



Annual Report | 2003



Bank Leumi le-Israel (Switzerland)

**Bank Leumi le-Israel
(Switzerland)**

Head Office:
Zurich, Claridenstrasse 34

Branch
Geneva, 80, rue du Rhône

Annual Report 2003
to be presented by the
Board of Directors to the
Annual General Meeting
of Shareholders of
Bank Leumi le-Israel (Switzerland)
on April 29, 2004

Board of Directors	Mrs. Galia Maor, Chairperson	Tel Aviv
	Dr. Michael Kohn*, Deputy Chairman	Zurich
	Dr. Rolf Bloch*	Muri bei Bern
	Mr. Dov Gilboa**	Tel Aviv
	Dr. Michel Haymann*	Zurich
	Mr. Zvi Itskovitch	Tel Aviv
	Dr. Rolf Kormann**	Ebmatingen ZH
	Dr. Alain B. Lévy**	Geneva
	Dr. Richard T. Meier*	Cham
	Mr. Ehud Moverman	Tel Aviv
Sir Bernard Schreier	Watford (U.K.)	

*) Members of the Executive Committee

**) Members of the Audit Committee

Internal Audit	Urs Fischer	Head of Internal Audit
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General Management	Shouky Oren	
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Management and Members of Management Committee	Roland Wyss	Manager
	Ofer Chaimi	Manager
	David Miller	Deputy Manager
	Marcos Wolman	Deputy Manager

Geneva Branch	Paul Hazan	Manager
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Auditors	PricewaterhouseCoopers AG	Zurich
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Annual Report 2003

Financial year 2003 US and World Economy

As a result of the improved monetary and fiscal environment, the U.S. GDP rose by 3,1 % in 2003 compared with the previous year. In contrast, the Euro area GDP grew by only 0,5 %, slowed down by the appreciation of the common currency and sluggishness of economic reforms. Japan managed to outpace the European growth rate for the first time in many years, recording a growth of 2,3 % in GDP.

In 2003, there continued to be significant differences in unemployment levels worldwide, with the jobless rate at 6 % in the U.S., 8,8 % in Europe and 5,3 % in Japan.

The Federal Reserve provided abundant liquidity and had to promptly cut overnight rates to the 45-year low of 1,0 % following the end of military operations in Iraq. The ECB followed, reducing its key interest rate levels by 50 bp to 2,0 %.

The 3-month USD Libor bottomed out at 1,0 % in June and fluctuated between 1,10 % and 1,18 % until the end of the year. The 3-month Euribor, in contrast with USD rates, continued to fall further after June, but remained in the broad 2,10 % – 2,18 % range.

In June long-term rates in both the U.S. and Europe sank to levels unseen in decades after the May FOMC meeting pinpointed deflation as the major risk for the U.S. economy. The yield on 10-year Treasuries fell to 3,11 % and to 3,46 % on the 10-year German Bunds. During the rest of the year more reasonable assessments of the state of the world economy led to recovery in the long-term interest rates and subsequently to a high of 4,6 % in the 10-year Treasury yields.

Disinflation and deflation were the main topics in 2003, following three years of sliding equity markets. Fears that Germany and the U.S. would follow Japan in a deflationary spiral became a driving force in asset allocation strategies in the first half of the year and reversed abruptly after June.

Consumer prices rose 2,3 % in the U.S. in 2003, 2,1 % in the Euro area and sank 0,2 % in Japan as per the end of 2003.

Capital Markets

2003 proved to be a milestone in many respects as extreme pessimism, typical during the first quarter, disappeared with the first shots in Iraq and made way for unprecedented optimism. As a result, the investors rediscovered their strong appetite for risk, for buying stocks and corporate bonds – and sometimes even disregarding the still excessive valuations.

Thanks to that, the S&P 500 rose by 26 %, the German DAX by 37 % and the French CAC by 16 %. The 10-year U.S. Treasuries yielded 4,25 % at the end of 2003, compared to 3,81 % in 2002, while the 10-year German Bunds finished at 4,29 %, 9 bp higher than the previous December. The average BBB corporate spread tightened by nearly 143 bp to 159 bp, compared to 302 bp a year ago.

The U.S. government continued spending heavily on upgrading its defense and home security infrastructure and on keeping its forces in Iraq. This was in addition to budget outflows from the economically necessary tax reductions, which naturally increased the budget deficit to historically high proportions of the GDP. While that had little effect on the domestic economy, the fear of unsustainable fiscal imbalance and possible looming financial crisis, led to significant capital outflows, as foreign investors and hot money preferred to seek the safety of the European currency. This flow of funds was counterbalanced to a certain degree by the currency intervention of the Asian banks' demand for USD, which also resulted in significant purchases of U.S. Treasuries which helped to keep interest rates at very low levels. The EUR/USD continued its rise from 1,04 in January 2003 to 1,26 in late December. The USD/JPY weakened from January levels of 120 to 107,50 at year-end.

The weakening of the U.S. currency in 2003 helped to boost the commodity prices in USD terms, with gold and oil receiving most of the news coverage. However, besides the monetary character of this phenomenon, one should also consider the implications of exceeding the available supply of natural resources demanded by the rapidly growing Chinese market and other emerging market economies.

The Swiss economy

Concerned foreign investors were moving assets into Swiss Francs during the first quarter of 2003, while the U.S. was still preparing for the war in Iraq. The appreciation of the CHF against all major currencies had resulted in a decline in competitiveness and dampened the expectations of a rise in exports. With the swift end of military operations in Iraq and the stabilization of the oil price, trends in currency crosses were turned around, contributing to the first phase of an export-led economic rebound. Nevertheless, the Swiss

GDP dipped by 0,3 % in 2003, as domestic consumption remained very sluggish and proved the weakest chain in the Swiss economy.

The level of unemployment rose to 3,7 % in 2003 from 2,8 % in the previous year and rationalization of the banking and financial services industry contributed considerably to the trend.

In 2003 consumer prices rose by only 0,6 %, compared with 0,7 % in 2002. That forced the SNB to hold on to its easy monetary policy, with 3-month Libor trading at 0,26 % at year-end, compared to 0,61 % in December 2002.

Capital Markets

The Swiss bond market experienced increasing capital outflow with the decline in geopolitical risk during the second half of the year, as investors reallocated assets to domestic and international equities. The 10-year government yields stood at 2,7 % at the end of 2003, compared to 2,19 % a year earlier.

The blue chip Swiss Market Index (SMI) gained 18,5 % in 2003, as a result of the reversal in general risk tolerance.

With the improved fundamental affecting the currency markets the Swiss Franc began to weaken against the Euro and finished the year at 1,56, some 7,5 % higher than the previous December. The USD/CHF finished the year at 1,239, compared with 1,383 at 2002 year-end.

Highlights of the Bank's activity

Bank Leumi le-Israel (Switzerland) (the "Bank") was founded in 1953, and in 2003 celebrated its 50th anniversary. The Bank operates through a head office in Zurich and a branch in Geneva.

The Bank mainly engages in provision of private banking services to international clients, including receipt of trust deposits, discretionary accounts and securities investment portfolio management. The Bank has a wholly owned subsidiary that manages six mutual funds, all of which performed well in comparison with the relevant benchmarks.

In 2003 the bank focused on marketing and business development activities in its key markets with the aim of rebuilding its image. The Bank implemented additional reorganization measures in its Private Banking Department and upgraded the level of service.

In 2003 the Bank promoted distribution of a wide range of financial products tailored to clients' needs, and in particular structured products sold to the Bank's clients as well as to external financial institutions. In light of the continuing low

interest rate environment, the Bank continued to scan the markets for offerings of valuable products and trading ideas and succeeded in providing its clientele with innovative yield-enhancing investment opportunities contributing to the acquisition of hundreds of new clients worldwide.

During 2003, management continued to focus on strengthening internal controls and implementing additional compliance and monitoring measures. The Bank continued the implementation of the new IT system which is expected to be complete in 2004. The Bank also made efforts to expedite completion of settlements with clients connected to the special event detailed below.

Consolidated Financial results

The consolidated financial results include Leumi Fund Holding, Luxembourg engaged in fund management and Leumi Asset Management, Zurich engaged in investment advisory, which are fully owned subsidiaries of the Bank.

Gross profit reached CHF 21,6 million compared with CHF 15,3 million in the previous year. The net profit of 2002 included an insurance payment (of CHF 84,6 million) in connection with the special event (see further detailed below), while net profit for the year under review was affected by a further increase in valuation adjustments, provisions and losses. Net profit after taxes and extraordinary items was CHF 7,3 million compared with CHF 43,7 million in 2002.

Total earnings were affected by the further deterioration of the USD since approximately 60 % of the Bank's client assets are in USD.

For the year under review total income was CHF 60,1 million compared with CHF 55,6 million for the previous year.

As a result of continued erosion of interest levels on the Swiss Franc, Euro and USD, the consolidated net interest income dropped from CHF 12,8 million to CHF 11,0 million.

Total commission income for the year under review was CHF 30,7 million compared with CHF 31,4 million in 2002.

Trading income was CHF 18,3 million compared with CHF 11,2 million in 2002. The main cause of this increase was income from structured products which contributed CHF 5,5 million more than in 2002, and the Forex income which was 1 million higher than in 2002.

Operating expenses were CHF 38,4 million compared with 40,4 million in 2002. Personnel expenses were CHF 22,5 million compared with CHF 22,7 million reported in 2002. Other operating expenses decreased to CHF 15,9 million from CHF 17,7 million in 2002, mainly due to efficiency measures.

Depreciation of non-current assets, primarily for IT investments connected to the replacement of the core system, amounted to CHF 6,4 million versus CHF 5,0 million in the previous year.

Valuation adjustments, provisions and losses were mainly affected by irregularities perpetrated by a former management member (see further details below). The Bank made CHF 17,8 million provisions compared with CHF 29,3 million the previous year. In this context, the Bank released reserves for general banking risks in the amount of CHF 10,7 million, which is reported as extraordinary income.

Development measures and reorganization

During 2003 the Bank continued reorganizing and enhancing its private banking and trading functions. Following segmentation of the client base initiated in 2002, the Bank reorganized and strengthened its private banking teams in Zurich and Geneva based on a streamlined approach. During 2003, the Bank focused on marketing and business development activities in its key markets. These efforts resulted in the acquisition of hundreds of new clients worldwide.

The Bank continued to closely monitor the distribution of structured products with the aim of ensuring adherence to its conservative policy and to ensure clients' awareness of all risks as well as the rewards involved in these investments. The Bank continues to search for suitable value added alternative investment solutions to enhance returns in light of the still volatile financial markets. During 2003 the Bank distributed over CHF 1,2 billion in structured products and strengthened its infrastructure to support this activity. The income from these activities rose from CHF 7,4 million to CHF 12,9 million.

During 2003 the Bank further enhanced its compliance function and formalized monitoring and control activities regarding implementation of the New Anti-Money-Laundering Ordinance, which will come into force in June 2004.

Board of Directors and its committees

During 2003 the Board of Directors held five meetings, the Executive Committee of the Board held five meetings and the Audit Committee of the Board held five meetings.

Project for the new IT system "Globus"

Since October 2002, the Bank has been working on implementation of a new IT system that will enhance operational capabilities of the Bank by providing top tier private banking service to its clients. The installation of the system is expected to be completed in 2004.

Follow up on the event discovered in 2001

At the beginning of January 2001, the Bank discovered clients' accounts that had undergone unauthorized transactions carried out by a former management member. The employee who managed the Private Banking Department,

was immediately released from his duties and was dismissed by the Bank.

During 2003, the Bank settled a significant number of claims by clients who sustained monetary damages. The Bank is making a great effort to expedite completion of the settlements.

In connection with the above mentioned event, the Bank made provisions in the 2003 Financial Statements in a total amount of CHF 16,9 million, of which CHF 2,2 million are provisions for administrative expenses, and CHF 3,0 million are provisions for interest on disputed balances.

Shareholders Equity after distribution of the Bank's net profit Together with retained earnings brought forward in the Bank's balance sheet, the amount at the disposal of the Annual General Meeting of Shareholders is CHF 6,5 million. An increase of the other reserves by the full amount is proposed. The published equity of the Bank for the year under review was CHF 214,0 million compared to CHF 207,5 million in 2002.

Reserves for general banking risk as shown in the consolidated balance sheet amount to CHF 14,3 million compared with CHF 25,7 million in 2002. Total capital and reserves including reserves for general banking risk will amount - after distribution of the Bank's net profit - to some CHF 231 million compared with CHF 235 million in 2002.

The Board of Directors expresses its appreciation to the General Manager, Members of the Management and employees for their efforts.

The Board of Directors

1. Balance sheet – consolidated

(in Swiss Francs)

	Dec. 31, 2003	Preceding year	Changes
Assets			
Cash	7 377 372	6 002 591	1 374 781
Money market instruments	1 856 885	6 385 579	- 4 528 694
Due from banks	84 486 358	90 179 412	- 5 693 054
Due from customers	552 856 727	495 252 162	57 604 565
Securities trading portfolios	21 729 632	23 739 742	- 2 010 110
Financial investments	138 047 027	134 168 089	3 878 938
Fixed assets	5 202 486	7 433 172	- 2 230 686
Intangible assets	7 129 329	2 026 825	5 102 504
Accrued income and prepaid expenses	9 393 197	8 279 401	1 113 796
Other assets	41 491 166	114 770 497	- 73 279 331
Total assets	869 570 179	888 237 470	- 18 667 291
Total subordinated claims	3 005 229	3 005 978	- 750
Total due from group entities and significant shareholders	99 546	27 919	71 627
Liabilities and shareholders' equity			
Due to banks	339 124 614	338 899 810	224 804
Due to customers, other	179 967 397	171 827 855	8 139 542
Accrued expenses and deferred income	9 796 465	9 585 697	210 768
Other liabilities	40 223 477	24 953 010	15 270 467
Valuation adjustments and provisions	69 239 949	107 620 614	- 38 380 665
Reserves for general banking risks	14 325 500	25 743 500	- 11 418 000
Share capital	33 000 000	33 000 000	0
Retained earnings	176 606 985	132 913 910	43 693 075
Net consolidated income	7 285 792	43 693 074	- 36 407 282
Total liabilities and shareholders' equity	869 570 179	888 237 470	- 18 667 291
Total due to group entities and significant shareholders	119 591 700	100 726 373	18 865 327
Off-balance sheet transactions			
Contingent liabilities	111 883 191	136 700 451	- 24 817 260
Derivative instruments – Contract volume	1 751 230 332	921 013 631	830 216 701
– Positive replacement value	36 665 027	20 325 666	16 339 361
– Negative replacement value	38 946 851	23 816 994	15 129 857
Fiduciary transactions	1 308 155 755	1 552 558 818	- 244 403 064

2. Income statement – consolidated

(in Swiss Francs)

	2003	Preceding year	Changes
Revenues and expenses from ordinary banking activities			
Results from interest activities:			
– Interest and discount income	10 661 151	14 639 585	– 3 978 434
– Interest and dividend income on trading portfolios	431 424	726 204	– 294 780
– Interest and dividend income on financial investments	5 512 031	4 866 588	645 443
– Interest expenses	– 5 583 995	– 7 467 156	1 883 161
Net interest income (Subtotal)	11 020 611	12 765 221	– 1 744 610
Results from commission and service fee activities:			
– Commission income on lending activities	656 347	638 063	18 284
– Commission income on securities and investment transactions	28 615 272	29 222 203	– 606 931
– Commission income on other services	2 817 946	3 022 948	– 205 002
– Commission expenses	– 1 421 252	– 1 505 009	83 757
Results from commission and service fee activities (Subtotal)	30 668 313	31 378 205	– 709 892
Results from trading operations	18 349 003	11 226 404	7 122 599
Other ordinary results:			
– Results from the sale of financial investments	16 061	– 18 932	34 993
– Participation income (non-consolidated)	0	266 741	– 266 741
Other ordinary results (Subtotal)	16 061	247 809	– 231 748
Operating expenses:			
– Personnel expenses	– 22 504 234	– 22 685 771	181 537
– Other operating expenses	– 15 927 383	– 17 673 302	1 745 919
Operating expenses (Subtotal)	– 38 431 617	– 40 359 073	1 927 456
Gross profit	21 622 371	15 258 566	6 363 805
Net profit			
Gross profit	21 622 371	15 258 566	6 363 805
Depreciation and write-offs on non-current assets	– 6 402 900	– 5 011 547	– 1 391 353
Valuation adjustments, provisions and losses	– 17 819 015	– 29 278 174	11 459 159
Extraordinary income	11 126 626	84 533 776	– 73 407 150
Extraordinary expenses	– 163 095	– 20 986 416	20 823 321
Taxes	– 1 078 195	– 823 131	– 255 064
Net profit	7 285 792	43 693 074	– 36 407 282

Statement of cash-flows – consolidated

(in 1000 Swiss Francs)

	2003		Preceding year	
	Source of funds	Application of funds	Source of funds	Application of funds
Cash-flow from operating results (internal sources)				
Net income	7 286	0	43 693	0
Depreciation and write-offs on non-current assets	6 403	0	5 011	0
Valuation adjustments and provisions	16 863	- 3 480	26 953	- 381
Reserves for general banking risks	0	- 11 418	20 743	0
Accrued income and prepaid expenses	0	- 1 114	2 432	0
Accrued expenses and deferred income	210	0	0	- 969
Balance	14 750	0	97 482	0
Cash-flow from investment activities				
Participations	0	0	50	0
Fixed assets	0	- 662	0	- 3 334
Intangible assets	0	- 8 612	0	- 1 086
Balance	0	- 9 274	0	- 4 370
Cash-flow from banking operations				
Medium and long-term operations (more than 1 year)				
- Due to banks	335	0	0	0
- Other liabilities	0	- 1 248	0	- 2 380
- Due from banks	0	0	0	0
- Due from customers	0	- 27 815	0	- 51 920
- Financial investments	0	- 3 879	0	- 11 167
Short-term operations				
- Due to banks	0	- 110	0	- 101 862
- Due to customers	9 387	0	7 001	0
- Due from money market instruments	4 529	0	17 063	0
- Due from banks	5 693	0	61 064	0
- Due from customers	0	- 29 790	101 473	0
- Securities and precious metal portfolios	2 010	0	12 308	0
- Other assets / liabilities	88 549	0	0	- 84 474
Specific usage of valuation adjustments and provisions		- 51 763		- 39 864
Liquidity				
- Cash	0	- 1 374	0	- 354
Balance	0	- 5 476	0	- 93 112
Total	14 750	- 14 750	97 482	- 97 482

Notes to the Consolidated Financial Statements

Bank Leumi le-Israel (Switzerland)

1. Comments on Business Activities

Introduction

Bank Leumi le-Israel (Switzerland) is primarily active in providing private banking services to high net worth individuals worldwide and operates via the head office in Zurich and its branch in Geneva. As of year-end, the Group employed a total of 132 members of staff (previous year: 127), of which 28 (previous year: 30) are located in Geneva.

Strategic business units

The Bank provides a comprehensive range of investment and asset management services. Therefore commission and service fees represent the main source of income, amounting to 51 % (previous year: 57 %) of the gross income before operating expenses. Interest-bearing activities amount to 18 % (previous year: 23 %) and trading to 31 % (previous year: 20 %) of the gross profit before operating expenses.

Core business activities are:

Asset management and investment activities

Asset and portfolio management for mainly international customers constitutes the Bank's main activity.

Trading

Foreign exchange and security trading is carried out for the nostro book and for clients. The activity in structured products, which also contributes to trading income, has been introduced primarily to meet the needs of private banking clients. As of year-end, all items that are traded for the Bank's own account are in line with approved guidelines.

Lending Activities

The Bank primarily engages in collateralized lending to private banking clients, by means of Lombard credits.

Risks

The Management of the Bank places strong emphasis on risk management as reflected in its risk policy. In principle, the Bank does not undertake any business with a high-risk profile. The supervision and control of the material risk can be summarized as follows:

Interest rate risks are controlled within the framework of the asset & liability management. The Bank hedges interest rate risks. They are expressly considered in investing in financial securities for the Bank. The development of the financial markets is monitored daily and reported to the Investment Committee of the Bank.

As of year-end, currency risks were hedged according to the guidelines approved by the Board of Directors.

Price risk from trading activity is limited by a system defining maximum exposure. Risk related to the replacement value of open derivative items is modest. Market liquidity risk in foreign exchange trading is negligible as the Bank refrains from trading in illiquid markets.

87 % of the Bank's assets are held in Europe, Switzerland, North America and Israel (previous year 89 %). No loans were classified as exposed to country risk during 2003.

Credit approvals are subject to quality requirements, margins and limits, set forth in internal regulations, and regularly reported to the credit committee of the Bank. All credit positions, including derivative financial instruments, are subject to exposure limits and are continuously monitored.

Liquidity risk is monitored and controlled in line with the provisions of the Federal Law on Banks and Saving Banks (BankL).

The Legal & Compliance Department ensures that the Bank's business activities comply with the regulatory provisions in force, as well as with internal directives and guidelines. The department is responsible for implementing the new money laundering directive, with which the Bank must comply by June 2004. The Bank is in the process of introducing a new IT system and strengthening its work procedures in the area of transaction monitoring.

Operating risk is defined as "risk of direct or indirect losses resulting from the inadequacy or the failure of internal procedures, persons and systems or from external events". It is limited by means of internal regulations and directives. The Internal Audit Department periodically checks the internal controls, and issues its activity reports directly to the Board of Directors or to its Audit Committee.

The Bank ensures that the executive bodies are regularly informed with respect to market, credit, liquidity, legal and operational risk by means of a management information system.

There are adequate provisions for litigation risks.

In accordance with Federal Banking Commission regulations, no business functions were outsourced.

2. Accounting and Valuation Principles for the Consolidation

Principles of Consolidation

The consolidated financial statements were prepared according to generally recognized principles of consolidated accounting and consist of the balance sheet, the statement of income, the statement of cash-flow and the notes to the financial statements.

The structure of the consolidated financial statements was established according to Art. 25f of the Implementing Ordinance to the Federal Law on Banks and Saving Banks (BankO). Accordingly, the capital and the profit reserves as well as the income from equity participations are disclosed separately.

The group accounts outline the assets and earnings of Bank Leumi le-Israel (Switzerland) in accordance with the "true and fair view" principle.

The business activities are recorded as at value date, i.e. the recording is generally based on the transfer of power to dispose of an asset. Thus, purchased assets are only recorded at the time when the right of ownership is acquired or the authority to dispose assets is transferred.

Companies subject to full consolidation are bound by group-wide, consistent and binding valuation guidelines. All companies have the same fiscal year.

It is the Group's policy to establish specific value adjustments for possible losses. Contingent risks are covered by global provisions and reserves and are disclosed in the consolidated balance sheet under "reserves for general banking risk".

The capital consolidation was performed according to the purchase method.

Foreign currency transactions are converted and recorded at the respective daily exchange rates in Swiss Francs. Assets reported in the balance sheet are converted at the exchange rates valid on the balance sheet date and are posted to the appropriate income account accordingly. Any differences in exchange rates which may result between conclusion and settlement of a transaction are reported in the income statement.

All Group companies keep their accounts in Swiss Francs.

The following exchange rates (against the CHF) were applied for the currency conversions:

	2003	Preceding year
	Balance sheet rate	Balance sheet rate
USD	1.2385	1.3895
EUR	1.5586	1.4552
GBP	2.2030	2.2285
CAD	0.9565	0.8820
AUD	0.9295	0.7865
JPY	1.1580	1.1710

Any inter-company transactions and provisional profits are eliminated.

In addition to the Bank, the consolidated entity comprises the following fully consolidated companies:

	Equity (in CHF)	Capital Interest	Business activity
Leumi Fund Holding, Luxembourg	120 000	100%	Investment Fund Management
Leumi Asset Man- agement, Zurich	100 000	100%	Investment Advisory

Cash Assets, Money Market Instruments and due to Customers

Items are reported in the balance sheet at par value. The as yet unearned discount component on money market instruments is shown under the specific balance sheet position and is accrued until maturity.

Due from Banks and Customers

Items are reported in the balance sheet at par value. Value adjustments are made for discernible risk according to the principle of caution. If a debtor is more than 90 days in arrears with interest payments, the interest arrears are allocated directly to the provisions; in this instance, they are not recovered until the interest has been paid.

If a debt is deemed to be unrecoverable, either in whole or in part, or a debt waiver is granted, the debt is written off against the corresponding bad debt charge. Any previously reported amounts re-entered shall be credited directly to the bad debt charge.

Repo and Reverse Repo Transactions

These transactions are used mostly for short-term financing and they are therefore shown under the item "Due to Banks". Pledged securities are disclosed as "investments as collateral for repurchase transactions".

Securities and Precious Metals Trading Portfolio

Items in the trading portfolio are always valued and recorded in the balance sheet at fair value. The price quoted on a recognized exchange or a representative market is taken as

the fair value. For structured products held in the trading portfolio, the price quoted is examined by means of a price model. If this is not possible, valuation is based on the principle of lower of cost or market. Transactions executed on behalf of clients are classified as trading transactions due to the fact that during a certain period the risk of such transactions remains within the Bank's own books.

Price gains and losses resulting from the valuation are recorded under "Results from trading operations". Interest and dividend income on trading portfolios are entered under the item "Interest and dividend income on trading portfolios".

Financial Investments in Securities and Precious Metals
These assets serve the medium and long-term needs of the Bank. The accrual method is applied to value such items.

Fixed Assets
Investments in fixed assets exceeding CHF 2 500 are reported in the balance sheet as assets and in accordance with the acquisition cost principle, provided they are used for longer than one accounting period.

Investments in existing fixed assets are reported in the balance sheet as assets, if, as a result, the economic value is increased on a sustained basis, the service life is considerably extended. Items are recorded at acquisition cost less straight-line depreciation over conservative estimated life of the asset. The declared value is checked yearly. In the case of decreased value or of a lowered service life, the remaining value will either be depreciated over the planned life time or an extra depreciation will be carried out. Planned and eventual additional unplanned depreciation will be recorded in the profit & loss statement under "Depreciation and write-offs on non-current assets".

The estimated utilization of investments in fixed assets are as follows:

Investments in rented property	max. 5 years
Information technology equipment	max. 4 years
Software and communication equipment	max. 3 years
Other fixed assets	max. 4 years

Intangible Assets
Acquired intangible assets are reported in the balance sheet if they provide the company with quantifiable benefits over a period of several years. They are recorded and valued at acquisition cost. As a rule, depreciation is on a straight-line basis and the depreciation period lasts a maximum of 4 years.

The estimated utilization of Intangible assets is as follows:

Software	max. 3 years
Other intangible assets	max. 4 years

The declared value is checked yearly. In the case of decreased value or of a lowered service life, the remaining value will either be depreciated over the planned life time or an extra depreciation will be carried out.

Pension Plan Liabilities
All Group employees belong to the Bank's own pension fund "Pension fund of Bank Leumi le-Israel (Switzerland)" which carries out direct investments. Only contribution-based plans are included in the fund.

Pension fund liabilities together with the assets serving as cover are structured in a legally independent foundation. The foundation has reinsured itself by taking out insurance for cases of death and disability. The manner in which the pension plans are organised, managed and funded complies with legal provisions, foundation deeds and the applicable pension regulations.

The Bank contributes to the insurance premium for the above mentioned reinsurance policy.

Employer Contributions are recorded under personnel expenses.

Taxes
Taxes are calculated and recorded for the year under review, taking into account all necessary aspects impacting the business of the Bank. No deferred tax asset has been recorded.

Deferred Taxes
No deferred taxes were recorded for the last financial year.

Contingent liabilities, irrevocable commitments and similar off-balance sheet items
These items are recorded with the nominal amount in the off-balance sheet. Valuation adjustments and provisions are established for foreseeable risks under the liabilities in the balance sheet.

Valuation Adjustments and Provisions
Valuation adjustments and provisions are established for all risks according to the principle of caution.

Precious Metals Accounts
The valuation of precious metals accounts is based on the market prices as of the balance sheet date.

Derivative Financial Instruments
Please refer to "Comments on Business Activities" on p. 9 for information regarding the Bank's corporate policy and risk management.

Trading Transactions
Items are valued and reported at fair value (excluding deri-

vatives which are used for hedging purposes). Such derivatives are either reported at positive replacement values or at negative replacement values under "Other Assets / Other Liabilities". The fair value is based on market prices, price confirmation by brokers, discounted cash-flow – and option-pricing-models.

Transactions with derivative financial instruments that are based on trading purposes, realised and unrealised profits, are reported under "income from trading operations".

Hedging Transactions

Besides trading transactions, the Group uses derivative financial instruments for hedging purposes in its asset & liability management with respect to interest rate risk, currency risk and counterparty risk. Income from hedging continues to be reported under the same income item as the corresponding income from the basic transaction to be hedged.

The Group hedges especially against interest rate risk arising from balance sheet transactions, by means of interest rate swaps in particular. The income from these so-called "Macro-Hedges" is reported under "Interest income and expenses".

Changes to Accounting and Valuation Principles

The amended accounting regulations for banks in Switzerland came into force for annual accounts as at 31.12.2003. In the year under review, the various new regulations required the following main accounting and valuation principles to be amended (preceding year figures have been amended on a voluntary basis);

Taxes

Up to now provisions for taxes and deferred taxes had been recorded under valuation adjustments and provisions. The amended principles require that only deferred taxes can be classified under valuation adjustments and provisions. Capital and Income taxes for the current year will be booked as accruals. With this change valuation adjustments and provisions were decreased by CHF 178 000.

Fixed Assets

Intangible assets are now shown under a separate position on the financial statements.

3. Information to the balance sheet – consolidated

Listing of collateral

(in 1000 Swiss Francs)

	Mortgage collateral	Type of collateral Other collateral	Without collateral a)	Total
Loans				
Due from customers	5 914	495 535	51 408	552 857
Total loans	5 914	495 535	51 408	552 857
Preceding year	6 562	411 457	77 233	495 252
Off-balance sheet transactions				
Contingent liabilities	0	111 670	213	111 883
Total off-balance sheet transactions	0	111 670	213	111 883
Preceding year	0	136 332	201	136 533
	Gros debt amount	Assumed liquidation income of securities	Net debt amount	Individual provisions
Contested balances b)	76 171	26 113	50 058	50 058

a) amounts covered by valuation adjustments and provisions; refer to the note disclosures "other information on the income statement".

b) all contested balances are in connection with unauthorised and alleged transactions of a former management member identified in the year 2001.

Securities and precious metal trading portfolios, financial investments and participations – consolidated

(in 1000 Swiss Francs)

	2003	Preceding year
Securities and precious metal trading portfolios		
– Debt securities		
– Exchange listed	21 074	23 121
– Unlisted	0	467
– Participation instruments	656	152
– <i>of which qualified participations</i>	0	0
– Precious metals	0	0
Total securities and precious metal trading portfolios	21 730	23 740
– <i>of which securities acceptable to central banks</i>	0	0

	Book Value		Fair Value	
	2003	Preceding year	2003	Preceding year
Financial investments				
– Debt securities (“accrual method”)				
– Exchange listed	135 956	132 206	143 180	140 341
– Unlisted	0	0	0	0
– Participation instruments	531	522	638	522
– <i>of which qualified participations</i>	0	0	0	0
– Precious metals	1 560	1 440	1 560	1 440
Total financial investments	138 047	134 168	145 378	142 303
– <i>of which securities acceptable to central banks</i>	88 892	90 069	94 347	97 104

Main participations – consolidated

(in 1000 Swiss Francs)

Name of company, location	Business	2003		preceding year	
		Capital	Quota	Capital	Quota
Consolidated participations					
Leumi Asset Management, Zurich	Investment Advisory	100	100 %	100	100 %
Leumi Fund Holding, Luxembourg	Fund Management	120	100 %	120	100 %

Fixed and intangible assets – consolidated

(in 1000 Swiss Francs)

	Historical cost	Write-offs/ Accumulated depreciation	Book value end of preceding year	2003			
				Additions	Deductions	Write-offs/ Depre- ciation	Book value current end of year
Fixed assets							
– Other fixed assets	28 420	– 20 987	7 433	653	0	– 2 883	5 203
Total fixed assets	28 420	– 20 987	7 433	653	0	– 2 883	5 203
Intangible assets							
– Other intangible assets	11 564	– 9 537	2 027	8 622	0	– 3 520	7 129
Total intangible assets	11 564	– 9 537	2 027	8 622	0	– 3 520	7 129
Fire insurance value of other fixed assets							13 500

Other assets and liabilities – consolidated

(in 1000 Swiss Francs)

	2003		Vorjahr	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement value of derivative instruments				
Own trading contracts				
– replacement value of client transactions	36 367	36 383	20 109	22 174
– replacement value of nostro positions	0	292	10	2
– replacement value of asset/liabilities management	298	2 272	207	1 641
<i>Total derivative instruments</i>	<i>36 665</i>	<i>38 947</i>	<i>20 326</i>	<i>23 817</i>
Equalization account	2 688	0	2 495	0
Indirect taxes	187	237	335	11
Transit account	1 527	245	0	224
Coupons not cashed	0	8	0	8
Other assets and liabilities	424	786	91 614 a)	893
Total	41 491	40 223	114 770	24 953

a) Insurance contribution preceding year of CHF 83,37 mill. included.

Assets pledged or ceded to secure own liabilities, and assets subject to ownership reservation – consolidated

(in 1000 Swiss Francs)

	2003		Preceding year	
	Collateral resp. Book Value	Liability resp. amount used	Collateral resp. Book Value	Liability resp. amount used
Type of not available assets and reason for pledge				
Short and longterm investments for lombard credit business	7 420	0	7 426	0
Longterm investments as collateral for security clearing	39 854	0	34 943	0
Longterm investments as collateral for repurchase transactions	24 074	0	24 619	0
Money market instruments for derivative business	1 857	0	6 386	0
Due from banks for derivative business	25 500	0	25 500	0
Total of assets pledged or ceded to secure own liabilities and assets subject to ownership reservation	98 705	0	98 874	0

As per December 31, 2003, no open securities lending and borrowing as well as Repo transactions on accounts.

Liabilities to own pension plans – consolidated

(in 1000 Swiss Francs)

	2003	Preceding year
Pension Fund of Bank Leumi le-Israel (Switzerland)	3 911	3 301

All employees of the Group are included in the Group's autonomous pension fund "Pension Fund of Bank Leumi le-Israel (Switzerland), Zurich", which is based on contribution agreements.

Valuation adjustments and provisions / reserves for general banking risks – consolidated

(in 1000 Schweizer Franken)

	Balance, end of preceding year	2003			Balance end of current year
		Specific usage	Recoveries, overdue interest, currency differences	New creation charged to income statement	
Valuation adjustments and provisions for loan losses (credit and country risks)	107 620	- 51 763	- 3 480	16 863	69 240
Total valuation adjustments and provisions as per balance sheet	107 620	- 51 763	- 3 480	16 863	69 240
Reserves for general banking risks	25 744	0	- 711	0 - 10 708	14 325

Capital structure – consolidated

(in 1000 Swiss Francs)

	2003			Preceding year		
	Total nominal value	Number of units	Dividend bearing capital	Total nominal value	Number of units	Dividend bearing capital
Share capital						
Registered shares A (100.–)	13 350	133 500	13 350	13 350	133 500	13 350
Bearer shares B (500.–)	19 650	39 300	19 650	19 650	39 300	19 650
Total capital	33 000	172 800	33 000	33 000	172 800	33 000

	2003		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
Significant shareholders of Bank Leumi le-Israel (Switzerland)				
Bank Leumi le-Israel B.M., Tel Aviv	23 057	88,49 %	22 842	88,27 %

	2003		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
Significant shareholders of Bank Leumi le-Israel B.M., Tel Aviv				
State of Israel	148 479	36,90 %	170 236	41,14 %
Shlomo Eliahu Holdings Ltd. and its subs. and ass. companies	40 223	10,00 %	41 368	10,00 %
Migdal Insurance Holdings Ltd.	36 521	9,08 %	38 661	9,34 %
Bank Hapoalim Funds	21 137	5,25 %	23 214	5,61 %
Otzar Hityashvut Hayehudin B.M.	20 393	5,07 %	20 974	5,07 %
Others	a)	a)	a)	a)

a) below 5 %

Rate CHF/ILS

0.2845

0.2926

Statement of changes in shareholders' equity – consolidated

(in 1000 Swiss Francs)

Shareholders' equity, at beginning of current year

Share capital	33 000
Retained earnings	132 914
Reserves for general banking risks	25 744
Net consolidated profit	43 693

Total shareholders' equity at beginning of current year 235 351

(before profit distribution)

+ Capital increase / decrease	0
+ Premium over nominal value	0
+/- Other allocations to/from reserves	- 10708
- Dividends and other distributions of retained earnings brought forward	0
+ Net consolidated income	7286
+/- Currency differences	- 711

Total shareholders' equity, at end of current year 231 218

(before profit distribution)

<i>Thereof</i> Share capital paid-in	33 000
Retained earnings	176 607
Reserves for general banking risks	14 325
Accumulated profit	7 286

Maturity structure of current assets, financial investments and borrowed funds – consolidated

(in 1000 Swiss Francs)

	At sight	Redeemable by notice	Within 3 months	Maturities Within 3 to 12 months	Within 1 to 5 years	After 5 years	Total
Current assets							
Cash	7 377	-	-	-	-	-	7 377
Money market instruments	0	0	1 857	0	0	0	1 857
Due from banks	23 601	0	60 885	0	0	0	84 486
Due from customers	125 462	0	164 069	113 982	146 000	3 344	552 857
Securities and precious metal trading portfolios	21 730	-	-	-	-	-	21 730
Total current assets	178 170	0	226 811	113 982	146 000	3 344	668 307
Preceding year	176 669	0	217 419	105 943	119 525	2 004	621 560
Financial investments	1 560	0	0	0	86 022	50 465	138 047
Preceding year	1 440	0	0	0	100 579	32 149	134 168
Borrowed funds							
Due to banks	1 441	0	264 525	72 824	335	0	339 125
Due to customers, other	169 752	0	477	1 450	8 288	0	179 967
Total borrowed funds	171 193	0	265 002	74 274	8 623	0	519 092
Preceding year	164 274	0	253 372	83 546	7 556	1 980	510 728

Due from and due to affiliated companies and loans and exposures to the members of the bank's governing bodies – consolidated

(in 1000 Swiss Francs)

	2003	Preceding year
Due from affiliated companies	27 894	28 294
Due to affiliated companies	9 191	761
Loans and exposures to the members of the bank's governing bodies	476	657

Transactions with affiliated companies and members of the bank's governing bodies

Within the group the bank represents the center of competence regarding the distribution of structured products. For the sale of such products through group companies, the bank pays the group retrocessions on a case to case basis based on the particular transaction. In the year 2003 a total of TCHF 769 had been paid and had been recorded under results from trading operations.

Members of the board of directors, members of the management as well as ordinary employees benefit from special conditions, which are stipulated in the guidelines for employees.

The conditions applied for other affiliates companies (such as security transactions, loans and compensations on deposits) are equal to clients conditions.

Assets and liabilities by domestic and foreign origin – consolidated

(in 1000 Swiss Francs)

	2003		Preceding year	
	Domestic	Foreign	Domestic	Foreign
Assets				
Cash	7 377	0	6 003	0
Money market instruments	0	1 857	0	6 386
Due from banks	6 916	77 570	5 454	84 725
Due from customers	65 755	487 102	81 383	413 869
Securitie trading portfolios	0	21 730	0	23 740
Financial investments	90 983	47 064	92 031	42 137
Participations	5 203	0	7 433	0
Fixed assets	7 129	0	2 027	0
Accrued income and prepaid expenses	5 046	4 347	5 793	2 486
Other assets	19 348	22 143	22 643	92 127
Total assets	207 757	661 813	222 767	665 470
Liabilities and shareholders' equity				
Due to banks	25 213	313 912	28 916	309 984
Due to customers, other	36 034	143 933	23 858	147 970
Accrued expenses and deferred income	8 318	1 478	8 890	696
Other liabilities	19 738	20 486	13 515	11 438
Valuation adjustments and provisions	50 676	18 564	42 226	65 394
Reserves for general banking risks	14 326	0	25 743	0
Share capital	33 000	0	33 000	0
Retained earnings	176 607	0	132 914	0
Net consolidated income	7 286	0	43 693	0
Total liabilities and shareholders' equity	371 197	498 373	352 755	535 482

Assets by countries / country groups – consolidated

(in 1000 Swiss Francs)

	2003		Preceding year	
	Total	in %	Total	in %
Europe				
– Switzerland	212 119	24 %	280 457	31 %
– Liechtenstein	22 128	3 %	36 923	4 %
– Germany	170 281	20 %	160 406	18 %
– United Kingdom	41 454	5 %	40 943	5 %
– France	31 275	4 %	32 422	4 %
– Netherlands	4 128	1 %	3 879	0 %
– Luxembourg	2 553	0 %	8 652	1 %
– Other countries	55 932	6 %	87 484	10 %
	539 870	63 %	651 166	73 %
Israel	147 968	16 %	80 689	9 %
North America				
– United States	48 469	6 %	56 566	6 %
– Other countries	8 743	1 %	4 433	1 %
	57 212	7 %	60 999	7 %
Latin America				
– Panama	4 953	1 %	11 522	1 %
– Other countries	18 636	2 %	2 701	0 %
	23 589	3 %	14 223	1 %
Africa	20 013	2 %	1 267	0 %
Asia / Oceania	77 974	9 %	75 510	9 %
Australia and New Zealand	2 944	0 %	4 383	1 %
Total Assets	869 570	100 %	888 237	100 %

Balance sheet by currencies – consolidated

(in 1000 Swiss Francs)

	Currencies					Total
	CHF	EUR	USD	JPY	Other	
Assets						
Cash	6 333	700	255	0	89	7 377
Money market instruments	0	0	1 857	0	0	1 857
Due from banks	57 938	619	15 012	1 941	8 976	84 486
Due from customers	149 447	67 331	182 494	137 524	16 061	552 857
Securities and precious metal trading portfolios	0	662	21 066	0	2	21 730
Financial investments	102 992	20 534	14 521	0	0	138 047
Fixed assets	5 203	0	0	0	0	5 203
Intangible assets	7 129	0	0	0	0	7 129
Accrued income and prepaid expenses	6 381	1 430	1 130	391	61	9 393
Other assets	41 491	0	0	0	0	41 491
Total on-balance assets	376 914	91 276	236 335	139 856	25 189	869 570
Due from FX-Spot, -Forward and -Option transactions	346 251	372 173	745 884	206 382	73 801	1 744 491
Total assets	723 165	463 449	982 219	346 238	98 990	2 614 061
Liabilities and shareholders' equity						
Due to banks	38 797	40 590	116 670	132 024	11 044	339 125
Due to customers, other	36 318	42 443	82 398	7 749	11 059	179 967
Accrued expenses and deferred income	7 576	1 070	888	186	76	9 796
Other liabilities	39 982	117	124	0	0	40 223
Valuation adjustments and provisions	27 566	8 741	30 419	39	2 475	69 240
Reserves for general banking risks	14 326	0	0	0	0	14 326
Share capital	33 000	0	0	0	0	33 000
Retained earnings	176 607	0	0	0	0	176 607
Net consolidated profit	7 286	0	0	0	0	7 286
Total liabilities and shareholders' equity	381 458	92 961	230 499	139 998	24 654	869 570
Due from FX-Spot, -Forward and -Option transactions	344 688	380 630	738 829	206 496	73 848	1 744 491
Total liabilities	726 146	473 591	969 328	346 494	98 502	2 614 061

4. Information on off-balance sheet transactions

Analysis of contingent liabilities – consolidated

(in 1000 Swiss Francs)

	2003	Preceding year	Changes
Contingent liabilities			
– Credit guarantees and similar	104 681	130 400	– 25 719
– Irrevocable commitments	7 202	6 300	902
Total contingent liabilities	111 883	136 700	– 24 817

Outstanding derivative instruments – consolidated

(in 1000 Swiss Francs)

	Own trading contracts			Hedging-Instruments		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate instruments						
Forward contracts	156	729	48 055	0	0	0
Swaps	0	0	0	298	2 272	231 643
Options (OTC)	0	0	0	0	0	0
Foreign exchange						
Forward contracts	36 049	35 685	1 416 125	0	0	0
Options (OTC)	120	120	50 135	0	0	0
Precious metals						
Forward contracts	42	0	1 040	0	0	0
Equity based						
Forward contracts	0	141	4 232	0	0	0
Total	36 367	36 675	1 519 587	298	2 272	231 643
Preceding year	20 119	22 176	770 633	207	1 641	150 381
	2003			Preceding year		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Analysis by counterparties						
Banks and derivative exchanges	14 506	22 737	980 714	10 461	13 589	578 024
Customers	22 159	16 210	770 516	9 865	10 228	342 990
Total	36 665	38 947	1 751 230	20 326	23 817	921 014
Analysis by remaining life						
Up to 3 months	24 786	25 161	1 119 982	11 895	15 424	722 479
Over 3 months to 1 year	11 639	11 752	464 142	8 428	8 391	197 155
Over 1 year to 5 years	141	1 037	143 500	3	2	1 380
Over 5 years	99	997	23 606	0	0	0
Total	36 665	38 947	1 751 230	20 326	23 817	921 014

Analysis of fiduciary transactions – consolidated

(in 1000 Swiss Francs)

	2003	Preceding year	Changes
Fiduciary transactions			
– Fiduciary placements with third party banks	1 103 188	1 436 983	– 333 795
– Fiduciary placements with banks of the group	158 180	27 097	131 083
– Fiduciary credits	46 788	88 479	– 41 691
Total fiduciary transactions	1 308 156	1 552 559	– 244 403

Assets under Management – consolidated

(in mill. Swiss Francs)

	2003	Preceding year
Assets under management:		
Assets in own mutual funds	230	232
Assets in managed accounts	537	521
Other assets under management	4 970	4 914
Total clients assets (incl. twice counted amounts)	5 737	5 667
thereof twice counted amounts	230	232

5. Information on the income statement

Analysis of results from trading operations – consolidated

(in 1000 Swiss Francs)

	2003	Preceding year	Changes
Results from trading operations			
– Foreign exchange and other business segments	4 650	3 583	1 067
– Precious metals	1	-1	2
– Securities	806	287	519
– Income structured product activities	12 906	7 357	5 549
– Interest rate instruments	- 14	0	- 14
Total results from trading operations	18 349	11 226	7 123

Analysis of personnel expenses – consolidated

(in 1000 Swiss Francs)

	2003	Preceding year	Changes
Personnel expenses			
– Remuneration and fees for board of directors	339	337	2
– Salaries	17 670	18 216	- 546
– Contributions to AHV and unemployment insurance	1 211	1 328	- 117
– Contributions to social benefits	1 490	1 503	- 13
– Other personnel expenses	1 794	1 302	492
Total personnel expenses	22 504	22 686	- 182

Analysis of other operating expenses – consolidated

(in 1000 Swiss Francs)

	2003	Preceding year	Changes
Other operating expenses			
– Occupancy expense	2 715	2 640	75
– Expenses for electronic data processing, machinery, furniture, vehicles and leasehold improvements	2 553	2 765	- 212
– Expenses for electronically communication	3 048	2 808	240
– Other operating expenses	7 611	9 460	- 1 849
Total other operating expenses	15 927	17 673	- 1 746

Tax expenses – consolidated

Tax expenses are mainly for capital taxes, due to the existing possibility for loss carried forward netting practically no income taxes are payable. Remaining possibility for loss carried forward netting is CHF 10,4 mill. as per December 31, 2003.

Due to prudent principles, the Bank refrained from accruing taxes based on the existing possibility for loss carried forward netting.

Other information on the income statement – consolidated

Explanation of significant losses, extraordinary income and expense as well as with respect to the significant release of reserves for general banking risks

For the year under review valuation adjustments and provisions had been increased by CHF 16,9 mill. This increase was created in connection with the alleged unauthorized transactions of a former management member as identified in 2001.

Under the extraordinary income there's a release included of reserves for general banking risks in the amount of CHF 10,7 mill.

6. Sundries

Informations regarding market risks in the trading book – consolidated

(12 months average in 1000 Swiss Francs)

	2003	Preceding year	Changes
Debt instruments including derivatives	23 911	28 453	- 4 542
Participation certificates including derivatives	910	331	579
Foreign currency positions including derivatives	7 823	4 153	3 670
Precious metal positions including derivatives	99	83	16

Report of the group auditors
to the general meeting of
Bank Leumi le-Israel (Switzerland)
Zurich

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes / pages 6 to 26) of Bank Leumi le-Israel (Switzerland) for the year ended 31 December 2003.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the accounting rules for banks and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



P. Portmann



T. Romer

Zurich, 19 March 2004

Enclosure

- Consolidated financial statements (balance sheet, income statement, statement of cash flows and notes)

1. Balance sheet – Bank

(in Swiss Francs)

	Dec. 31, 2003	Preceding year	Changes
Assets			
Cash	7 377 372	6 002 591	1 374 781
Money market instruments	1 856 885	6 385 579	- 4 528 694
Due from banks	82 436 493	89 007 819	- 6 571 326
Due from customers	552 856 727	495 252 162	57 604 565
Securities trading portfolios	21 617 280	23 181 250	- 1 563 970
Financial investments	138 047 027	134 168 089	3 878 938
Participations	220 000	220 000	0
Fixed assets	12 315 000	9 438 000	2 877 000
Accrued income and prepaid expenses	8 968 339	7 872 852	1 095 487
Other assets	41 489 877	114 758 100	- 73 268 223
Total assets	867 185 000	886 286 442	- 19 101 442
Total subordinated claims	3 005 229	3 005 978	- 750
Total due from group entities and significant shareholders	99 546	27 919	71 627
Liabilities and shareholders' equity			
Due to banks	339 124 614	338 899 810	224 804
Due to customers, other	180 696 795	172 023 435	8 673 360
Accrued expenses and deferred income	9 585 565	9 582 275	3 290
Other liabilities	40 204 672	24 953 009	15 251 663
Valuation adjustments and provisions	83 565 449	133 364 115	- 49 798 666
Share capital	33 000 000	33 000 000	0
General legal reserve	34 735 000	34 735 000	0
Other reserves	139 720 000	96 564 000	43 156 000
Retained earnings brought forward	8 798	2 921	5 877
Net income	6 544 107	43 161 877	- 36 617 770
Total liabilities and shareholders' equity	867 185 000	886 286 442	- 19 101 442
Total due to group entities and significant shareholders	120 321 098	100 921 953	19 399 145
Off-balance sheet transactions			
Contingent liabilities	111 883 191	136 700 451	- 24 817 260
Derivative instruments – Contract volume	1 751 230 332	921 013 631	830 216 701
– Positive replacement value	36 665 027	20 325 666	16 339 361
– Negative replacement value	38 946 851	23 816 994	15 129 857
Fiduciary transactions	1 308 155 755	1 552 558 818	- 244 403 064

2. Income statement – Bank

(in Swiss Francs)

	2003	Preceding year	Changes
Revenues and expenses from ordinary banking activities			
Results from interest activities:			
– Interest and discount income	10 659 908	14 623 152	– 3 963 244
– Interest and dividend income on trading portfolios	431 424	726 204	– 294 780
– Interest and dividend income on financial investments	5 512 031	4 866 588	645 443
– Interest expenses	– 5 584 959	– 7 461 698	1 876 739
Net interest income (Subtotal)	11 018 404	12 754 246	– 1 735 842
Results from commission and service fee activities:			
– Commission income on lending activities	656 347	638 063	18 284
– Commission income on securities and investment transactions	26 914 851	27 845 661	– 930 810
– Commission income on other services	2 827 946	3 032 948	– 205 002
– Commission expenses	– 1 639 052	– 2 144 009	504 957
Results from commission and service fee activities (Subtotal)	28 760 092	29 372 663	– 612 571
Results from trading operations	18 211 709	11 372 422	6 839 287
Other ordinary results			
– Results from the sale of financial investments	16 061	– 18 932	34 993
– Participation income (consolidated)	450 000	0	450 000
– Participation income (non consolidated)	0	266 741	– 266 741
Other ordinary results (Subtotal)	466 061	247 809	218 252
Operating expenses:			
– Personnel expenses	– 22 065 726	– 21 925 608	– 140 118
– Other operating expenses	– 15 639 938	– 17 158 149	1 518 211
Operating expenses (Subtotal)	– 37 705 664	– 39 083 757	1 378 093
Gross profit	20 750 602	14 663 383	6 087 219
Net income			
Gross profit	20 750 602	14 663 383	6 087 219
Depreciation and write-offs on non-current assets	– 6 387 710	– 4 970 692	– 1 417 018
Valuation adjustments, provisions and losses	– 17 819 015	– 50 021 674	32 202 659
Extraordinary expenses	– 163 096	– 242 916	79 820
Extraordinary income	11 126 626	84 533 776	– 73 407 150
Taxes	– 963 300	– 800 000	– 163 300
Net income	6 544 107	43 161 877	– 36 617 770

	2003	Preceding year	Changes
Allocation of retained earnings			
Net income	6 544 107	43 161 877	- 36 617 770
Retained earnings brought forward	8 798	2 921	5 877
Accumulated profit	6 552 905	43 164 798	- 36 611 893
Allocation of retained profit			
Allocation of other reserves	- 6 550 000	- 43 156 000	36 606 000
Accumulated earnings carried forward	2 905	8 798	- 5 893

The Bank's Activity

Description of Business Activities

The description of the Bank's business activity is included in the consolidated financial statements of the Bank.

As of December 31, 2003, the Bank employed 130 people (previous year: 125), of whom 28 (previous year: 30) are located in Geneva.

Accounting and Valuation Principles of the Bank

The financial statements of the Bank have been prepared in accordance with the relevant Swiss Accounting Standards stipulated in the Swiss Code of Obligations, the Federal Law on Banks and Saving Banks, and the accounting rules defined by the Federal Banking Commission.

In general, the Bank's financial statements are based on the same accounting policies and valuation principles used for the consolidated financial statements. The Bank's financial statements may include and be influenced by hidden reserves.

In addition, the intangible assets that are recorded separately in the consolidated financial statements are recorded as fixed assets.

Other assets and liabilities – Bank

(in 1000 Schweizer Franken)

	2003		Preceding year	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement value of derivative instruments				
Own trading contracts				
– replacement value of customer transactions	36 367	36 383	20 109	22 174
– replacement value of asset/liabilities management	0	292	10	2
– replacement value of nostro positions	298	2 272	207	1 641
<i>Total derivative instruments</i>	<i>36 665</i>	<i>38 947</i>	<i>20 326</i>	<i>23 817</i>
Equalization account	2 688	0	2 495	0
Indirect taxes	186	218	331	11
Transit account	1 527	245	0	224
Coupons not cashed	0	8	0	8
Other assets and liabilities	424	787	91 606 a)	893
Total	41 490	40 205	114 758	24 953

a) Insurance contribution preceding year of CHF 83,37 mill. included.

Assets pledged or ceded to secure own liabilities, and assets subject to ownership reservation – Bank

(in 1000 Swiss Francs)

	2003		Preceding year	
	Collateral resp. Book Value	Liability resp. amount used	Collateral resp. Book Value	Liability resp. amount used
Type of not available assets and reason for pledge				
Short and longterm investments for lombard credit business	7 420	0	7 426	0
Longterm investments as collateral for security clearing	39 854	0	34 943	0
Longterm investments as collateral for repurchase transactions	24 074	0	24 619	0
Money market instruments for derivative business	1 857	0	6 386	0
Due from banks for derivative business	25 500	0	25 500	0
Total of assets pledged or ceded to secure own liabilities and assets subject to ownership reservation	98 705	0	98 874	0

As per December 31, 2003, no open securities lending and borrowing as well as Repo transactions on accounts.

Liabilities to own pension plans – Bank

(in 1000 Swiss Francs)

	2003	Preceding year
Pension Fund of Bank Leumi le-Israel (Switzerland)	3 911	3 301

All employees of the Group are included in the Group's autonomous pension fund "Pension Fund of Bank Leumi le-Israel (Switzerland), Zurich", which is based on contribution agreements.

Valuation adjustments and provisions – Bank

(in 1000 Swiss Francs)

	Balance, end of preceding year	2003			Balance end of current year	
		Specific usage	Recoveries, overdue interest, currency differences	New creation charged to income statement		Reversals credited to income statement
Valuation adjustments and provisions for loan losses (credit and country risks)	107 620	- 51 763	- 3 480	16 863	0	69 240
Other provisions	25 744	0	- 711	0	- 10 708	14 325
Total valuation adjustments and provisions as per balance sheet	133 364	- 51 763	- 4 191	16 863	- 10 708	83 565

Capital structure and share holders with participations above 5% of voting rights – Bank

(in 1000 Swiss Francs)

	2003			Preceding year		
	Total nominal value	Number of units	Dividend bearing capital	Total nominal value	Number of units	Dividend bearing capital
Share capital						
– Registered shares A (100.–)	13 350	133 500	13 350	13 350	133 500	13 350
– Bearer shares B (500.–)	19 650	39 300	19 650	19 650	39 300	19 650
Total capital	33 000	172 800	33 000	33 000	172 800	33 000

	2003		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
Significant shareholders of Bank Leumi le-Israel (Switzerland)				
Bank Leumi le-Israel B.M., Tel Aviv	23 057	88,49 %	22 842	88,27 %

	2003		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
Significant shareholders of Bank Leumi le-Israel B.M., Tel Aviv				
State of Israel	148 479	36,90 %	170 236	41,14 %
Shlomo Eliahu Holdings Ltd. and its subs. and ass. companies	40 223	10,00 %	41 368	10,00 %
Migdal Insurance Holdings Ltd.	36 521	9,08 %	38 661	9,34 %
Bank Hapoalim Funds	21 137	5,25 %	23 214	5,61 %
Otzar Hityashvut Hayehudin B.M.	20 393	5,07 %	20 974	5,07 %
Others	a)	a)	a)	a)

a) below 5%

Rate CHF/ILS 0.2845

0.2926

Statement of changes in shareholders' equity – Bank

(in 1000 Swiss Francs)

Shareholders' equity, at beginning of current year

Share capital	33 000
General legal reserve	34 735
Other reserves	96 564
Retained earnings	43 165

Total shareholders' equity at beginning of current year

(before profit distribution) **207 464**

+ Capital increase / decrease	0
+ Premium over nominal value	0
+/- Other allocations to/from reserves	0
- Dividends and other distributions of retained earnings brought forward	0
+ Net profit	6544

Total shareholders' equity, at end of current year

(before profit distribution) **214 008**

<i>Thereof</i> Share capital paid-in	33 000
General legal reserve	34 735
Other reserves	139 720
Accumulated profit	6 553

Due from and due to affiliated companies and loans and exposures to the members of the bank's governing bodies – Bank

(in 1000 Swiss Francs)

	2003	Preceding year
Due from affiliated companies	27 894	28 294
Due to affiliated companies	9 191	761
Loans and exposures to the members of the bank's governing bodies	476	657

Transactions with affiliated companies and members of the bank's governing bodies

Within the group the bank represents the center of competence regarding the distribution of structured products. For the sale of such products through group companies, the bank pays the group retrocessions on a case to case basis based on the particular transaction. In the year 2003 a total of TCHF 769 had been paid and had been recorded under results from trading operations. Members of the board of directors, members of the management as well as ordinary employees benefit from special conditions, which are stipulated in the guidelines for employees.

The conditions applied for other affiliates companies (such as security transactions, loans and compensations on deposits) are equal to clients conditions.

Analysis of fiduciary transactions – Bank

(in 1000 Swiss Francs)

	2003	Preceding year	Changes
Fiduciary transactions			
– Fiduciary placements with third party banks	1 103 188	1 436 983	– 333 795
– Fiduciary placements with banks of the group	158 180	27 097	131 083
– Fiduciary credits	46 788	88 479	– 41 691
Total fiduciary transactions	1 308 156	1 552 559	– 244 403

Assets under Management – Bank

(in mill. Swiss Francs)

	2003	Preceding year
Assets under management:		
Assets in own mutual funds	230	232
Assets in managed accounts	537	521
Other assets under management	4 970	4 914
Total clients assets (incl. twice counted amounts)	5 737	5 667
thereof twice counted amounts	230	232

5. Information on the income statement

Analysis of results from trading operations – Bank

(in 1000 Swiss Francs)

	2003	Preceding year	Changes
Results from trading operations			
– Foreign exchange and other business segments	4 633	3 662	971
– Precious metals	2	– 1	3
– Securities	685	354	331
– Income structured product activities	12 906	7 357	5 549
– Interest rate instruments	– 14	0	– 14
Total results from trading operations	18 212	11 372	6 840

Other information on the income statement – Bank

Explanation of significant losses, extraordinary income and expense as well as with respect to the significant release of hidden reserves

For the year under review valuation adjustments and provisions had been increased by CHF 16,9 mill. This increase was created in connection with the alleged unauthorized transactions of a former management member as identified in 2001.

Under the extraordinary income there is a release included of hidden reserves in the amount of CHF 10,7 mill.

6. Sundries

Informations regarding market risks in the trading book – Bank

(12 months average in 1000 Swiss Francs)

	2003	Preceding year	Changes
Debt instruments including derivatives	23 504	27 864	- 4 360
Participation certificates including derivatives	809	331	478
Foreign currency positions including derivatives	7 823	4 153	3 670
Precious metal positions including derivatives	99	83	16

Report of the statutory auditors
to the general meeting of
Bank Leumi le-Israel (Switzerland)
Zurich

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes / pages 28 to 36) of Bank Leumi le-Israel (Switzerland) for the year ended 31 December 2003.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



P. Portmann



T. Romer

Zurich, 19 March 2004

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

The Israeli Economy in 2003

Overview

Economic activity in Israel stabilized at a low level in 2003, following a significant decline during 2001 – 2002. GDP rose in 2003 by 1,2 % compared to 2002. Israeli financial markets flourished. Share prices on the capital market posted sharp gains as the war in Iraq came to an end, without Israel suffering any adverse effects, and following approval of the economic plan by the government and the Knesset. Diminishing geopolitical and economic uncertainties helped to boost both unlinked and CPI-linked shekel-denominated debenture prices, especially long-term debentures, which led to a significant decline in their yields to maturity.

Growth and Activity by Economic Sectors

The activity level of the business sector stabilized during 2003. Business sector product expanded by 1,5 % compared with 2002. Industrial output was stable while the proceeds of some commerce and trade sectors were up.

Tourist arrivals to Israel by air amounted to 972 000 in 2003, representing an increase of approximately 25 % over 2002. After a sharp decline in tourists in the first quarter of the year due to fears surrounding the US-led war in Iraq, there was a quick recovery throughout the remainder of the year – helped by an improvement in the security situation. Nonetheless, the number of tourists was still approximately one third lower than the number entering Israel in 1996 – 1998 (before the significant increase in incoming tourists registered in 1999 – 2000).

Foreign Trade

Israel's trade deficit posted an improvement, amounting to some USD 6 billion – the lowest since 1991. In 2003 export of goods amounted to some USD 27,7 billion, up 8 %, and import of goods came to some USD 33,7 billion, up 4 %. As a result, the trade deficit shrank by some 13 %. The increase in the export of goods derived from upturns in all principal classes of goods: industrial, diamonds and agricultural. Contributing factors were higher export profitability and the incipient global economic recovery. There was also an increase in imports of goods that resulted from higher priced energy products along with a recovery in the import of raw materials – apparently related to improvement in economic activity.

Overall, the improvement in the trade deficit contributed to the narrowing of the balance of payments current account deficit. The improvement - amounting to some USD 0,7 billion – derived in its entirety from a decrease in Israel's import surplus.

Inflation

The Consumer Price Index was down 1,9 % in 2003. The decline in the CPI was largely influenced by the strengthening of the Shekel with the main impact on housing prices, down 6,7 %. The CPI exclusive of housing posted a decline of only 0,5 %.

The Exchange Rate

The Shekel exchange rate appreciated by a nominal rate of some 7,6 % against the Dollar, while appreciation against the currency basket amounted to a moderate 1,6 %. This was due to the fact that the Dollar lost ground in the world market against the currencies of which the basket is composed, especially against the Euro. (The Shekel lost 11,3 % against the Euro). The factors underscoring the appreciation of the Shekel included the approval by the government of the economic plan, and the rapid conclusion of the war in Iraq, with a resulting decline in risk to the economy.

Monetary Policy

The downturn in inflationary expectations and the actual decline of consumer prices prompted a gradual reduction of the interest rate, from 9,1 % in December 2002 to 5,2 % in December 2003 and 4,8 % in January 2004. In real terms, the interest rate was also down from 6 % – 7 % at the beginning of 2003, to around 4 % in January 2004.

The Government Budget

The government budget deficit in 2003 amounted to NIS 27,7 billion (5,6 % of GDP). This significantly overshot the target deficit of 3 % of GDP. The deviation is attributed entirely to domestic activity by the government. (The deficit from foreign activity was lower than originally planned). The significant overrun of the deficit in domestic activity was mainly a result of the sharp decline in tax revenues, compared to the tax revenues forecasted in the original budget.

The Capital Market

The Equity Market

The share and convertible securities index rose in 2003 by some 55,4 % in nominal terms, while the Tel Aviv 100 Index posted a 60,7 % advance. All key trading sectors posted rising prices, the most outstanding among them being electricity and electronics shares (91,5 %). The stock market in 2003 was characterized by uneven development. The first quarter posted slight gains, followed by sharp advances during the second quarter against a background of the public's optimistic expectations. In the third quarter, share prices declined, primarily due to the exacerbation of Israel's security situation. The fourth quarter posted large gains as interest rates continued to be cut and optimistic macro-data had been published. The average daily trading turnover of shares on the Tel Aviv Stock Exchange increased from some NIS 219m in 2002 to some NIS 335m in 2003.

The Bond Market

Unlinked debentures posted sharp gains as a result of the decline in inflation expectations and the reduction of the uncertainty reflected in debenture yields as anticipation of improvement in Israel's geopolitical and economic position grew. The unlinked debenture index rose by some 19,7 % while the Shachar fixed interest debenture index rose by some 24,2 %.

CPI-linked government bonds posted more moderate advances of 14,6 % during 2003 – and the longer the yield to maturity, the higher the gains. The gains of 15,9 % in 10 – 15 year debentures were especially notable.

The key factors operating to bring about the reduction in yields to maturity were expectations that receipt of loan guarantees from the US administration and measures to reduce the budget deficit would help to reduce government capital raising needs on the local capital market.

Foreign currency denominated and linked debentures lost 4,8 % in 2003 due to strengthening of the Shekel against the Dollar.

The volume of activity in the debenture market (average daily trading turnover on the Tel Aviv Stock Exchange) for 2003 resembled that of 2002, amounting to some NIS 656m.

The Primary Markets

In 2003 Israeli companies raised NIS 17bn domestically. Capital raised by means of corporate bond issues (both traded and non-traded) amounted to NIS 14,9bn, representing a 45 % increase over 2002. The increase is attributed to the buoyant state of Israel's financial markets and also to the increasing difficulty of financing corporate activity via the local banking system due to stricter loan criteria imposed by the banks.

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