

# The Economic and Social Impact of Bank Hapoalim on the Israeli Economy in 2018

*Summary and conclusions*

Chen Herzog, Chief Economist & Partner, BDO

Professional Academic Oversight by Dr. Yoram Ida, Tel Aviv University

May 2019

# The Economic and Social Impact of Bank Hapoalim in 2018 was measured on three levels



## The Impact on the Israeli Economy

- ◀ The direct economic impact resulting and including the bank's impact on GDP and on employment in Israel.
- ◀ The contribution of the bank's activities on national income from taxes.
- ◀ The contribution of the bank's activities on advancing outlying regions.



## The Impact of the Social Contribution

- ◀ The total economic impact of the financial contribution earmarked by the bank for social causes in the past five years.



## Value Creating Credit

- ◀ The expanding of economic activity as a result of the granting of credit to small and medium size businesses.
- ◀ The impact on the environment through the credit given by the bank to advance environmental sustainability projects.

# The Economic Impact of Bank Hapoalim

## Methodology

Examining the economic impact of Bank Hapoalim on the Israeli economy in 2018 is based on the input-output model developed by Nobel Prize winning economist Wassily Leontief. This methodology is the most acceptable and widely used in Israel and the world for analyzing the induced and total impacts of companies and sectors on the economy.

The estimate is based on input-output matrix of the Central Bureau of Statistics adapted to the year 2018 using the RAS methodology, Bank Hapoalim data and BDO calculations.

# The Economic Contribution of the Bank's Activities on the Advancing of Society and the Environment

## Methodology

In addition to the economic impact of Bank Hapoalim's business activity, the research project analyzed the economic impact of the bank's activities on advancing society and the environment in Israel, with an emphasis on the contribution to advancing outlying regions, the growth of small and medium sized businesses, as well as the contribution resulting from the financing of projects in the fields of environmental sustainability.

The estimate of the economic impact of the financial contributions made by the bank for social purposes was also conducted using the input-output methodology, which allows for estimating the total economic influence on the Israeli economy beyond their direct financial value.

# The Impact on the Israeli Economy



**The impact on  
the Israeli  
economy**



**The impact of the  
social  
contribution**




**Value  
creating  
credit**




The impact on  
the Israeli  
economy

# The impact on the Israeli Economy

## *The total impact*

NIS **19.5**   
billion  
The total impact on GDP

**1.5%**   
The percentage of the  
bank in GDP  
*92% of the direct impact of the  
bank remains in Israel and  
constitute a contribution to GDP  
as well as GNP*

**51,500**   
employees  
The total impact on  
employment in Israel

NIS **3.5**   
billion  
in tax payments\*  
**0.9%**  
of all national tax  
revenue\*\*

The calculations are based on Bank Hapoalim 2018 annual report and data from the bank.

\* Payment of taxes are part of the direct contribution of Bank Hapoalim to GDP.

\*\* Includes state tax revenue, revenue from municipal taxes, and national insurance and health fees collected by the National Insurance Institute.



# Impact of the Bank on GDP

The impact on  
the Israeli  
economy

## Direct Impact

The impact of Bank Hapoalim itself on GDP (net profit with the addition of depreciation + wage expenses + taxes)

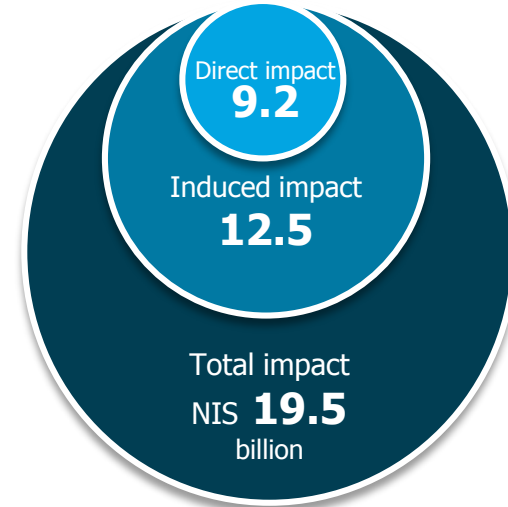
## Induced Impact

Direct impact + Impact on GDP created by the bank's suppliers and the whole range of the suppliers to the bank's suppliers.

## Total Impact

Induced impact + Impact of private consumption of the bank's employees, and of the workers of the bank's suppliers on GDP.

## Impact of Bank Hapoalim on 2018 GDP (NIS, billions)





The impact on  
the Israeli  
economy

Bank employees

**9,000**  
workers\*

Bank employees and the bank's  
contribution to employment at its  
suppliers and sub-contractors

**19,500**  
workers



Total contribution to  
employment in Israel\*\*

**51,500**  
workers

\*Includes External workers employed by the bank

\*\* Bank employees + Workers of suppliers and contractors of the bank + Employment created as a result of purchases by bank workers and those of its suppliers

**BDO**

# Impact on Employment in the Economy



Employment expressed in terms of full employment





The impact on  
the Israeli  
economy

BDO

# Contribution to National Income from Taxes

Total of taxes paid by the bank NIS **3,547** million

Income tax of  
employees\*



NIS **736**  
million

Municipal taxes



NIS **243**  
million

National  
insurance and  
payroll tax



NIS **631**  
million

Corporate tax



NIS **1,937**  
million

The total tax payments by the bank constitute **0.9%** of  
the national tax revenues\*\* in 2018

\* Income tax, national insurance and health fees for the bank's employees

\*\* Includes state revenues from taxes, municipal taxes and the collection of national insurance and health fees by the National Insurance Institute.



# Contribution of the Bank's Activities to the Advancement of Outlying Regions

BDO

The impact on  
the Israeli  
economy



## Employment in Outlying Regions

- ◀ 2,830 workers live in outlying areas, and account for 34% of the bank's work force.
- ◀ The bank has 423 suppliers from outlying areas that account for 18% of its suppliers.
- ◀ The average wage of a bank worker in outlying areas is 63% higher than the average wage in the economy.



## Financial Inclusion for Outlying Regions

- ◀ 101 branches in outlying areas which represents 45% of the bank's branches.
- ◀ 342 ATMs in outlying regions accounting for 45% of the bank's ATMs.



## Social Contribution for the Advancement of Outlying Regions

**in the Past Five Years**

- ◀ NIS 45.3 million investment in social projects aimed at advancing outlying regions.
- ◀ Estimate of the total economic impact of these projects on the economy:
  - ◀ **NIS 137 million in total impact on the economy's total revenue.**
  - ◀ **NIS 81 million in total impact on the GDP.**

# Impact of the Social Contribution



**The impact on  
the Israeli  
economy**



**The impact of the  
social  
contribution**



**Value  
Creating  
Credit**



Impact of  
Social  
contribution

# Summary of the Overall Impact of the Financial Contribution by the Bank to Social Causes

Through the making of financial contributions for social causes the bank increases revenues in sectors to which the social activity is associated with.



According to the input-output model on which this report is based, increasing the total amount of revenue of a particular sector creates a total impact on the economy by that sector.



Examination of the total impact on the GDP and revenues by calculating the total impact generated by financial contributions based on a 5 year period.

Total direct financial contribution by the bank for social causes **in the past five years:**

NIS **193** million

The total impact of the bank's financial contributions to social causes:



NIS **352**  
million  
**Impact on  
revenue**



NIS **675**  
million  
**Impact on  
GDP**

The total impact is based on the bank's contributions without that of its subsidiaries. In order to calculate the aggregate impact of the bank's contributions to the community, each contribution was categorized to one of the following sectors from the input-output model: Education, Welfare, Culture arts and sports. Since every contribution to one of the sectors led to additional revenue, it is therefore possible to calculate the total impact created as a result of the economic activity in a particular sector.

# Value Creating Credit



**The impact on  
the Israeli  
economy**



**The impact of the  
social  
contribution**



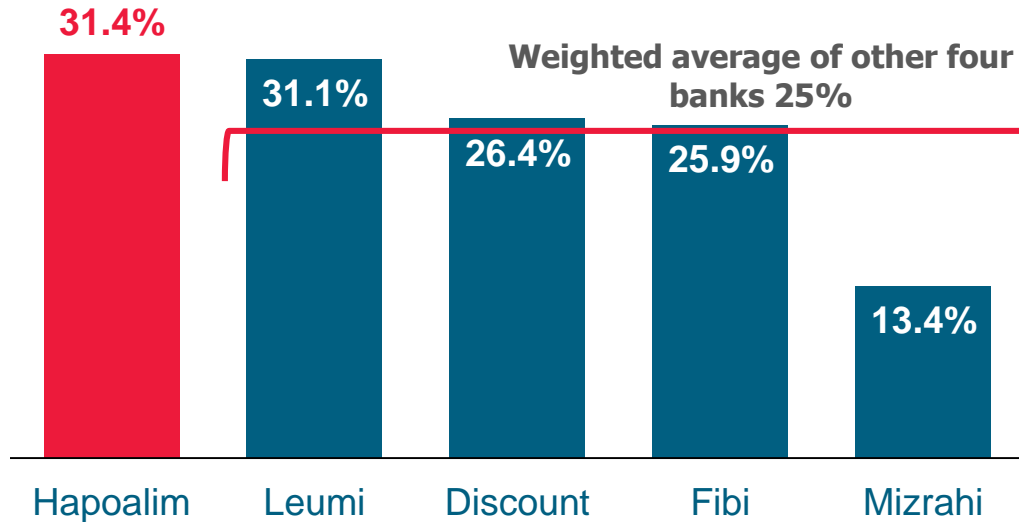
**Value  
creating  
Credit**



# Bank Hapoalim Leads in Credit to Small and Medium Sized Businesses

Credit creates value

## Share of Credit to Small and Medium Sized Businesses (from the total credit portfolio of each bank)



Bank Hapoalim grants NIS 95 billion to small and medium sized business\* compared to an average of NIS 44 billion in the other banks.

Analyzing the percent of credit from the total credit portfolio shows that Bank Hapoalim grants credit to small and medium sized businesses that is **6.8%** higher than the average share of other four banks.

The additional credit amounts to NIS **20.35** billion\*\* to small and medium sized businesses.

BDO analysis of the banks 2018 annual reports, and data from the Economy Ministry's report on the state of small and medium sized businesses in Israel for 2018.

\* The definition of small and medium sized businesses according to the supervised sectors approach.

\*\* Calculated from the bank's total credit portfolio.



Credit creates value

# The Contribution to the Economy in light of the Bank's Credit to Small and Medium Sized Businesses

The Additional Credit Granted by Bank Hapoalim to Small and Medium Sized Businesses Led to Substantial Economic Activity in the Economy:

At **54.4%** of the small and medium sized businesses there is a need for increasing the amount of their credit\*



The total amount of credit required by these businesses is NIS **127.4** billion\*



The additional credit granted by Bank Hapoalim assisted in reducing the demand for credit of small and medium sized businesses by 13.8%\*\*

NIS **66.2**

billion



Additional Revenue of Small and Medium Sized Businesses

NIS **24.8**

billion



Additional GDP from Small and Medium Sized Businesses

**160,500**

Employees



Additional Employment at Small and Medium Sized Businesses

From an analysis of the impact of every shekel in credit on each index

\*Based on BDO analysis of the bank's financial reports and of the data from the Economy Ministry report on the state of small and medium sized businesses in Israel for 2018. BDO analysis of data from a survey conducted by the Small and Medium Sized Business Authority at the beginning of 2018 concludes of 279,300 small and medium sized businesses that are needful of an increase in scale of their credit. The total demand for credit that is required by those businesses stands at NIS 127 billion.

\*\*The level of additional credit by the bank from the existing demand for credit



Credit creates value



Credit granted by the bank to projects that advance environmental sustainability **8.7** billion

Total of NIS

8.7 billion



NIS **2.6** billion for environmentally friendly construction



NIS **0.3** billion for waste treatment and energy efficiency projects



NIS **1** billion for solar projects



NIS **2.5** billion for electricity production from gas



NIS **1.3** billion for desalination projects



NIS **0.2** billion for mass transit

Energy production at wind and pump storage power plants

NIS **0.75** billion 

# The environmental impact of funding of renewable energy

Upon completion, renewable energy projects funded by the bank will reduce gas house emissions by **400,000 ton per year\***, an equivalent to 1.1% of the emissions from electricity production in Israel in 2018.

The economic savings that will result from the reduction in emissions is estimated at **NIS 500 million\*\***

\* This relates solely to the bank's part that results from credit it granted for these projects.

\*\* Current net value of the value of reduction of emissions over a 20 year period at a rate of capitalized interest of 7%.



# Appendices



The impact on  
the Israeli  
economy

# Direct Impact of the Bank on GDP

2018



	Millions NIS
Profit*	3,602
Cost of Wages**	3,700
Taxes	1,937
<b>Total direct local value added</b>	<b>9,239</b>

The total direct contribution of Bank Hapoalim to GDP in 2018 stood at approximately NIS

**9.2** billion

\* Profit after tax + depreciation

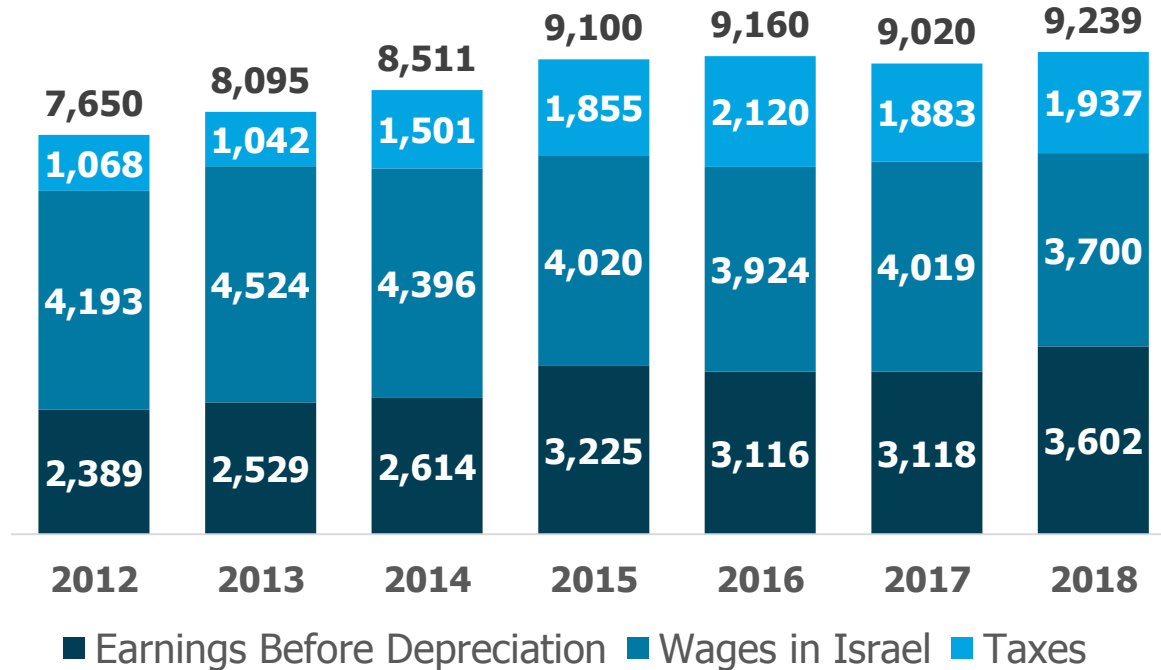
\*\* Cost of wages of a bank in Israel (minus the cost of wages for workers abroad)



The impact on  
the Israeli  
economy

# Direct Impact of the Bank on GDP

## 2012-2018 Millions of NIS



Source: Bank Hapoalim annual reports

\*The reduction of wages of bank workers abroad based on the average cost in 2017 and 2018



# Breakdown of the induced impact of the Bank and its Suppliers on GDP

	Impact on GDP (millions of NIS)	Impact on Employment (number of jobs)
<b>Direct contribution of the bank</b>	<b>9,239</b>	<b>8,967</b>
Construction, real estate, upkeep of property	557	1,496
Manpower, professional services and consultancy	719	3,267
Office needs, Printing and PR	1,506	3,086
Transport, Secured shipping	47	238
Other	156	845
Projects, Purchases and technology maintenance, infrastructure and communications	235	1,586
<b>Total induced impact</b>	<b>12,459</b>	<b>19,486</b>

# Thank You

**Chen Herzog, Chief Economist & Partner, BDO**

BDO Consulting Group, one of the leading business consulting companies in Israel, provides financial and strategic consulting services, guides merger and acquisition transactions, and offers business development services in Israel and worldwide. In recent years, the company has guided strategic planning processes, issuances in Israel and overseas, business developments, mergers and acquisitions and efficiency programs in Israel, the United States, Western and Eastern Europe, China and India. The company staff has extensive experience in the fields of high-tech, real-estate, infrastructure, retail, finance, logistics, and traditional industries.

Mr. Chen Herzog, Partner, is the Chief Economist of BDO Consulting Israel. Has more than 20 years of professional experience in economic consulting and advisory for international corporations, government-owned entities and large companies in Israel.