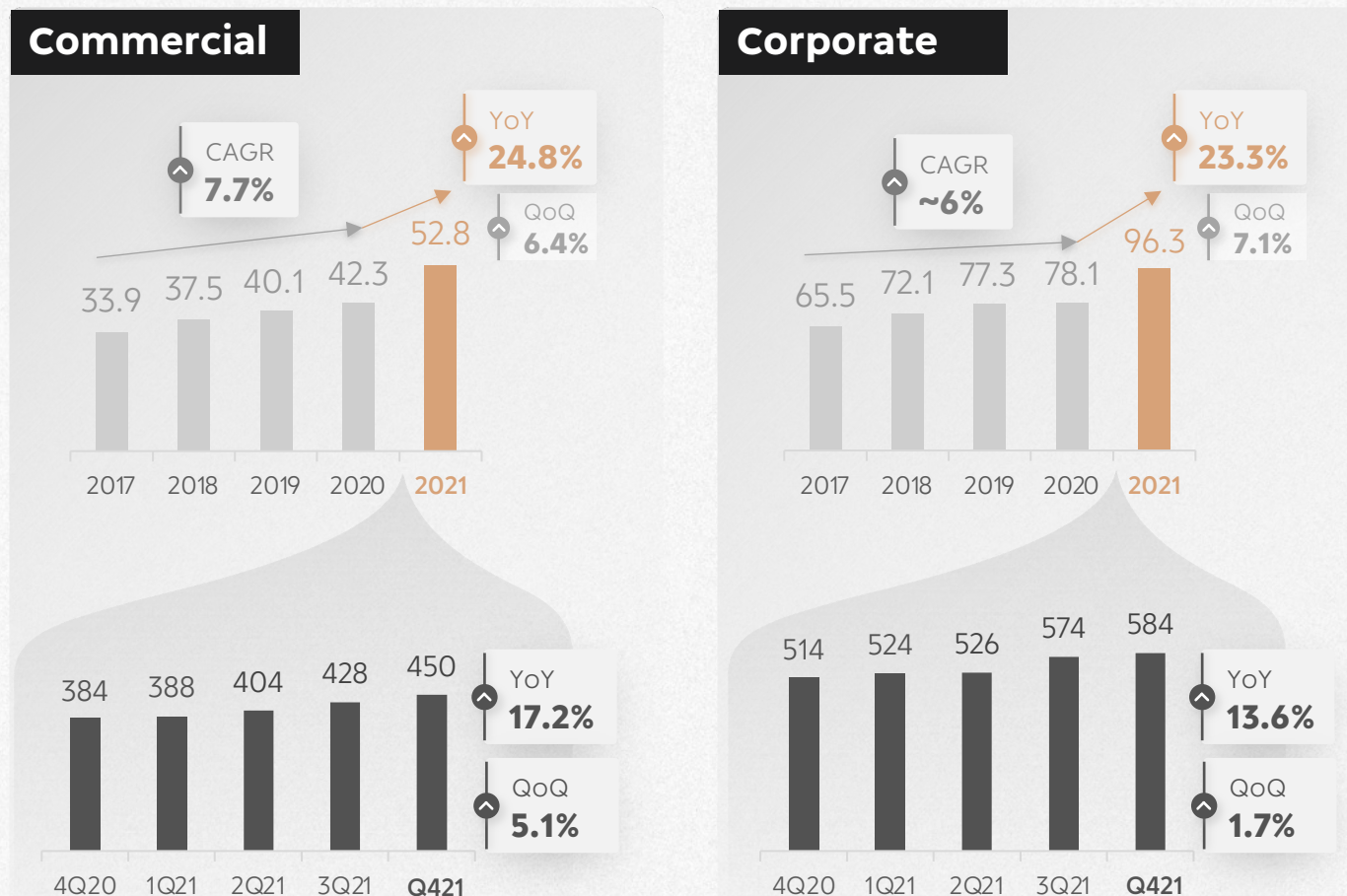
# Business credit growth laid the foundation for an increase in income

## Credit balances

NIS billion

## Total income, quarterly

NIS million



Note: 2019 and 2018 corporate credit balances were reclassified in the 2020 financial report. 2017 balances were not reclassified.



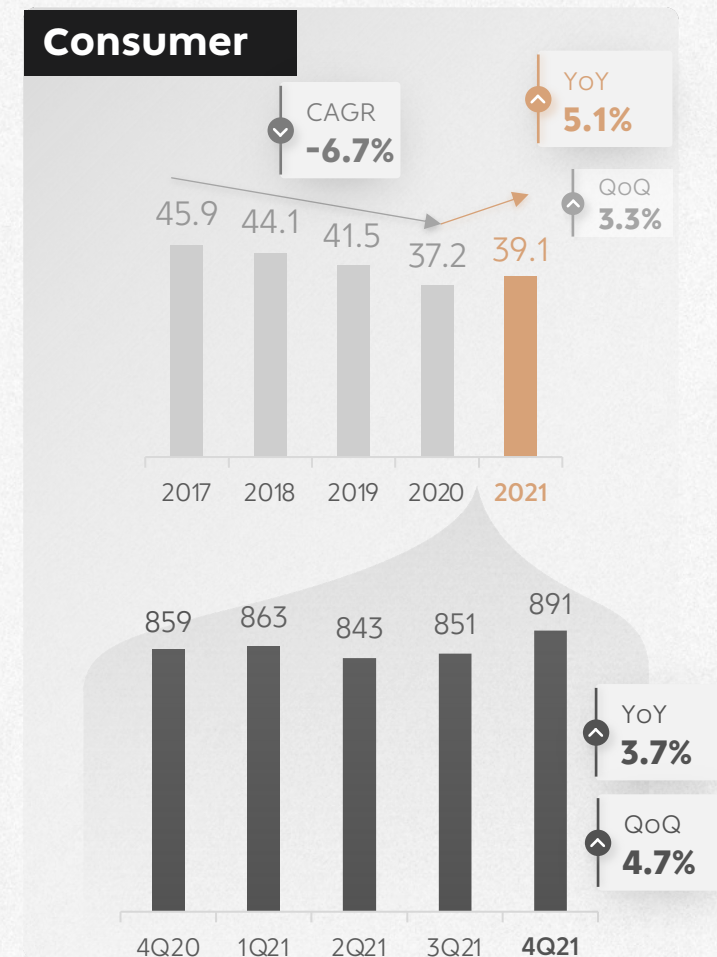
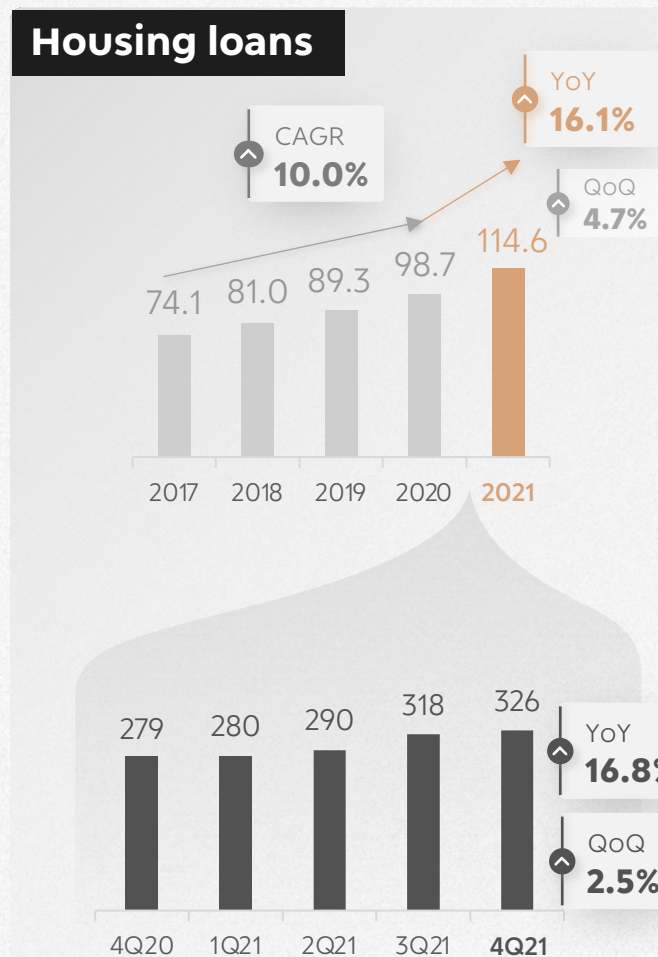
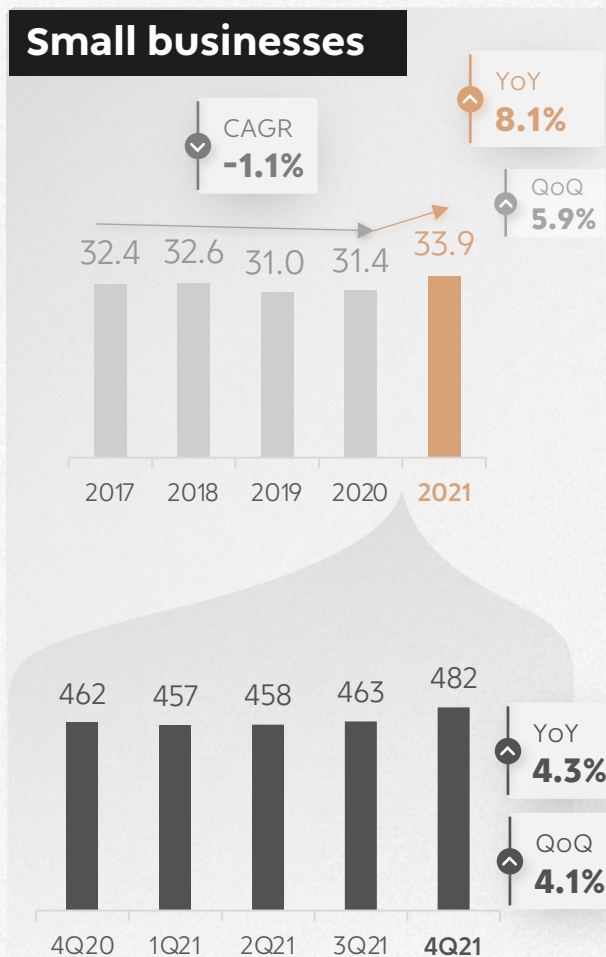
# Retail credit growth laid the foundation for an increase in income

## Credit balances

NIS billion

## Total income, quarterly

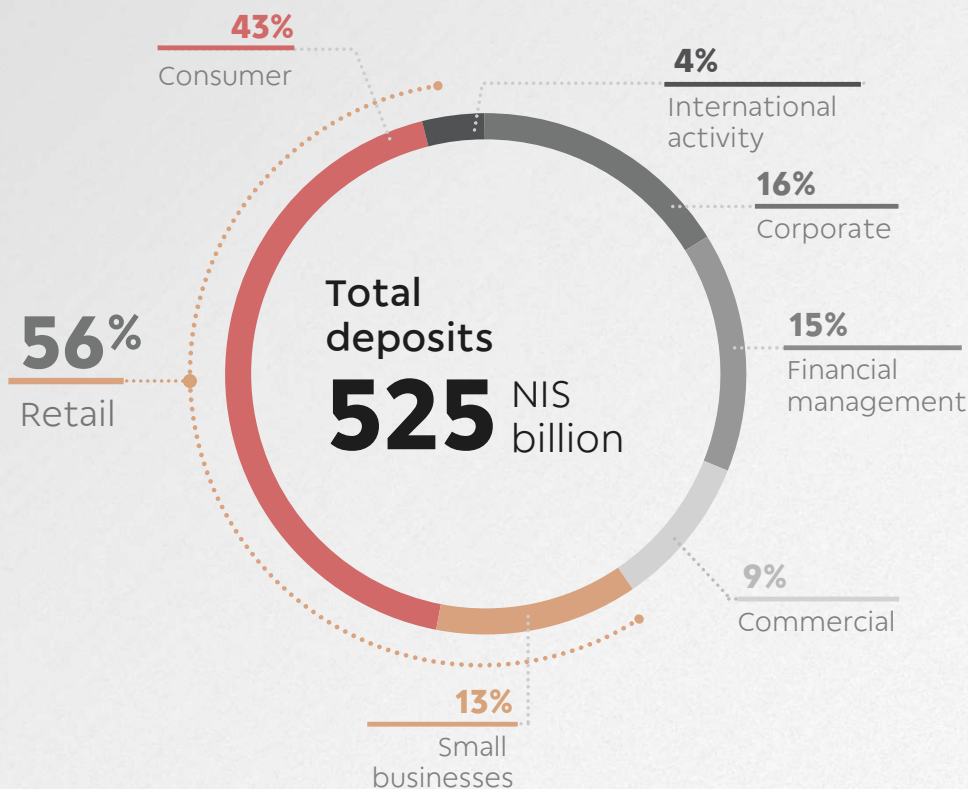
NIS million





## Surging deposits on the back of high liquidity in the market; well positioned for rate hike

### Deposit base



### Largest retail deposit base in the sector

**292** NIS billion

YoY  
**6.2%**

QoQ  
**1.1%**

### LCR

**124%**

### NSFR

**141%**

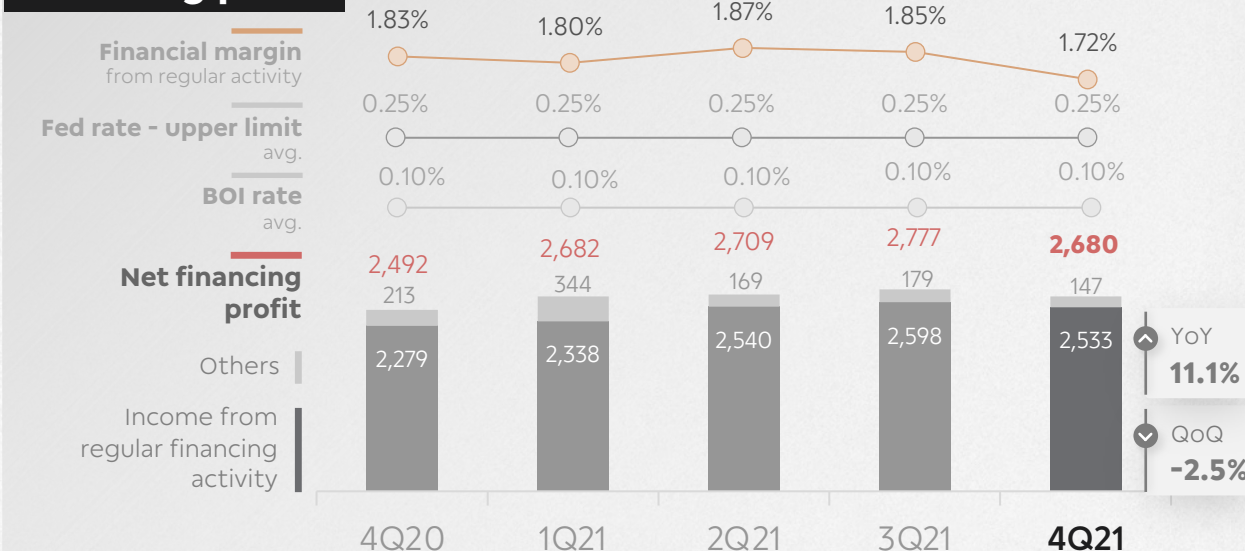
Above regulatory requirement of 100%

Non-interest-bearing deposits  
of total deposits: 45%

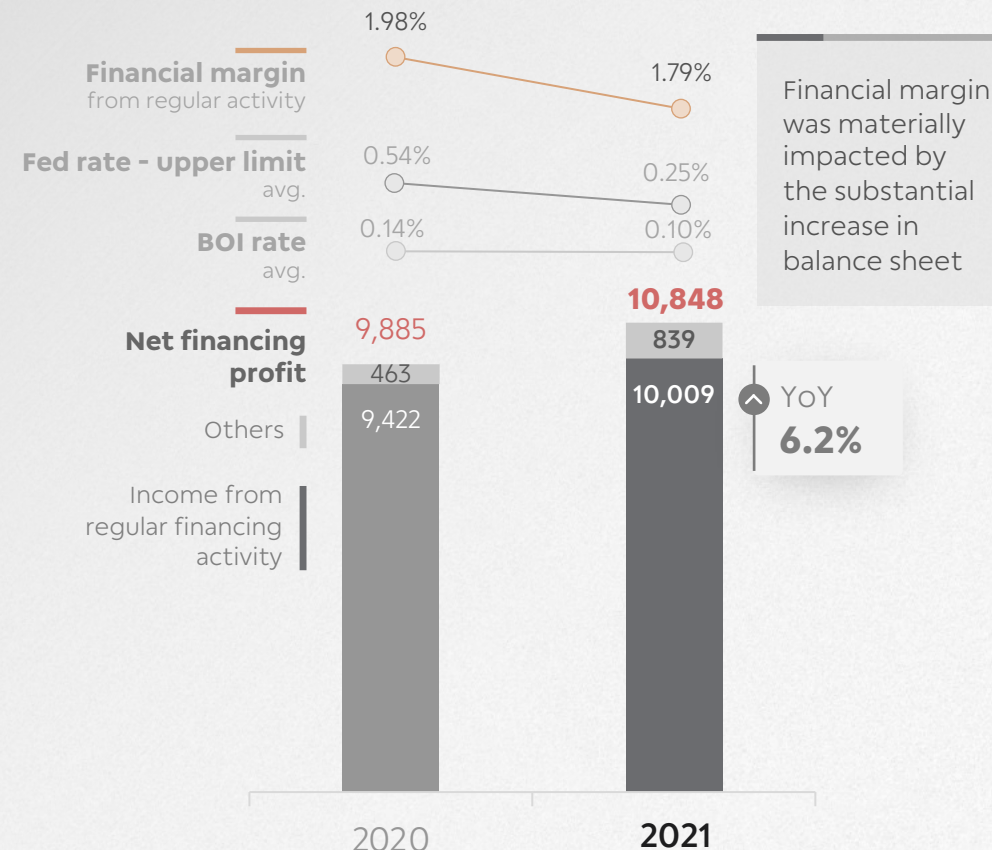
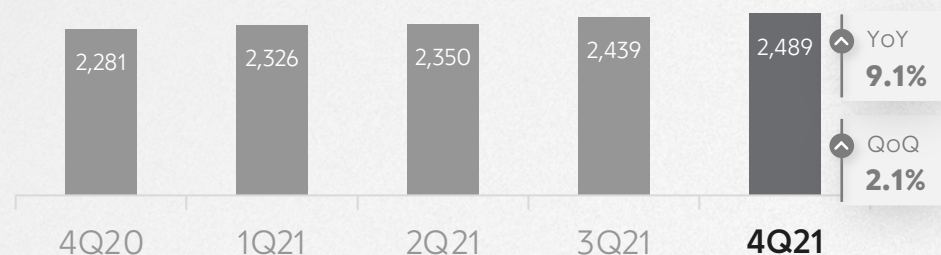
# Continued revenue momentum in core banking

NIS million

## Financing profit



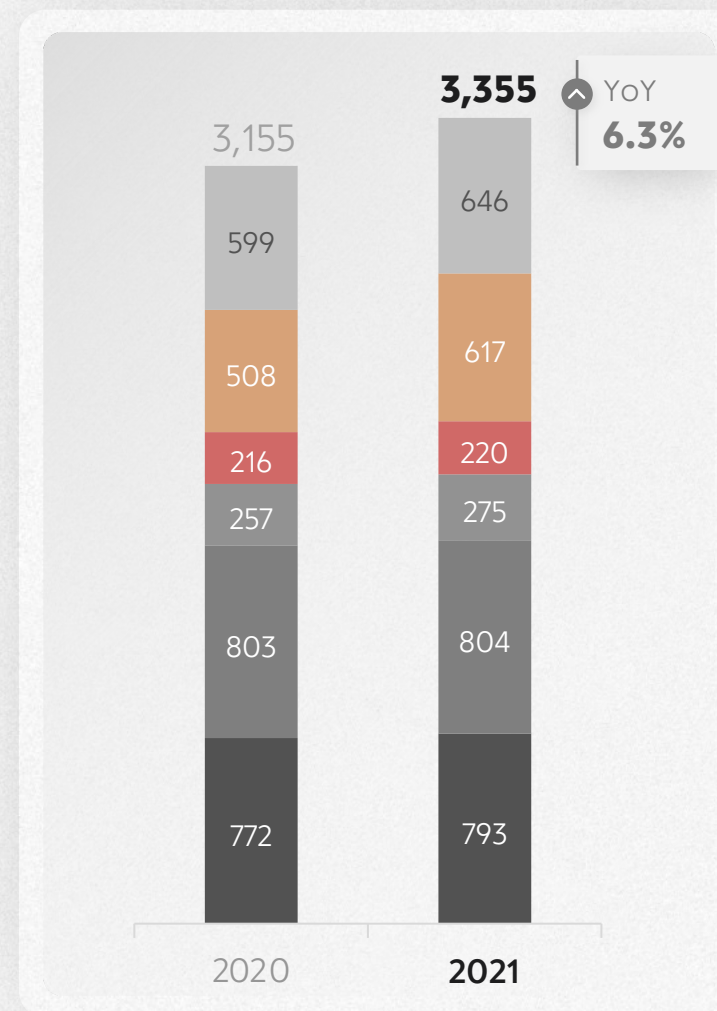
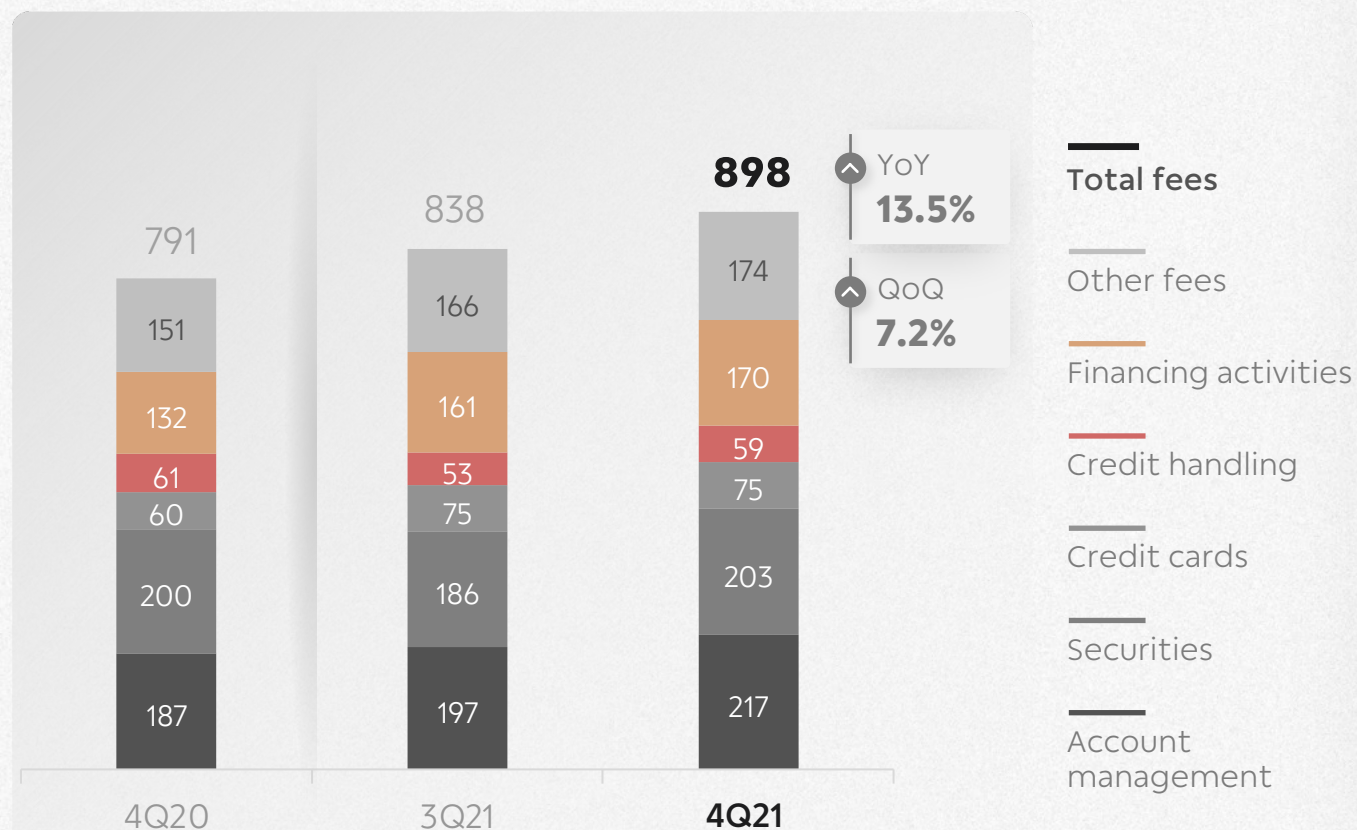
## Income from regular financing activity excl. CPI





# Fee growth across all types; supported by increased business activity

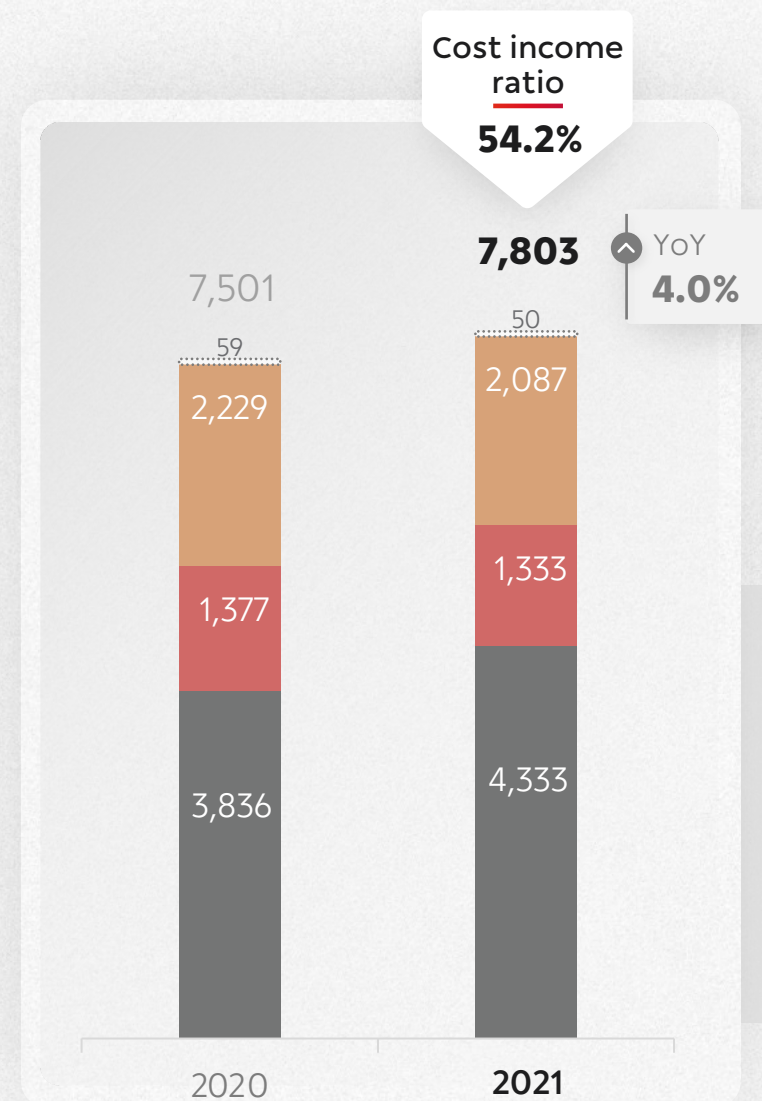
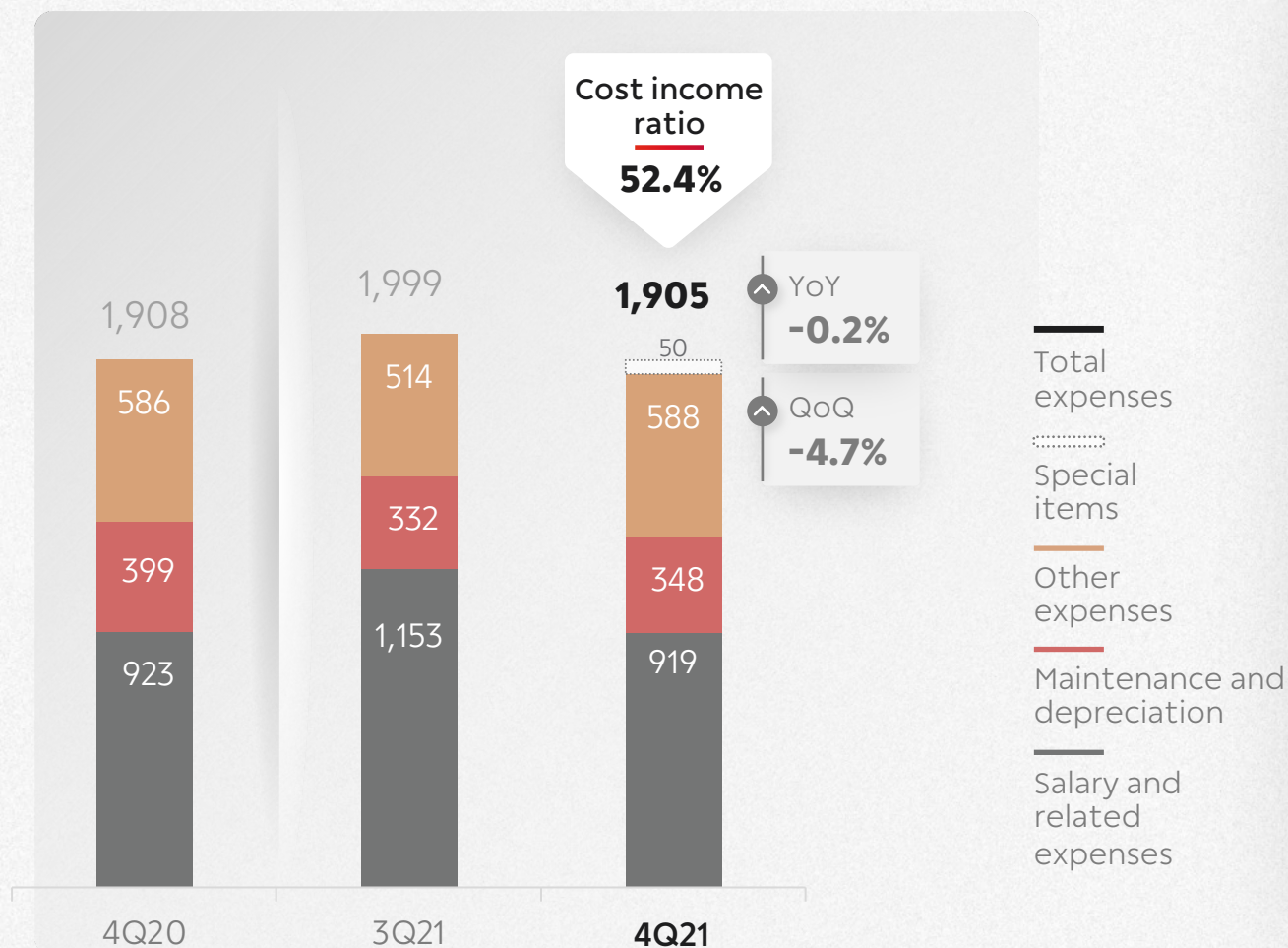
NIS million





# Disciplined management of operating expenses

NIS million

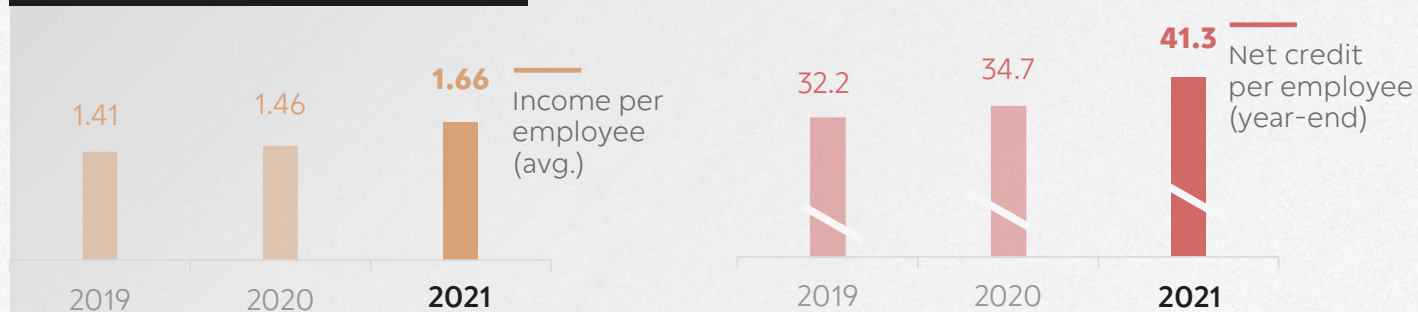


Increase in salary expenses is attributed to a provision for performance-based bonus and a special bonus in honor of the centennial of the Bank



## Improved productivity reflects our focus on both income growth and cost control

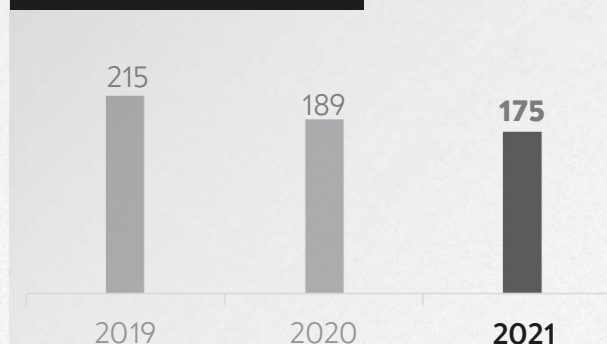
### Productivity ratios, NIS million



### Headcount, year-end



### Branches, year-end



### Efficiency plan well on track

- Early retirement of over 900 employees by 2022
- Headcount reduction partially mitigated by growth supporting recruitments

### New HQ building deal on track

- Relocation planned for late 2025
- Innovative advanced infrastructure will save operating expenses
- Promoting plans for betterment of current properties in prime locations in Tel Aviv

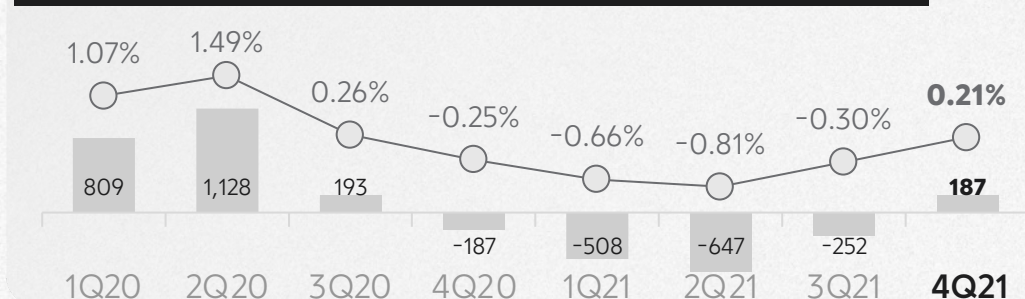
# Asset quality remained resilient; reserve remained high despite partial reverse

NIS million

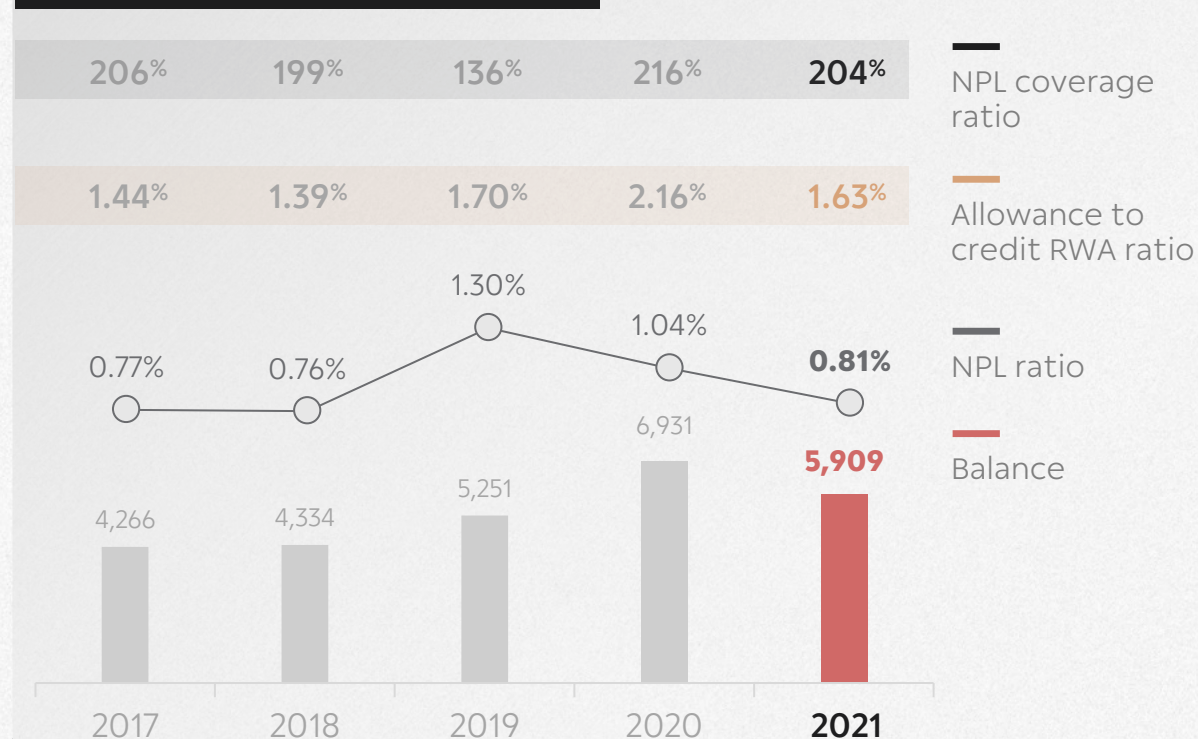
## Credit losses provision and ratio, annual



## Credit losses provision and ratio, quarterly



## Allowance for credit losses



**COVID-19 deferrals** **0.4%** of total credit

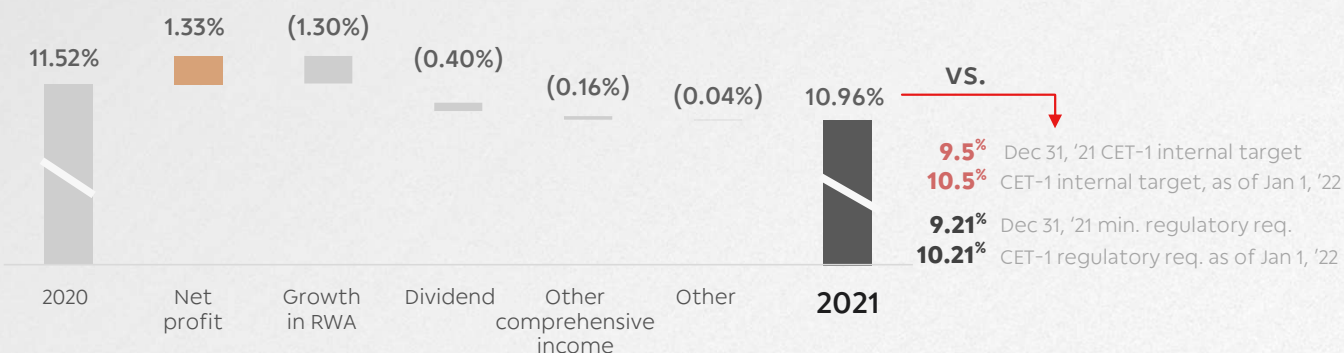


## Capital surplus supported the high growth and allowed dividend distribution

### CET-1 capital and RWA, NIS billion



### CET-1 capital ratio development



### Dividend distributed in 2021 (Aug. & Dec.)

**1.5** NIS billion

of which, NIS 862 million in respect of 2021 profits

The Board decided not to declare an additional dividend in respect of 2021 profits, in order to utilize the capital to meet the continuing high demand for credit.

### Total capital ratio

**14.22%** vs. Dec 31, '21 reg. req. of 12.5%  
reg. req. as of Jan 1, '22 is 13.5%

### Leverage ratio

**6.03%** vs. current reg. req. of 5.5%  
(6.0% - reg. req. pre-relief)

Note: For additional information regarding capital requirements, refer to note 9 in the 4Q21 financial report.

# Corporate strategy focused on three pillars

Committed to growth through innovative and fair banking for our customers

1

## Growth in core banking

### Retail banking

- Increase digital direct sales through advanced analytical tools
- Further adapt retail network to enhance sales capabilities and advisory services
- Expand market share in mortgages

### Commercial and corporate banking

- Strengthen relationship and extend activity with clients
- Expand dealing and brokerage activity by improving the digital offering

2

## Create a new way to bank

- Acquire new customers in the digital arena using the “bit” application platform
- Solidify leading positions in the payment market by expanding the range of payment solutions offered through “bit” and expanding collaborations with e-commerce partners
- Leverage the open-banking infrastructure to create new revenue sources

3

## Build a growth-supporting organizational infrastructure

- Further encourage a customer-centric and growth-supporting organizational culture
- Modernize core IT systems to improve time-to-market capabilities and reduce IT costs
- Bring cutting-edge data analytics



1

## Growth in core banking

### Corporate banking

- We adapted our processes to the demand in the market and significantly shortened loan approval time
- We invested in top-tier technological platforms to achieve a leadership position: a syndication system, a factoring system and more
- We introduces new products, such as digital guarantees

### Mortgages

- We expanded our capacity:
  - Upgraded our IT systems
  - Recruited mortgage advisors
  - Opened call centers dedicated to sales and customer retention
- Introduced digital mortgage applications

### Consumer credit

- We expanded and improved our communication channels through advanced features such as the Financial Partner and the Chat bot
- We launched a new customer club: "Poalim Wonder" 
- We signed an agreement with "Blender" to grant consumer credit at POS



1

# Increased contribution of Poalim Equity to the Bank's profitability

- The Bank's non-financial investments arm
- Fully owned by Bank Hapoalim
- Lines of business:

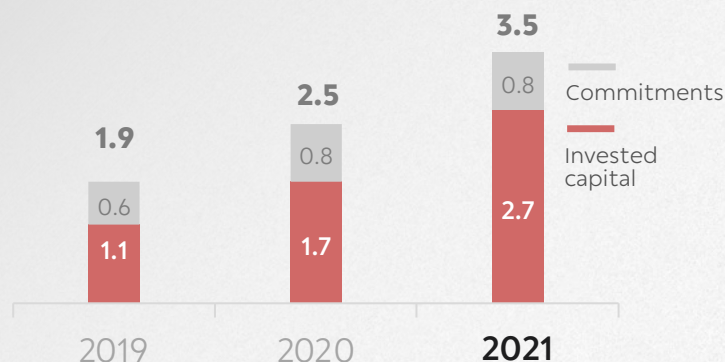
## Investment Platform

- Direct equity investments
- Alternative investments
- Equity syndication origination

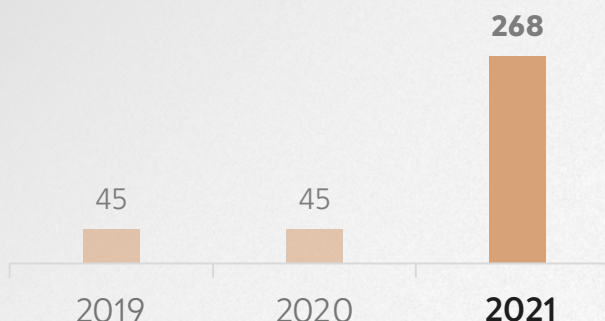
## Advisory Services

- Local & cross-border investment banking (IPO/SPAC, M&A, private placements) with their US strategic partner William Blair
- Fund placements
- Local underwriting – 27.3% holding in Poalim IBI

## Total portfolio



## Contribution to the Bank's net profit



## Leading investments



Sugat is a local leader in the food industry



Newpan is one of the leading electronic importers in Israel



Apex Clean Energy is a developer of commercial-scale wind and solar energy facilities in North America



CPV (Competitive Power Ventures) is a leading North American electric power generation development and asset management company



Pagaya is a FinTech company that enables financial institutions to expand access to financial service products



Via is a leading global on-demand public mobility solutions for commuters



2

# Bit – the leading platform in Israel for payments and financial transactions

## Current offering

### P2P

The leading payment app in Israel with

**2.7** active users

### Claims disbursements

Working with almost all insurance companies and pension funds

### Bill payments

- Water bill
- Municipal tax
- Toll road

### P2M (online payments)

Working with:

- Over 10k merchants
- Leading PSPs (payment service providers) in Israel

### Digital wallet and bitcard

One stop shop for payments

- Tap payment
- Bitcard – designated non-bank loyalty club credit card

## Bit's future potential

- Transaction-based loans, including POS
- Instant consumer loans and revolving credit
- FX P2P



**#1**  
payment  
app  
**bit**

## 2021 key takeaways

1

**Net profit** of NIS 4.9 billion; **ROE** of 11.8%

2

**Growth momentum** in credit, YoY increase of **16.8%**

3

Credit growth led to a **leap forward in the income base**

4

**Improved asset quality**; pre-pandemic level of indicators

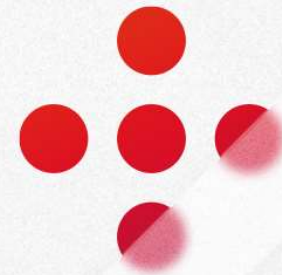
5

**CET-1 ratio of 10.96%**; capital utilized to support both enhanced credit growth and **NIS 1.5 billion** in dividend

6

**Significant advancement of bit**;  
potential to further develop new lines of business





---

## Appendix

## Key balance sheet items NIS million

Year ended	2020	2021
Cash on hand and deposits with banks	138,711	189,283
Securities	71,885	71,105
Net credit to the public	301,828	352,623
Deposits from the public	435,217	525,072
Deposits from banks	6,591	11,601
Bonds and subordinated notes	23,490	25,582
Shareholders' equity	39,873	42,735
Total balance sheet	539,602	638,781

**Note:** For a full balance sheet analysis, please refer to the Bank's financial statements for FY21.



## Key profit and loss items NIS million

Year ending December 31	2020	2021
Total net financing profit	9,885	10,848
Fees and other income	3,291	3,544
<b>Total income</b>	13,176	14,392
Wages	(3,836)	(4,333)
Maintenance and depreciation of buildings and equipment	(1,377)	(1,333)
Other expenses	(2,229)	(2,087)
Special items	(59)	(50)
<b>Total operating and other expenses</b>	(7,501)	(7,803)
Provision for credit losses	(1,943)	1,220
<b>Profit before taxes</b>	3,732	7,809
Provision for taxes on profit	(1,590)	(2,958)
<b>Net profit*</b>	2,056	4,914
<b>ROE*</b>	5.3%	11.8%

\* Excluding special items net profit totaled NIS 4,957 million (ROE of 11.9%) in 2021 and NIS 2,205 million (ROE of 5.7%) in 2020.

**Note:** For a full profit and loss analysis, please refer to the Bank's financial statements for FY21.



 bank hapoalim



**Israel's leading**  
financial institution

