



30 November 2003

FINANCIAL STATEMENTS OF THE LEUMI GROUP AS AT 30 SEPTEMBER 2003

**NET PROFIT FOR THE FIRST NINE MONTHS OF 2003:
NIS 914 MILLION, AN INCREASE OF 121.3%**

**NET PROFIT FOR THE THIRD QUARTER OF 2003:
NIS 418 MILLION, AN INCREASE OF 269.9%**

**NET RETURN ON EQUITY
FOR THE FIRST NINE MONTHS OF 2003: 9.3%**

**NET INTEREST INCOME BEFORE PROVISION FOR
DOUBTFUL DEBTS: NIS 4,545 MILLION,
AN INCREASE OF 23.9% COMPARED WITH THE
SAME PERIOD LAST YEAR**

**RATIO OF SHAREHOLDERS' EQUITY TO RISK
ASSETS: 11.0%**

Press Release



The Leumi Group publishes its unaudited consolidated financial statements for the first nine months of 2003.

The net profit of the Leumi Group in the first nine months of 2003 amounted to NIS 914 million, compared with NIS 413 million in the corresponding period last year, an increase of 121.3%. The net profit reflects a net return on equity of 9.3% on an annual basis.

The net profit of the Leumi group in the third quarter of 2003 amounted to NIS 418 million, an increase of 269.9% compared with the corresponding quarter last year.

The increase in net profit of the Group in the first nine months of 2003 compared with the same period last year is mainly explained by the following factors:

- An increase of NIS 878 million in net interest income before provision for doubtful debts, before the effects of tax.
- A net increase of NIS 107 million in the Group's share in the profits of companies included on the equity basis.
- An increase of NIS 111 million in operating and other income, before the effects of tax.
- A decrease of NIS 35 million in the provision for doubtful debts, before the effects of tax.

On the other hand, these factors were partially offset by the following:

- The net effects of negative exchange rate differences in respect of investments abroad, offset by exchange rate differences for financing overseas investments, after tax, amounting to NIS 37 million, compared with positive exchange rate differences in the corresponding period last year of NIS 71 million after the effects of tax.
- An increase of NIS 119 million in operating and other expenses, excluding wages and voluntary retirement, before the effects of tax.
- An increase in the cost of wages of NIS 64 million before the effects of tax, partially deriving from application of Accounting Standard 14.
- An increase of NIS 57 million in voluntary retirement expenses before the effects of tax.
- An increase in the loss from extraordinary items in the amount of NIS 15 million, net.

Net interest income before provision for doubtful debts in the first nine months of 2003 amounted to NIS 4,545 million, compared with NIS 3,667 million in the corresponding period last year, an increase of 23.9%. The increase derives mainly from profits realized from the sale of debentures and from profits that have not yet been realized from adjustments to fair value of the traded debentures; a rise in the net market value of derivatives; and from the effect stemming from the difference between the increase in the actual index as against the increase in the known index.

The interest spread, which includes derivative transactions, was 1.63% in the period January-September 2003, compared with 1.74% in the same period last year. In the Bank's estimation, if the interest spread was calculated in 2003 as in 2002, the interest spread would have been 2.07%, that is an improvement of some 0.33% compared with the corresponding period last year.

Provision for doubtful debts in the first nine months of 2003 amounted to NIS 1,267 million, a decrease of 2.7% compared with the corresponding period last year.

The volume of problem loans on 30.9.03 amounted to NIS 18,299 million, compared with NIS 18,533 million on 31.12.02. The change was affected inter alia from the classification of one customer in the communications sector, as an investment in securities, instead of credit to the public.

Press Release



The total percentage of the provision for doubtful debts in the first nine months of 2003 was 0.99% of total credit to the public, compared with 1.01% in the corresponding period last year and compared with 1.11% for the whole of 2002.

The accumulated balance of the general provision and the supplementary provision (according to risk characteristics defined by the Supervisor of Banks) at the Bank and its consolidated companies, amounted to NIS 1,064 million on 30.9.03 (some 0.63% of total credit risks), compared with NIS 1,089 million at the end of 2002.

Net interest income after provision for doubtful debts of the Leumi Group amounted, in the first nine months of 2003, to NIS 3,278 million, compared with NIS 2,365 million in the corresponding period last year, an increase of 38.6%.

Operating and other income of the Leumi Group in the first nine months of 2003 amounted to NIS 2,323 million, compared with NIS 2,212 million in the corresponding period last year, an increase of 5.0%.

Operating and other expenses of the Leumi Group in the first nine months of 2003 amounted to NIS 4,051 million, compared with NIS 3,811 million in the corresponding period last year, an increase of 6.3%.

Salary expenses (including the cost of voluntary retirement) increased in the first nine months of 2003 by 5.1% compared with the corresponding period last year. The increase derives mainly from an increase of NIS 57 million in the costs of voluntary retirement and following application of Accounting Standard 14.

Voluntary retirement - In November 2003 the Board of Directors approved an additional opportunity for voluntary retirement until 15 December 2003 for employees to whom the Bank turned in the past, on the basis of the principle of the voluntary retirement program in effect at the beginning of 2003.

Operating expenses constitute 59.0% of total income, compared with 64.8% in the corresponding period last year, and compared with 65.8% for the whole of 2002. Excluding voluntary retirement, operating expenses constitute 57.8% of total income, compared with 64.4% in the corresponding period last year, and compared with 61.6% for the whole of 2002.

Operating profit before taxes of the Leumi Group amounted to NIS 1,550 million in the first nine months of 2003, compared with NIS 766 million in the corresponding period last year, an increase of 102.3%.

Provision for tax on operating profit in the first nine months of 2003 amounted to NIS 728 million, compared with NIS 301 million in the corresponding period last year. The rate of provision for tax on operating profit was 47.0% in the first nine months of the year, compared with 39.3% in the corresponding period last year.

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

The Group's share in the profits of companies included on the equity basis amounted to a profit of NIS 111 million in the first nine months of 2003, compared with a profit of NIS 4 million in the corresponding period last year.

Net operating profit in the period January-September 2003 amounted to NIS 932 million, compared with NIS 416 million in the corresponding period last year, an increase of 124.0%.

Extraordinary items after taxes in the first nine months of 2003 amounted to a loss of NIS 18 million, compared with a loss of NIS 3 million in the corresponding period last year.

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Net profit in the first nine months of 2003 amounted to NIS 914 million, compared with NIS 413 million in the corresponding period last year, an increase of 121.3%.

Net return on equity of the Leumi Group in the first nine months of 2003 reached 9.3%, compared with 4.2% in the corresponding period last year.

Shareholders' equity on 30.9.03 amounted to NIS 14.3 billion, compared with NIS 13.2 billion on 31.12.02, an increase of 8.2%.

The ratio of shareholders' equity to total assets on 30.9.03 was 5.9%, compared with 5.4% on 31.12.02.

The ratio of shareholders' equity to risk assets on 30.9.03 was 11.0%, compared with 10.3% on 31.12.02. Of this, Tier I capital was approximately 7.4% and 6.8% respectively.

Total assets of the Leumi Group on 30.9.03 amounted to NIS 242.9 billion, compared with NIS 244.5 billion on 31.12.02, a decrease of 0.7%.

Credit to the public on 30.9.03 amounted to NIS 170.1 billion, compared with NIS 172.5 billion on 31.12.02, a decrease of 1.4%, and compared with 30.09.02, a decrease of 1.6%.

Deposits from the public on 30.9.03 amounted to NIS 201.8 billion, compared with NIS 205.8 billion on 31.12.02, a decrease of 2.0%, and compared with 30.9.02, a decrease of 0.7%.

Mutual fund assets of the Leumi Group on 30.9.03 amounted to NIS 20.6 billion. The Leumi Group's share in this sector on 30.9.03 was 32%.

The value of the provident and supplementary training fund assets managed by the Leumi Group on 30.9.03 amounted to NIS 38.1 billion.

The financial statements were prepared according to the regulations of the Supervisor of Banks on a cost basis, adjusted for changes in the general purchasing power of the shekel. In the first nine months of 2003 the Consumer Price Index fell by 1.48%. The shekel appreciated by 4.84% in real terms against the U.S. dollar, and by 1.56% against the currency basket. The representative exchange rate of the U.S. dollar on 30.9.03 was NIS 4.441.