



29 May 2003

## **FINANCIAL STATEMENTS OF THE LEUMI GROUP AS AT 31.3.2003**

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**NET PROFIT: NIS 176 MILLION**

**NET RETURN ON EQUITY: 5.3%**

**NET INTEREST INCOME AFTER PROVISION  
FOR DOUBTFUL DEBTS: NIS 1,064 MILLION,  
AN INCREASE OF 10.7% COMPARED WITH THE  
CORRESPONDING PERIOD LAST YEAR**

**DEPOSITS OF THE PUBLIC: NIS 207 BILLION,  
AN INCREASE OF 1.8% COMPARED WITH 31.3.02**

**CREDIT TO THE PUBLIC: NIS 174 BILLION,  
AN INCREASE OF 0.2% COMPARED WITH 31.3.02**

**EQUITY TO RISK ASSETS: 10.8%**

# Press Release



The Leumi Group announces its unaudited consolidated financial statements for the first quarter of 2003.

**The net profit of the Leumi Group** in the first quarter of 2003 amounted to NIS 176 million, compared with NIS 230 million in the corresponding period last year, a decrease of 23.5%. The net profit reflects a net return on equity of 5.3% on an annual basis.

The decrease in the Group's profitability in the first quarter derives mainly from the ongoing slowdown in economic activity and from a decrease in capital market activity.

**The decrease in net profit in the first quarter of 2003 compared with the same period last year derives from a number of factors:**

- The effect of net negative exchange rate differences in respect of overseas investments.
- Expenses for voluntary retirement.
- Costs of wages, deriving from implementation of Accounting Standard 14.
- A decrease in operating and other income.

The decrease in net profit was partially offset by the following:

- An increase in the profits of companies included on the equity basis.
- An increase in net interest income before provision for doubtful debts.
- An increase in the value of the assets of the severance pay fund and the provident fund which are designated for the Bank's severance pay and pension commitments.
- A lower rate of inflation in the period January-March of this year, 0.78% compared with 2.36% in the same period last year, resulted in a lower erosion of the surplus monetary assets, mainly in the unlinked shekel sector.

**Net interest income before provision for doubtful debts** in the first quarter of 2003 amounted to NIS 1,439 million, compared with NIS 1,331 million in the corresponding period last year, an increase of 8.1%.

The interest spread, which includes transactions in derivatives, was 1.65% in the period January-March 2003, compared with 1.78% in the same period last year.

**The provision for doubtful debts** in the first quarter of 2003 amounted to NIS 375 million, similar to the corresponding period last year.

The volume of problematic debts in the first quarter of 2003 amounted to NIS 19,290 million, compared with NIS 17,531 million in the same period last year and compared with NIS 18,961 on 31.12.02. The increase in the classification of non-yielding loans compared with 31.3.02 is mainly in the hotels and communications sectors.

The rate of provision for doubtful debts in the first quarter of 2003 was 0.87% of total credit to the public, similar to the corresponding period last year and compared with 1.1% for the whole of 2002.

# Press Release



The accumulated balance of the general provision, the supplementary provision and the special provision for doubtful debts (according to risk characteristics defined by the Supervisor of Banks) at the Bank and its consolidated companies, amounted to NIS 1,125 million in the first quarter of 2003 (some 0.65% of total credit risks), compared with NIS 1,053 million in the same period last year.

**Net interest income after provision for doubtful debts of the Leumi Group** amounted, in the first quarter of 2003, to NIS 1,064 million, compared with NIS 961 million in the corresponding period last year, an increase of 10.7%.

**Operating and other income of the Leumi Group** in the first quarter of 2003 amounted to NIS 734 million, compared with NIS 780 million in the corresponding period last year, a decrease of 5.9%. Operating income decreased mainly due to a decrease in customer activities in the capital market.

**Operating and other expenses of the Leumi Group** in the first quarter of 2003 amounted to NIS 1,449 million, compared with NIS 1,295 million in the corresponding period last year, an increase of 11.9%. Eliminating the costs of early retirement, operating expenses increased by 7.7%.

Salary expenses (including the cost of voluntary retirement) increased in the period January-March 2003 by 12.6% compared with the same period in 2002. The increase derives mainly from an increase of NIS 55 million in the costs of voluntary retirement, from the effects of the implementation of Accounting Standard 14, and from the calculation of reserves for severance pay and pensions, vacations and jubilee grants. Conversely, the increase in the value of the assets of the severance pay fund and the provident fund that are designated for the Bank's severance pay and pension commitments, partially offset the above influences.

**Voluntary retirement** - As part of its efficiency strategy, the Bank launched a new voluntary retirement plan at the beginning of 2003, pursuant to which 509 employees will retire.

Operating expenses constitute 66.7% of total income, compared with 61.3% in the corresponding period last year and compared with 65.8% for the whole of 2002.

**Operating profit before tax of the Leumi Group** amounted to NIS 349 million in the first quarter of 2003, compared with NIS 446 million in the corresponding period last year, a decrease of 21.7%.

**Provision for tax on operating profit** in the first quarter of 2003 amounted to NIS 205 million, compared with NIS 189 million in the corresponding period last year.

**The rate of the provision for tax** on operating profit was 58.7% in the first quarter of the year, compared with 42.4% in the corresponding period last year.

The increase in the rate of provision for tax in the period January - March 2003 derives mainly from the effect of exchange rate differences in respect of overseas investments, which are not included in the basis for tax calculation, and which, in the relevant period, were negative, compared with a positive exchange rate differential in the corresponding period last year.

# Press Release



**The Group's share in the profits of companies** included on the equity basis amounted to a profit of NIS 36 million, compared with a loss of NIS 12 million in the corresponding period last year.

**Net operating profit** in the period January-March 2003 amounted to NIS 179 million, compared with NIS 231 million in the corresponding period last year, a decrease of 22.5%.

**Net profit** in the first quarter of 2003 amounted to NIS 176 million, compared with NIS 230 million in the corresponding period last year, a decrease of 23.5%.

**Net return on equity of the Leumi Group** in the first quarter of 2003 reached 5.3%, compared with 7.1% in the corresponding period last year.

**Shareholders' equity** on 31.3.03 amounted to NIS 13,741 million, compared with NIS 13,406 million on 31.3.02, an increase of 2.5%.

**The ratio of shareholders' equity to total assets** on 31.3.03 was 5.6%, compared with 5.5% on 31.3.02.

**The ratio of capital to risk assets** on 31.3.03 was 10.8%, compared with 10.2% on 31.3.02. Of this, Tier I capital was approximately 7.1% and 6.8% respectively.

**Total assets of the Leumi Group** on 31.3.03 amounted to NIS 246.6 billion, compared with NIS 244.0 billion on 31.3.02, an increase of 1.1%.

**Credit to the public** on 31.3.03 amounted to NIS 173.5 billion, compared with NIS 173.1 billion on 31.3.02, an increase of 0.2%, and compared with 31.12.02, a decrease of 1.6%.

**Deposits of the public** on 31.3.03 amounted to NIS 206.6 billion, compared with NIS 203.0 billion on 31.3.02, an increase of 1.8%, and compared with 31.12.02 a decrease of 1.9%.

**Mutual fund assets of the Leumi Group** on 31.3.03 amounted to NIS 15.1 billion. Leumi Group's share in this sector on 31.3.03 was 31.8%.

**The value of the provident and supplementary training fund assets managed by the Leumi Group** on 31.3.03 amounted to NIS 35.7 billion.

The financial statements were prepared in accordance with the directives of the Supervisor of Banks, on a cost basis, adjusted for changes in the general purchasing power of the shekel. In the first quarter of 2003 the Consumer Price Index rose 0.78%. The shekel appreciated by 1.8% against the U.S. dollar, and by 1.0% against the currency basket. The representative exchange rate of the U.S. dollar on 31.3.03 was NIS 4.687.