

FINANCIAL STATEMENTS OF THE LEUMI GROUP AS AT 31.3.2004

**NET PROFIT: NIS 461 MILLION,
AN INCREASE OF 169.6%**

**NET RETURN ON EQUITY: 13.6%
COMPARED WITH 5.3% IN THE CORRESPONDING
PERIOD LAST YEAR AND COMPARED WITH 8.7%
IN ALL OF 2003**

**RATIO OF SHAREHOLDERS'
EQUITY TO RISK ASSETS: 10.8%**

The Leumi Group announces its unaudited consolidated financial statements for the first quarter of 2004.

The financial statements for the first quarter of 2004 are in nominal values and the comparison to the corresponding period last year is on a nominal basis until the “operating profit before taxes” line. After this line the comparison is in accordance with reported figures, pursuant to the determination of the Israeli Accounting Standards Board that starting on 1 January 2004 financial statements will no longer be adjusted for inflation.

The net profit of the Leumi Group in the first quarter of 2004 amounted to NIS 461 million, compared with NIS 171 million in the corresponding period last year, an increase of 169.6% (in the nominal data in the corresponding period in 2003, the net profit was NIS 237 million, an increase of 94.5%).

The increase in the net profit of the Group in the first quarter of 2004 compared with the same period in 2003, is explained mainly by the following factors:

- An increase of NIS 21 million in net interest income before provision for doubtful debts, before the effect of tax.
- An increase of NIS 111 million in operating and other income, before the effect of tax, mainly due to the increase in income from customers' activities in the capital market and in credit cards.
- The effect of net positive exchange rate differences in respect of overseas investments offset by exchange rate differences for financing overseas investments, after tax, in the amount of NIS 53 million, compared with negative exchange rate differences in the corresponding period last year in the amount of NIS 24 million after the effect of tax.
- A decrease of NIS 63 million in salary expenses (excluding voluntary retirement expenses), before the effect of tax.
- A decrease of NIS 55 million in voluntary retirement expenses, before the effect of tax.
- A net increase of NIS 26 million in the Group's share in the profits of companies included on the equity basis.

The above increases were partially offset by an increase of NIS 19 million in the provisions for doubtful debts.

Net interest income before provision for doubtful debts in the first quarter of 2004 amounted to NIS 1,545 million, compared with NIS 1,524 million in the corresponding period last year, an increase of 1.4%.

The interest spread including derivative transactions was 1.62% in the first quarter of 2004, compared with 1.66% in the same period last year.

Provision for doubtful debts in the first quarter of 2004 amounted to NIS 401 million, compared with NIS 382 million in the corresponding period last year, an increase of 5.0%.

The total rate of the provision for doubtful debts in the first quarter of 2004 was 0.96% of total credit to the public, compared with 0.91% in the corresponding period last year.

The aggregate balance of the general provision and the additional provision (according to risk characteristics defined by the Supervisor of Banks) at the Bank and its consolidated companies amounted to NIS 1,062 million in the first quarter of 2004 (representing 0.63% of total credit to the public).

Net interest income after provision for doubtful debts of the Leumi Group in the first quarter of 2004 amounted to NIS 1,144 million, similar to the corresponding period last year.

Operating and other income of the Leumi Group in the first quarter of 2004 amounted to NIS 845 million, compared with NIS 734 million in the corresponding period last year, an increase of 15.1%.

The increase in operating and other income derives mainly from an increase in income from commissions from customers' activities in the capital market and income from credit cards.

Since April 2004, Leumi has been offering interested customers to deposit with the Bank the sum of NIS 15,000 with interest and benefit from free current account management (an exemption of the line commission and fixed management fees) for the duration of the deposit (up to one year).

Furthermore, since May 2004, Leumi has given a sweeping and automatic exemption from the line commission to all private customers who execute up to five banking transactions (inclusive) per month.

Furthermore, customers wishing to enjoy a "free current account" - an exemption from fixed management fees and an exemption from the line commission without restriction of an activity quota - will be allowed by the Bank to pay a fixed amount of only NIS 22 per month.

Operating and other expenses of the Leumi Group in the first quarter of 2004 amounted to NIS 1,360 million, compared with NIS 1,465 million in the corresponding period last year, a decrease of 7.2%.

Salary expenses (including the cost of voluntary retirement) decreased in the amount of NIS 118 million in the first quarter of 2004, compared with the corresponding period last year. Salary and related expenses decreased in the amount of NIS 63 million and voluntary retirement costs decreased in the amount of NIS 55 million.

Efficiency ratio - Operating expenses constituted 56.9% of total income, compared with 64.8% in the same period last year and compared with 60.9% at the end of 2003.

Operating profit before taxes of the Leumi Group amounted to NIS 629 million in the first quarter of 2004, compared with NIS 411 million in the corresponding period last year, an increase of 53.0%.

Provision for tax on operating profit in the first quarter of 2004 amounted to NIS 224 million, compared with NIS 199 million in the corresponding period last year.

The rate of the provision for tax in the period was 35.6% of pre-tax profit, compared with 48.4% in the corresponding period last year.

The decrease in the provision for tax in the period January - March 2004 derives mainly from the effect of exchange rate differences in respect of investments abroad, which are not included in the basis for tax computation, and which, in the relevant period, were positive, compared with negative exchange rate differences in the corresponding period last year, which were partially offset by the effect of the negative known index in the relevant period compared with a positive known index in the corresponding period last year.

Operating profit after tax in the first quarter of 2004 amounted to NIS 405 million, compared with NIS 140 million in the corresponding period last year, an increase of 189.3%.

The Group's share in the profits of companies included on the equity basis amounted to a profit of NIS 61 million, compared with NIS 35 million in the corresponding period last year, an increase of 74.3%.

Net operating profit in the first quarter of 2004 amounted to NIS 463 million, compared with NIS 174 million in the corresponding period last year, an increase of 166.1%.

Loss from extraordinary items after taxes in the first quarter of 2004 amounted to NIS 2 million, compared with a loss of NIS 3 million in the same period last year.

Net profit in the first quarter of 2004 amounted to NIS 461 million, compared with NIS 171 million in the same period last year, an increase of 169.6%.

Net return on equity of the Leumi Group in the first quarter of 2004 reached 13.6%, compared with 5.3% in the corresponding period last year.

Shareholders' equity on 31.3.04 amounted to NIS 14.6 billion, compared with NIS 14.2 billion on 31.12.03, an increase of 2.4%.

The ratio of shareholders' equity to total assets on 31.3.04 was 5.9%, compared with 5.8% on 31.12.03.

The ratio of shareholders' equity to risk assets on 31.3.04 was 10.8%, similar to 31.12.03, of which Tier I Capital was 7.4% and 7.3% respectively.

Total assets of the Leumi Group on 31.3.04 amounted to NIS 246.1 billion, compared with NIS 246.6 billion on 31.12.03.

Credit to the public on 31.3.04 amounted to NIS 168.5 billion, compared with NIS 169.2 billion on 31.12.03, a decrease of 0.4%, and compared with NIS 168.9 billion on 31.3.03, a decrease of 0.3%.

Deposits from the public on 31.3.04 amounted to NIS 202.2 billion, compared with NIS 203.6 billion on 31.12.03, a decrease of 0.7%, and compared with NIS 201.1 billion on 31.3.03, an increase of 0.5%.

Mutual fund assets of the Leumi Group on 31.3.04 amounted to NIS 28.7 billion. The Leumi Group's market share in this sector on 31.3.04 was 30.5%.

The value of the provident and supplementary training fund assets managed by the Leumi Group on 31.3.04 amounted to NIS 39.8 billion.

The representative exchange rate against the dollar on 31 March 2004, according to which the financial statements have been prepared, was NIS 4.528.