BANK LEUMI LE-ISRAEL B.M. AND SUBSIDIARIES

Condensed Financial Statements as at 31 March 2004
(unaudited)

Contents

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31 May 2004

Bank Leumi le-Israel B.M.

Directors' Report

Developments in the Economy [*]

In 2003, activity in the Israeli economy posted a certain recovery, a trend that was markedly reinforced in the first quarter of 2004. The main reasons for this were the global economic recovery, which boosted the growth of Israeli export, the increase in private consumption and investments in the various economic sectors. Israel's Gross Domestic Product was up by some 2.4% in real terms in the first three months (compared with the first quarter of 2003) and by some 1.4%, compared with the last quarter of 2003. At the same time, the rate of unemployment remained high, reaching some 11% in February.

The increase in economic activity was reflected in the expansion of proceeds in trade and service sector revenues, and an upturn in industrial output across all levels of technology. The Bank of Israel's corporate survey also indicated a similar trend: accelerated economic activity in most sectors, except for the building sector. In tourism, the number of overnight stays in hotels was up by about one percent in the first quarter of the year, compared with the last quarter of 2003, due to the increase in the number of Israeli overnight stays.

The expansion of economic activity brought about a rapid increase in the State's tax revenues, facilitating the decision to reduce direct and indirect taxes. Taxes reduced to date include value added tax and purchase taxes on electrical appliances, while customs duties have also been lowered and the government has announced its intention to reduce income tax and company tax during the coming few years. In the first quarter of the year the government's budget deficit (without net credit granted) amounted to only some NIS 0.9 billion, much lower than the deficit planned for the whole of 2004 of some NIS 20.6 billion (4% of GDP).

The recovery in exports was also accompanied, in the first quarter, by a significant increase in the import of goods of all types. As a result, the trade deficit expanded very considerably, amounting to some US$ 1.3 billion, compared with a deficit of some US$ 0.8 billion in the corresponding period in 2003. Moreover, in January – March 2004, overseas investments by Israeli residents exceeded investments in Israel by foreign residents (in the non-banking private sector) by some US$ 1.5 billion. These factors operated to weaken the shekel in foreign currency trading. In the first three months of 2004 the shekel depreciated by some 3.4% against the US dollar, while the shekel-euro exchange rate remained stable.

The Consumer Price Index was down in the first quarter of 2004 by 0.1%. Price increases resulting, *inter alia*, from the rise in the prices of fuel and other raw materials in the world, along with the depreciation of the shekel against the dollar, were offset by the reduction in indirect taxes (VAT, import taxes) and by seasonal downturns in the prices of clothing and footwear. The slight drop in the CPI, alongside a moderate inflation environment, enabled the Bank of Israel to continue lowering its interest rate, albeit at a steadily declining rate. Accordingly, the interest rate, which in December 2003 stood at 5.2%, had been reduced to 4.3% by March 2004. In April, the interest rate was lowered to 4.1%, while the decisions regarding the interest rate for May and June left it unchanged. The April CPI was up by 1.1%, primarily from seasonal factors.

At the end of March, the value of the financial assets portfolio in the hands of the public amounted to some NIS 1.43 trillion, representing an increase of some NIS 49 billion in the first quarter of 2004, mostly resulting from the rise in the market value of shares held by the public. Thus, in March, the weight of shares in the portfolio was up to some 23.7%, the highest level since 2000. These upturns were brought about by positive expectations for an improvement in the state of the economy and by the reduction of the interest rate. However, it should be noted that the figures do not represent the accumulation of savings (in non-traded and/or traded channels), but the influence of prices.

(*) Sources for the data: Publications of the Central Bureau of Statistics, the Bank of Israel, the Ministry of Finance and the Tel-Aviv Stock Exchange.

As stated, the shares and convertible securities index was up in the first quarter of the year by some 9.3%, with price increases encompassing all sub-sectors other than that of insurance. The Tel-Aviv 100 Index rose in that period by some 5.9%. On the Tel-Aviv Stock Exchange, the trading turnover of shares and convertible securities likewise expanded by a considerable degree, amounting to some NIS 600 million, on a daily average, compared with a daily average of some NIS 335 million in the whole of 2003.

In the first quarter of the year, the government bonds market posted a moderate advance in the prices of CPI-linked debentures, especially short and medium term debentures (2 – 5 year debentures were up by some 1.9%), whereas unlinked debenture prices remained stable. On the other hand, prices of foreign currency linked debentures posted advances of some 2.8%, against the background of the depreciation of the shekel against the dollar.

In the first quarter of the year, bank credit to the public decreased by a rate of some 0.6%, continuing the slight downtrend in credit volume which commenced during the preceding year.

Despite the abundance of indicators pointing to a recovery in economic activity since the beginning of the year, it does not appear to have resulted yet in an increase in the demand for credit. This also reflects the increase of capital raising by Israeli companies (primarily from institutional investors) by means of debentures, as a substitute for financing by means of bank credit. This raising of capital, through traded and non-traded debentures, totaled, according to Tel Aviv Stock Exchange data, some NIS 5.7 billion in the first quarter of 2004.

Below are details of changes in the CPI and in the exchange rates:

		For three months ended 31 March		For the year
		2004	2003	2003
		(Percentages)		
Rate of increase (decrease) of the “known” CPI		**(0.20)**	0.30	(1.96)
Rate of increase (decrease) of the “actual” CPI		**(0.10)**	0.78	(1.89)
Difference		**(0.10)**	(0.48)	0.07
Rate of increase (decrease) in the rate of the US dollar -				
	nominal:	**3.40**	(1.1)	(7.56)
	real:	**3.51**	(1.8)	(5.79)
Rate of increase (decrease) in the rate of the currency basket -				
	nominal:	**2.82**	(0.2)	(1.63)
	real:	**2.93**	(1.0)	0.25
Rate of increase in the rate of the euro -				
	nominal:	**0.04**	2.8	11.34
	real:	**0.14**	2.0	13.47

Legislation Affecting the Banking System

Information regarding legislation affecting the banking system and issues related to such legislation, as well as additional information regarding further special issues, was published in the Annual Financial Statements for 2003.

Prohibition on Money Laundering Law, 5760-2000
Proper Banking Management Directive No. 411

In consequence of an audit carried out by the Bank of Israel at the Bank (and also at other banks), with regard to implementation of the Prohibition on Money Laundering Law, the Supervisor of Banks gave notice to the Bank in April 2004 that the Committee for Imposition of Financial Sanctions had determined that the Bank had breached the provisions of the Prohibition on Money Laundering (Banking Corporations' Obligations regarding Identification, Reporting and Record-Keeping) Order, 5761-2001. In consequence of these breaches, the Committee decided that a monetary sanction in the sum of NIS 350,000 would be imposed upon the Bank.

Proposed Banking (Licensing) (Amendment No. 13) Law, 5763-2003

The said Proposed Law was published on behalf of the government on 14 July 2003. It has passed its first reading and has been sent to the Knesset Finance Committee for discussion. The Proposed Law includes amendments the object whereof is to adapt the regulatory, supervisory and control environment relating to banking corporations and the holders of means of control therein to a situation in which there is no identified controlling core holding a control permit from the Governor of the Bank of Israel, and amendments the object whereof is to extend the supervision and control over all the banking corporations.

Inter alia, it is proposed to restrict a banking corporation's holdings in another banking corporation so that a banking corporation shall not be entitled to hold an interest in another banking corporation unless one of the following is fulfilled: the banking corporation holds 1% (or less) of the other banking corporation's means of control, or if the banking corporation alone controls and holds more than one half of the other banking corporation's means of control under a lawful permit.

It is proposed to strengthen the restrictions regarding holdings by institutional investors connected with a banking corporation in the means of control of another banking corporation.

It is proposed to prohibit any person from holding more than 5% (in lieu of 10% today) of the means of control of a banking corporation without a permit from the Governor. Furthermore, it is proposed that this restriction will also apply to a holding of means of control of a banking corporation as security for a liability, save for negligible holdings.

The Governor will be given powers to cancel a permit to hold the means of control in a banking corporation and his powers to act as necessary against anyone who acted without a permit will be expanded.

It is proposed to determine a mechanism for the appointment of directors by a committee where the number of directors falls under the number determined by the Supervisor for such banking corporation, and the general meeting did not act as required to increase the number of directors, or if the Supervisor believes that it is not appropriate to wait for the appointment of directors by the general meeting.

It is proposed to expand the reporting requirements regarding a holding of the means of control.

Furthermore, a number of amendments to the Banking Ordinance, 1941 are being proposed, the principal ones being:

It is proposed to expand the Supervisor's powers and to enable him to remove a director, chief executive officer or authorized signatory from office, in addition to the existing powers with regard to suspending or restricting the powers of the aforegoing.

In a banking corporation without a controlling core, the appointment of a director, chief executive officer, internal auditor and up to seven other office holders, as determined by the Supervisor of Banks, shall be conditional on the Supervisor's consent or his decision not to object to the appointment. With regard to a banking corporation with a control permit, the appointment of a director, chief executive officer, internal auditor and up to four other office holders, as determined by the Supervisor of Banks, shall be conditional on the Supervisor's consent or his decision not to object to the appointment.

The Supervisor's consent will also be required for a director to serve as chairman of the board of directors. In all banking corporations, it is proposed to expand the information required from the shareholders in the banking corporation.

A method of appointing directors of a banking corporation that is not controlled by a person who received a control permit is proposed, including a number of restrictions as to the mode of appointment. Voting for the appointment of directors at general meetings shall be carried out for each candidate separately. The board of directors shall not appoint directors and an officer shall not act to appoint or prevent the appointment of a specific director, save for proposing his own candidacy as a director.

Proposed Legislation in respect of Provident Funds

In May 1993 the government of Israel decided to enact a provident funds law that would formalize the procedures for approving, managing and supervising provident funds, and would establish provisions to limit conflicts of interests between the funds and those controlling the corporations managing the funds. The law would also increase the number of entities managing provident funds and acting on their behalf in the capital market.

As a result of the above decision, the government presented a proposed law for the Knesset's approval, and discussions were held in the Knesset. However, the proposed law did not result in legislation and was withdrawn by the government.

Subsequently, an inter-ministerial team headed by the Director-General of the Ministry of Finance was appointed and presented its recommendations on this matter in February 2000. The principal recommendations dealt with the limitation of provident fund assets managed by management companies controlled by, or in which 5% or more of the means of control is held by a bank or any other body acting in the capital market, to 10% of the total assets managed by all provident funds; provisions to prevent conflicts of interest between a bank and a related provident fund management company; and the possibility of continued marketing and distribution of provident funds by banks. The recommendations have not been adopted by the government at this stage.

In January 2004 a private proposed law was submitted in the Knesset that relates to prohibiting banking corporations from holding provident funds. In March 2004, the above proposed law was approved in a preliminary reading, with the support of the government. The government intends to submit its own proposed law on this subject.

If a law is in fact formulated on the lines of the government's decision or the private proposed law as detailed above, it will have a negative effect on the scope of the Bank's income from provident funds under its control and management. However, it is difficult to estimate the amount at this stage. The extent of the effect depends on the manner and the extent of the separation from the Bank that the said law will impose on the provident funds.

Parliamentary Committee of Enquiry Regarding the Tracing and Return of Property of Holocaust Victims

The parliamentary committee of enquiry, that acts by virtue of a decision made in February 2000, appointed, with the consent of the Bank and additional banks, external examiners (certified public accountants to whom legal advice is given by attorneys appointed for such purpose - the "examiners") after a document of principles regulating the examination had been signed by the relevant banks and the Knesset.

A preliminary draft of the examiners' report (the "draft") was sent to the Bank for its comments. The Bank has numerous comments on the findings and they were sent to the examiners.

In the Bank's opinion, after examining the draft and the examiners' findings, it does not currently hold assets or monies of Holocaust victims, save for insignificant amounts, in consequence of statutory provisions that were in force during the Second World War that obliged the banks that were operating in Palestine, including The Anglo-Palestine Bank Ltd, to transfer assets of customers who were residents of enemy countries and those that were occupied by the enemy to the Custodian of Enemy Property of the British Government. Property that was transferred as aforesaid was not subsequently returned to the banks. Assets that were not transferred for some reason to the Custodian of Enemy Property, were returned to those entitled thereto, or after the establishment of the State, were transferred to the Administrator-General.

The Bank has legal and accounting opinions that support its standpoint, from which it emerges that the relevant amounts are significantly lower than the amounts presented in the said draft. The above non-material amounts principally arise from revaluation, and not from amounts that remain in the Bank's books.

Special Matters

Sale of Shares in the Bank by the State

On 31 March 2004 the State held 36.88% of the issued share capital of the Bank, and assuming that all the Series 7 options issued to the public in November 2002 are exercised, the State will hold 34.78% of the Bank's issued share capital.

In May 2004 the Minister of Finance announced a plan to distribute options to all the citizens of Israel for the purchase between 2005 and 2007 of the shares in the Bank held by the State. Implementation of the plan is subject to appropriate legislation.

Accounting Policy on Critical Subjects

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts of income and expenses.

The actual results relating to these estimates may differ from the estimates and/or the assumptions.

The estimates and assumptions are generally based on economic forecasts, assumptions regarding the various markets and considered decisions based on past experience which Management believes to be reasonable at the time of signature of the Financial Statements.

In the first quarter of 2004 there were no changes in the accounting policy on critical subjects as compared with those described in the Annual Report for 2003, other than the transition from financial reporting adjusted to inflation to nominal financial reporting in accordance with Accounting Standard No. 12 and Standard No. 17 as described in Note 2 to the Financial Statements. See also the Annual Financial Statements for 2003 for further details.

Development of Income, Expenses and Tax Provisions[(1)]

Pursuant to the determination of the Israeli Accounting Standards Board and pursuant to the directives of the Supervisor of Banks, the adjustment of the financial statements for the effect of inflation was discontinued from 1 January 2004. Accordingly, the Financial Statements for the first quarter of 2004 are in nominal values and the comparison with the corresponding period last year is on a nominal basis until the 'operating profit before taxes' line, and after this line the comparison is with adjusted figures as of 31 December 2003. See Note 2 to the Financial Statements for further details.

The Net Profit of the Bank Leumi Group in the period January - March 2004 totaled NIS 461 million, compared with NIS 171 million in adjusted data in the corresponding period in 2003, an increase of 169.6% (in nominal data in the corresponding period in 2003, the profit was NIS 237 million, an increase of 94.5%).

The increase in the net profit of the Group in the period January - March 2004 as compared with the corresponding period in 2003 can mainly be explained by the following factors*:

1. An increase in operating and other income of NIS 111 million, before the effect of tax, mainly in consequence of the increase in income from customers' operations in the capital market and from credit cards.

2. The effect of net positive exchange rate differences in respect of overseas investments, after off-setting exchange rate differences from financing the overseas investments, after tax, of NIS 53 million, compared with negative exchange rate differences in the corresponding period in 2003 of NIS 24 million, after the effect of tax.

3. An increase in net interest income before provision for doubtful debts of NIS 21 million, before the effect of tax.

4. A decrease in voluntary retirement expenses of NIS 55 million, before the effect of tax.

5. A decrease in salary expenses of NIS 63 million, before the effect of tax.

6. An increase in the Group's share in profits of companies included on the equity basis of NIS 26 million, net.

The increase in provisions for doubtful debts of NIS 19 million, before the effect of tax, offset a small amount of the said increases.

* Before minority interests in consolidated companies.

Operating Profit

Net Interest Income (Nominal) before Provision for Doubtful Debts of the Bank Leumi Group in the period January - March 2004 amounted to NIS 1,545 million, compared with NIS 1,524 million in the corresponding period in 2003, an increase of 1.4%.

(1) The Financial Statements were prepared on the basis of reported values and comparative figures in values adjusted to 31 December 2003. The Consumer Price Index decreased by 0.10% in January-March 2004. During this period, the shekel depreciated nominally: against the US dollar by 3.4% and against the euro by 0.04%. The representative exchange rate of the US dollar on 31 March 2004 was NIS 4.528.

The increase in net interest income before provision for doubtful debts in the Group stemmed mainly from:

1. An increase in the activity volumes in the unlinked shekel sector and foreign currency sector, partly set off by a decrease in the activity volume of the CPI-linked sector, increased the interest income by some NIS 63 million.

2. The increase in the interest spread in the unlinked shekel sector from 3.18% to 3.22%, and in the foreign currency sector from 1.04% to 1.24%.

On the other hand, the following factors partially offset the said increase:

1. A decline in net market value of derivatives in the sum of NIS 35 million, compared with an increase in market value of NIS 28 million in the corresponding period in 2003.

2. Profits realized from the sale of debentures and profits not yet realized from adjustments to fair value of debentures for trading in the sum of NIS 46 million, compared with NIS 97 million in the corresponding period in 2003.

3. The effect of the negative known CPI of 0.2%, compared with a positive known CPI of 0.3% in the corresponding period in 2003 (nominal effect) on the surplus monetary assets in the CPI-linked sector.

Total Interest Margin (excluding transactions in derivatives) in the period January - March 2004 was 2.55%, compared with 1.26% in the corresponding period in 2003. The interest spread including transactions in derivatives was 1.62% in the period January - March 2004, compared with 1.66% in the corresponding period in 2003 and compared with 1.60% in all of 2003.

The ratio of net interest income before provision for doubtful debts to the average balance of monetary assets was 2.7%, compared with 2.6% in the corresponding period in 2003.

Provision (Nominal) for Doubtful Debts amounted to NIS 401 million in the period January - March 2004, compared with NIS 382 million in the corresponding period in 2003, an increase of 5.0%.

The provision for doubtful debts reflects the protracted economic slowdown until the middle of 2003, which impaired the repayment ability and eroded the value of collateral of some of the borrowers in certain sectors of the economy.

The additional and general provisions for doubtful debts in respect of unidentified risks in the credit portfolio and which are based on the risk characteristics in the credit portfolio and also in respect of a sectoral excess of credit, increased by NIS 15 million in the first quarter of the year, compared with an increase of NIS 11 million in the corresponding period in 2003 and a decrease of NIS 39 million in all of 2003.

The total rate of the provision for doubtful debts in the period January - March 2004 was 0.96% of total credit to the public (in annual terms), compared with a rate of 0.91% in the corresponding period in 2003 and compared with 1.11% in all of 2003.

The aggregate balance of the general provision and the additional provision for doubtful debts (according to risk characteristics defined by the Supervisor of Banks) at the Bank and its consolidated companies amounted to NIS 1,062 million on 31 March 2004 (representing 0.63% of total credit to the public), compared with NIS 1,047 million at the end of 2003.

Following is the development of problem loans [(1)(7)] according to the classifications determined in the Supervisor of Banks' directives:

	31 March 2004	31 March 2003	31 December 2003
	Reported Amounts [(2)]	Amounts adjusted to the effect of inflation according to the December 2003 CPI	
	(NIS millions)		
Non-accrual	**3,511**	4,184	3,845
Restructured [(3)]	**739**	393	525
To be restructured [(4)]	**196**	63	81
In temporary arrears	**836**	1,483	931
Under special supervision*	**11,830**	10,795	11,120
Total balance sheet credit [(1)]	**17,112**	16,918	16,502
Off-balance sheet credit risk [(1) (6)]	**1,898**	2,119	1,780
Total overall credit risk	**19,010**	19,037	18,282
Assets received in respect of repaid credit	**9**	-	6
*Of which: debts for which there is a specific provision [(5)]	**4,991**	5,389	5,336
Credit for housing for which there is a provision according to the extent of the arrears	**722**	625	736

(1) Not including problem loans that are covered by collateral that is permitted to be deducted for the purpose of restrictions on the obligations of a borrower and a group of borrowers (Proper Banking Management Directive No. 313).
(2) Discontinuation of adjustment for the effect of inflation according to the December 2003 CPI.
(3) Credit that was restructured during the course of the current year and also credit that was restructured in previous years with a waiver of income.
(4) Credit to borrowers in respect whereof there is a decision of the banking corporation's management for a restructure, but the restructure has not yet actually been implemented.
(5) Save for credit for housing in respect whereof there is a provision in accordance with the extent of the arrears.
(6) As calculated for the purposes of restrictions on the obligations of a borrower and a group of borrowers, save for guarantees given by a borrower to secure a liability of a third party.
(7) Credit to problem borrowers as detailed in the disclosure format.

Net Interest Income (Nominal) after Provision for Doubtful Debts of the Bank Leumi Group in the period January - March 2004 amounted to NIS 1,144 million, compared with NIS 1,142 million in the corresponding period in 2003, an increase of 0.2%.

Total Operating and Other Income (Nominal) of the Bank Leumi Group amounted to NIS 845 million in the period January - March 2004, compared with NIS 734 million in the corresponding period in 2003, an increase of 15.1%.

The increase in operating and other income principally derived from an increase in income from commissions from customers' operations in the capital market and income from credit cards.

Since April 2004 Leumi has been offering interested customers the option of depositing the sum of NIS 15,000 with the Bank and receiving CPI-linked interest or fixed unlinked interest. The customer then benefits from a free current account (exemption from line commission and from fixed management fees) throughout the period of the deposit (of up to one year).

Furthermore, since May Leumi has given a general and automatic exemption from line commission to all private customers who execute up to and including five operations per month.

Furthermore, customers wishing to enjoy a “free current account” - exemption from fixed management fees and exemption from line commission without restriction on the number of transactions may choose to pay a fixed amount of only NIS 22 per month.

According to reports in the media, the Supervisor of Banks is about to order the discontinuation of certain commissions and to bring other commissions under supervision. At this stage, the Supervisor’s directives have yet to be published, and thus it is not possible to assess their effect.

The proportion of operating and other income to total income (*i.e.* net interest income before provision for doubtful debts and operating and other income) was 35.4%, compared with 32.5% in the corresponding period in 2003.

Operating and other income covered 62.1% of operating and other expenses, compared with 50.1% in the corresponding period in 2003 and 57.2% in the whole of 2003.

Total (Nominal) Operating and Other Expenses of the Bank Leumi Group in the period January - March 2004 amounted to NIS 1,360 million, compared with NIS 1,465 million in the corresponding period in 2003, a decrease of 7.2%.

Salary expenses (including the cost of voluntary retirement) decreased by NIS 118 million in the period January - March 2004, a decrease of 12.4% as compared with the corresponding period in 2003. The voluntary retirement costs decreased by NIS 55 million and salary and ancillary expenses decreased by NIS 63 million.

In other operating expenses (maintenance of buildings and equipment, depreciation and other expenses) there was an increase of 2.5% in the period January - March 2004 as compared with the corresponding period in 2003.

Operating expenses constituted 56.9% of total income, compared with 64.8% in the corresponding period in 2003 and 60.9% in all of 2003.

Total operating and other expenses (in annual terms) constituted 2.2% of total assets, compared with 2.5% in the corresponding period in 2003 and compared with 2.3% in all of 2003.
These changes indicate a continued improvement in efficiency in the Group.

Operating Profit (Nominal) before Taxes of the Bank Leumi Group amounted to NIS 629 million in the period January - March 2004, compared with NIS 411 million in the corresponding period in 2003, an increase of 53.0%.

Provision for Taxes on Operating Profit (Reported) of the Group in the period January - March 2004 amounted to NIS 224 million, compared with NIS 199 million in the corresponding period in 2003. The rate of provision in the said period was some 35.6% of (nominal) pre-tax profit, compared with 48.4% in the corresponding period in 2003, or 58.7% of the profit, adjusted to 31 December 2003, and for the corresponding period in 2003.

The decrease in the rate of the provision for taxes in the period January - March 2004 was principally due to the effect of exchange rate differences in respect of overseas investments that are not included in the basis for computing taxes and which were positive in this period as compared with negative exchange rate differences in the corresponding period in 2003, that was partially offset by the effect of the negative known CPI in the said period as compared with a positive known CPI in the corresponding period in 2003.

On 25 April 2004 the government approved the Minister of Finance’s proposal for a gradual reduction in company tax to 30% in the 2007 tax year.

The proposal requires legislation that has not yet been enacted.

Operating Profit (Reported) after Taxes totaled NIS 405 million in the period January - March 2004, compared with NIS 140 million in the corresponding period in 2003, an increase of 189.3%.

The Group's Share in Operating Profit (Reported) after Taxes of Companies Included on the Equity Basis in the period January - March 2004 amounted to NIS 61 million, compared with NIS 35 million in the corresponding period in 2003, an increase of 74.3%.

Minority Interests in the Group's Profits amounted to a profit of NIS 3 million in the period January - March 2004, compared with a profit of NIS 1 million in the corresponding period of 2003.

Loss from Extraordinary Items after Taxes totaled NIS 2 million in the period January - March 2004, compared with a loss of NIS 3 million in the corresponding period of 2003.

Ratio of Operating Profit (Nominal) before Taxes to Net Shareholders' Equity(*) in annual terms was 20.6% in the period January - March 2004, compared with 13.9% in the corresponding period in 2003.

Ratio of Net Operating Profit (Reported) to Shareholders' Equity(*) **(Net Return on Equity)** in annual terms was 12.9% in the period January - March 2004, compared with 4.7% in the corresponding period in 2003.

Net Operating Profit (Reported) per NIS 1 par value of Share Capital was NIS 0.327 in the period January - March 2004, compared with NIS 0.123 in the corresponding period in 2003.

Net profit (Reported) per NIS 1 par value of Share Capital was NIS 0.326 in the period January - March 2004, compared with NIS 0.121 in the corresponding period in 2003.

Return on Shareholders' Equity in Annual Terms (excluding Minority Interests) of:

	Three months Ending on 31 March	
	2004	2003*
	%	
Net profit	**13.6**	5.3
Net operating profit	**13.7**	5.4

* Adjusted data

Status of Capital Resources

Shareholders' Equity increased since the end of 2003 by 2.4% and on 31 March 2004 totaled NIS 14,559 million, compared with NIS 14,213 million at the end of 2003. The growth in shareholders' equity derives primarily from the profit for the period offset by the changes in adjustments in respect of the presentation of securities available for sale according to fair value and the proposed dividend for 2003.

In the (nostro) securities portfolio there are mainly government debentures, which generally represent the use of raised sources. The majority of the securities portfolio is classified as securities available for sale and is included in the balance sheet on the basis of fair value. The income in the profit and loss statement is recorded on an accrual basis and the difference between the value according to accrual with regard to debentures and according to cost with regard to shares and the fair value is directly recorded in the capital reserves account.

(*) Shareholders' equity together with the rights of minority interests less investments in equity of companies included on the equity basis. The profit does not include the profit of companies included on the equity basis.

In consequence of a change in the fair value of debentures in all the sectors, a net reduction in value of NIS 39 million was recorded in the capital reserves account, compared with an increase in value of NIS 66 million in the corresponding period in 2003 and an increase in value of NIS 254 million in all of 2003 (all the amounts are net after the effect of taxes).

The total net aggregate balance of the adjustment of securities held in the available for sale portfolio to market value as at 31 March 2004 amounted to NIS 80 million (after the effect of taxes).

According to the capital adequacy computation rules, the balance arising from adjustment of securities to fair value does not affect the capital computation for the purpose of the minimum capital ratio, except for unrealized losses arising from adjustments to fair value of shares available for sale, net the effect of taxes.

Shareholders' Equity relative to Total Assets was 5.9% on 31 March 2004, compared with 5.8% at the end of 2003.

Shareholders' Equity relative to Risk Assets was 10.82% on 31 March 2004, compared with 10.79% at the end of 2003, of which some 7.38% and 7.29% respectively were Tier I capital.

Dividend

At its meeting on 31 March 2004 the Board of Directors resolved to recommend to the next Annual General Meeting the distribution of an additional cash dividend in respect of 2003 in the amount of some NIS 82 million, at a rate of 5.8% of the paid-up capital. Subject to the approval of the forthcoming Annual General Meeting, the dividend will be paid on 30 June 2004, to shareholders of record on 16 June 2004 (the record date). The shares will trade "ex" dividend on 17 June 2004 and the dividend will be at the rate of NIS 0.058 per ordinary share of NIS 1.0 par value.

The total dividends in respect of 2003 will amount to NIS 400 million, such being some 35% of the net profit for 2003, at the rate of NIS 0.283 per ordinary share of NIS 1.0 par value.

Development of Assets and Liabilities[*]

Total Assets of the Bank Leumi Group on 31 March 2004 amounted to NIS 246.1 billion, compared with NIS 246.6 billion at the end of 2003, and compared with 31 March 2003, an increase of 2.5%.

The value of assets in or linked to foreign currency was some NIS 108.7 billion, some 44.1% of total assets. In the period January - March 2004 the shekel depreciated against the dollar by 3.40%, against the basket of currencies by 2.82% and against the euro by 0.04%. The change in the rates of exchange contributed to an increase of 1.2% in total assets.

Deposits of the Public totaled NIS 202.2 billion on 31 March 2004, compared with NIS 203.6 billion on 31 December 2003, a decrease of 0.7%, and compared with 31 March 2003, an increase of 0.5%.

Credit to the Public totaled NIS 168.5 billion on 31 March 2004, compared with NIS 169.2 billion on 31 December 2003, a decrease of 0.4%, and compared with 31 March 2003, a decrease of 0.3%.

Credit to Governments totaled NIS 1,104 million on 31 March 2004, compared with NIS 1,129 million on 31 December 2003, a decrease of 2.2%, and compared with 31 March 2003, a decrease of 18.2%.

Securities totaled NIS 40.5 billion on 31 March 2004, compared with NIS 40.3 billion on 31 December 2003, an increase of 0.7%, and compared with 31 March 2003, an increase of 7.6%.

[*] The differences in percentages were calculated according to the balances in NIS millions.

With effect from 1 April 2004 the Maof Clearing House revised its collateral requirements. Until 31 March 2004 the Bank acted as guarantor in respect of its customers' Maof operations and pledged a cash deposit in respect of the nostro operations. With effect from 1 April 2004 the Bank (like all other Clearing House members) is also required to pledge securities from the nostro to secure its customers' operations, the nostro operations and in respect of the Clearing House members' mutual guarantee.

The securities that were charged as at 1 April 2004 totaled NIS 1.4 billion.

Assets and Liabilities Classified According to Linkage Basis

Assets and liabilities classified according to linkage basis are presented on pages 44 to 46 and include the balances of the assets and liabilities and also off balance sheet transactions.

Set forth below is a summary of the net assets and liabilities classified according to linkage basis:

	As at 31 March 2004 (reported figures)				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	incl. foreign currency linked	Non-monetary items	Total
			(in NIS millions)		
Assets	**73,480**	**57,253**	**108,672**	**6,743**	**246,148**
Liabilities	**75,951**	**51,100**	**102,920**	**1,356**	**231,327**
Difference	**(2,471)**	**6,153**	**5,752**	**5,387**	**14,821**
Net forward transactions	**6,470**	**(1,534)**	**(4,936)**	**-**	**-**
Net options (in underlying asset terms)	**(244)**	**(1)**	**245**	**-**	**-**

	As at 31 December 2003 (figures adjusted to 31 December 2003)				
	Israeli currency		Foreign currency		
	Unlinked	CPI-linked	incl. foreign currency linked	Non-monetary items	Total
			(in NIS millions)		
Assets	77,877	59,389	102,183	7,136	246,585
Liabilities	80,980	51,370	98,017	1,747	232,114
Difference	(3,103)	8,019	4,166	5,389	14,471
Net forward transactions	3,754	(603)	(3,151)	-	-
Net options (in underlying asset terms)	216	-	(216)	-	-

On 31 March 2004 the surplus of assets over liabilities (including forward transactions and options in underlying asset terms) in the unlinked shekel sector amounted to NIS 3,755 million, compared with a surplus of NIS 867 million at the end of 2003.

The surplus of assets in the CPI-linked sector amounted to NIS 4,618 million, compared with NIS 7,416 million at the end of 2003.

The surplus of assets in the foreign currency sector, including the foreign currency-linked shekel sector, amounted to NIS 1,061 million, compared with surplus assets of NIS 799 million at the end of 2003.

The basis exposures reflected in assets and liabilities classified according to linkage basis comply with the limitations determined by the Board of Directors.

Funding and Liquidity

Liquidity Status (at the Bank)

In the first quarter of 2004 there was a high level of liquidity in the banking system in Israel following the trend that was recorded in previous years.

In the first quarter of 2004 the trend of the increase in *Makam* holdings by the banking system continued, in parallel with a reduction in the banks' deposits with the Bank of Israel (deposits and swap tenders).

Since the removal of the ceiling for *Makam* issues at the beginning of 2002, the Bank of Israel has increased the *Makam* issues every month, in parallel with a reduction in the banks' deposits with the Bank of Israel (deposits and the swap tenders). As at the end of March 2004 the system held some NIS 11.5 billion of *Makam* compared with NIS 6.9 billion at the end of December 2003.

As mentioned, the volume of the system's deposits in the fixed term deposit and swap tenders declined during the first quarter of 2004, to a level of some NIS 30 billion, lower by some NIS 2 billion on average than the deposits in December 2003.

Since March 2004 the Bank of Israel has introduced a 'repo' type tender. The volume of the tenders is still low and amounts to only NIS 100 million, and in such context the Bank of Israel sells one year *Makam* which it repurchases after two weeks. During this period the tender winners can trade in the securities.

Utilization of the monetary loans that the Bank of Israel makes available to the banks remained low at an average level of some NIS 0.8 billion.

The structure of the Bank's assets and liabilities indicates high liquidity, in consequence of an intentional policy of raising stable and diverse sources, with emphasis on raising deposits from a large number of customers for different periods including long-term periods.

In August 2003 the Bank of Israel published a circular relating to proper banking management directives in respect of the management of liquidity risk. Pursuant to this directive, each bank must determine a comprehensive policy for managing liquidity based on an internal model that will also cover the possibility of a liquidity crisis. At the end of the quarter, a report was sent to the Bank of Israel of the progress made in the development of the model, which is due to be completed at the end of this year.

Leumi monitors its liquidity position on an on-going basis and also the indicators that reflect a change in liquidity risk, and complies with all the limitations determined by the Board of Directors.

Funding (at the Bank)

In the first quarter of 2004, against the background of the low interest rates prevailing in the economy, the trend of the public diverting monies from shekel deposits to the capital market continued.

Thus, the balance of deposits of the public with the Bank declined by some NIS 3.1 billion and in parallel a positive accrual was recorded with the mutual funds and other securities portfolios. **Leumi Group's** share of the mutual funds in the system at the end of March 2004 was some 30.5%.

Unlinked Shekel Sector

In the first quarter of the year the balance of the deposits of the public in unlinked shekels with the Bank declined by some NIS 4.9 billion, a decrease of 6.5%, primarily in consequence of a move to the capital market.

Since the beginning of the year, some NIS 1 billion have been deposited in unlinked shekel savings schemes for long periods of one year and above.

There was a decrease of NIS 1.5 billion (some 3.0%) in the volume of credit to the public.

Foreign Currency and Foreign Currency-Linked Sector

The first quarter of 2004 was typified by the strengthening of the dollar against the shekel.

At the same time, there was an increase in the balance of the foreign currency and foreign currency-linked deposits of the public of some NIS 2.6 billion, an increase of some 4.0%, that was principally derived from a depreciation in the shekel exchange rate. In dollar terms there was an increase in the foreign currency and foreign currency-linked deposits of US$ 85 million.

There was no significant change in the volume of loans (a decrease of US$ 331 million in dollar terms), following a sharp decline of 13.4% in 2003.

Against the background of the increase in the foreign currency liquidity level at the Bank, it increased its foreign securities portfolio in the reviewed period by some US$ 60 million.

CPI-Linked Sector

The balance of linked deposits declined by some NIS 0.8 billion, a decline of some 2.3%. The decline was mainly derived from a negative accrual in CPI-linked savings schemes against the background of a low and even negative inflationary environment.

The balance of the credit in the CPI-linked sector declined by some NIS 0.7 billion.

Special Financial Instruments

During the first quarter of the year the activity in structured instruments continued. The products that were marketed included deposits and securities linked to various share indices, deposits and securities guaranteeing high foreign currency interest contingent upon the level of the interest rates in the euro market and deposits guaranteeing high shekel interest conditional upon the level of the exchange rates.

The balance of the structured deposits was some NIS 2.8 billion at the end of March 2004 and the structured securities that were marketed in the first quarter of 2004 amounted to some $US 36 million.

In the reviewed period the Bank launched a number of new products, including:

- a 120 day deposit with fixed shekel interest or floating interest on the basis of the prime rate;
- “Leumi Deposit - Free Current Account - an interest-bearing unlinked shekel savings scheme for a period of half a year and an interest-bearing CPI-linked shekel deposit for a period of one year.

Risk Management Policy

Market risk management

Market risk management policy is intended to assist in achieving business goals, while limiting the losses that can stem from exposure to changes in the money and capital markets, interest rates, exchange rates and inflation.

The market risk management policy is formulated and controlled through the market risk management committee headed by the Manager of Market Risks and with the participation of the Chief Derivatives Officer, the Head of the Risk Management Control Department and senior staff members from the business divisions and other staff members connected with asset and liability management (ALM).

For this purpose risks are measured by the accepted methods, such as Value at Risk (VAR), and measurement of the sensitivity of the theoretical economic value of the capital, and of the reported profit to the principal parameters (interest rates, changes in inflation and the currency exchange rates) and by examining the possible damage to the Group in various scenarios.

VAR measures the maximum expected potential damage (the expected decrease in fair value of the assets less the liabilities) from the holding of positions for a given future period, at a given assurance level, in consequence of possible changes in the market prices of debentures, foreign currency, inflation, shares and interest rates in a direction that causes damage to the Bank. The VAR calculations are made monthly at the Group level and with greater frequency for certain portfolios.

In order to examine the validity of the VAR model, the Bank conducts daily backtesting by comparing the actual difference in the fair value of the Bank with the VAR measure calculated. The examination confirms the validity of the model.

The model is based on the historical behavior of the various market parameters in the preceding period (one year). The calculation of the adopted parametric method is based on an assumption regarding the distribution structure of changes in the parameters (multi-variate normal distribution).

The global and domestic markets are subject to occasional shocks, which find expression in sharp volatility of the parameters, which deviate from the normal historical distribution. Thus, in addition to the VAR measurement, there is also a measurement of sensitivity and results in stress scenarios, which are not derived from short-term historical observation. Risk control management in the Bank and the Group relates both to the value at risk and the effect of stress scenarios.

In accordance with Bank of Israel directives, the amount measured by VAR relates to the potential damage in holding all balance sheet and off-balance sheet positions exposed to basis risks, interest risks and share risk (at present only in the "available for sale" portfolio) and not only the positions in the trading portfolios.

The model used to estimate the said losses is still undergoing an on-going process of change and development, based on the best information and evaluations. Changes in the VAR in a given period therefore represent, in addition to changes in the Bank's positions or in the various risk factors, changes in the model's assumptions.

In 2004, in consequence of the transition to nominal financial statements, the base currency for calculating the market risk, including the VAR calculation, is the unlinked shekel.

The VAR calculations, as detailed below, and also the limits in VAR terms were made using the parametric VAR system, at an assurance level of 99%, for a holding period of two weeks. The maximum VAR in the Group in 2003 was measured at the beginning of 2003, and the minimum was measured in the middle of the year.

Estimates of the VAR amount:

	31 March 2004	31 December 2003
	(NIS millions)	
The Bank	**111**	205
Consolidated	**174**	245
MTM revalued portfolios	**64**	70

At the end of 2003, and after the experience that had been gained, the Board of Directors approved actual VAR limits of NIS 600 million at the Group level and a VAR limit of NIS 200 million on Mark to Market revalued portfolios.

Operational Segments

The Group operates in different operational segments through the Bank and its subsidiaries in all spheres of banking and financial services. Furthermore, the Group invests in non-banking corporations that operate in various spheres, such as insurance, real estate, hotels, shipping, energy, industry and more.

The operational segments are according to characteristics that were determined by the Bank of Israel and the manner of their measurement is detailed in the Annual Report.

Following is the development of the net profit according to operational segments after tax:

	Three months ending 31 March		Year
	2004	2003	2003
	Reported	Adjusted to 31 December 2003	
	NIS millions		
Corporate and international banking	**6**	(13)	18
Retail banking	**137**	96	311
Commercial banking	**92**	(11)	68
Global private banking	**20**	25	75
Construction and real estate	**36**	29	48
Mortgages - housing loans	**25**	18	106
Credit card operations	**7**	1	6
Capital market operations	**5**	(4)	9
Others	**133**	30	504
Total	**461**	171	1,145

Following is an explanation of the changes in profitability in the period January - March 2004 compared with the corresponding period in 2003:

1. The profit of corporate and international banking totaled NIS 6 million, compared with a loss of NIS 13 million in the corresponding period in 2003. The change in the profit derived from an increase in net interest income before provision for doubtful debts and the positive effect of the tax in respect of exchange rate differences that are attributed to this segment with regard to overseas investments, that were partially offset by an increase in the provisions for doubtful debts.

2. The profit of retail banking totaled NIS 137 million, compared with NIS 96 million in the corresponding period in 2003. The increase in the profit derived from an increase in operating and other income, principally from activity in the capital market, an increase in interest income and a decrease in provisions for doubtful debts, that were partially offset by an increase in operating and other expenses.

3. The profit of commercial banking totaled NIS 92 million, compared with a loss of NIS 11 million in the corresponding period in 2003. The change in the profit derived from an increase in interest income before provision for doubtful debts, an increase in operating and other income, a decrease in the provision for doubtful debts, a decrease in operating and other expenses (in the corresponding period in 2003 provisions were made in respect of the reorganization in France) and from the positive effect of tax in respect of exchange rate differences that are attributed to this segment with regard to overseas investments.

4. The profit of global private banking totaled NIS 20 million, compared with NIS 25 million in the corresponding period in 2003. The decrease in the profit derived from an increase in the operating and other expenses, *inter alia* in consequence of expenses relating to expanding the activities in Israel and abroad, that were partially offset by an increase in the operating and other income.

5. The profit of construction and real estate totaled NIS 36 million, compared with NIS 29 million in the corresponding period in 2003. The increase in the profit derived from an increase in interest income before provision for doubtful debts, that was partially offset by an increase in the provision for doubtful debts.

6. The profit of mortgages totaled NIS 25 million, compared with NIS 18 million in the corresponding period in 2003. The increase in the profit derived from an increase in interest income before provision for doubtful debts, that was partially offset by an increase in the provision for doubtful debts.

7. The profit of credit cards totaled NIS 7 million, compared with NIS 1 million in the corresponding period in 2003. The increase derived from an increase in income, that was partially offset by an increase in operating expenses.

8. The profit of capital market operations totaled NIS 5 million, compared with a loss of NIS 4 million in the corresponding period in 2003. The change in the profit derived from an increase of the income of Leumi & Co.

9. The profit of others (unallocated amounts) totaled NIS 133 million, compared with NIS 30 million in the corresponding period in 2003. The increase in the profit derived from an increase in the profit of the companies included on the equity basis and a decrease in operating expenses, principally salaries and related expenses that are not attributed to the various operational segments, such as voluntary retirement costs.

See pages 47 to 48 for further details.

Activities of Major Subsidiaries and Affiliates

Consolidated Subsidiaries in Israel

The Bank's investments in consolidated subsidiaries in Israel amounted to some NIS 3,781 million on 31 March 2004, compared with NIS 3,704 million on 31 December 2003. The contribution to net profit in the period January - March 2004 was NIS 69 million, compared with NIS 50 million in the corresponding period in 2003, an increase of 38.0%.

See Notes 4 to 8 to the Financial Statements concerning legal claims and other subjects relating to consolidated subsidiaries and the Bank.

Overseas Consolidated Subsidiaries

The Bank's investments in overseas consolidated subsidiaries amounted to NIS 3,979 million on 31 March 2004, compared with NIS 3,752 million on 31 December 2003.

The nominal profit of the overseas consolidated subsidiaries, as reported by them, in the first quarter of 2004 amounted to 12.7 million dollars, compared with 14.4 million dollars in the corresponding period in 2003, a decrease of 11.8%.

The contribution of the overseas consolidated subsidiaries to the Group's net adjusted profit, in shekels, in the period January - March 2004 amounted to a profit of NIS 178 million, compared with a loss of NIS 11 million in the corresponding period in 2003.

The increase in the contribution to profit derives from the effect of the depreciation in the rate of the shekel against the dollar and against sterling. The effect of the exchange rate differences increased the profit by NIS 120 million in the first quarter of 2004, compared with a decrease in the profit of NIS 59 million in the corresponding period in 2003. The net interest expenses incurred by the Bank, and which offset some of these exchange rate differences, amounted to some NIS 67 million this year, compared to income of NIS 35 million in the corresponding period in 2003.

Banque Leumi France S.A.

With effect from 31 March 2004, Banque Leumi France returned its banking license, further to the decision of the Bank's Management to change the Leumi Group's activity in France. Subsequently, the name of the company was changed to Leumi France. In April 2004, the Bank opened a representative office in Paris.

Activities of Subsidiaries in the Capital Market

Mutual Funds

The value of the assets of the mutual funds managed by the Group in Israel on 31 March 2004 was NIS 28.7 billion, compared with NIS 26.6 billion at the end of 2003. The value of the assets of the mutual funds managed by the Group at the end of March 2004 constituted 30.46% of the assets of all mutual funds in the system.

In consequence of the issue of the "Psagot Madadit Ad 120" fund and the issue of the "Pia Gilon Plus" fund, the Israel Securities Authority is carrying out an examination in connection with investment counseling given at the Bank's branches in respect of Leumi Group mutual funds.

Within the context of the examination, the Israel Securities Authority sent the Bank a number of letters in which it requested information on various subjects relating to counseling given by the Bank regarding mutual funds. The Bank furnished the Authority with detailed information.

Furthermore, examiners on behalf of the Israel Securities Authority carried out examinations at many branches, questioned investment counselors and customers and gathered written material. Some of the investment counselors were called to the offices of the Israel Securities Authority to give statements in connection with the investigation.

The Group has two mutual fund management companies in Israel:

Leumi-Pia - As at 31 March 2004 Leumi-Pia managed 45 mutual funds with total assets amounting to some NIS 14.0 billion, compared with some NIS 13.2 billion at the end of 2003. Its share of the sector's total assets was 14.83% at the end of March 2004. At the end of March 2004 Leumi-Pia issued a new fund: Pia Global Shares.

Psagot-Ofek - As at 31 March 2004 Psagot-Ofek managed 51 mutual funds with total assets amounting to some NIS 14.7 billion, compared with some NIS 13.4 billion at the end of 2003. Its share of Israel's mutual fund sector was 15.63% at the end of March 2004. In March 2004, Psagot issued a new fund: Psagot Dividend Social.

Provident Funds

The provident funds managed by the Leumi Group include seven funds for the self-employed, five funds for salaried employees, four central funds for severance pay and a fund for the payment of sick pay. In addition, funds are also managed for employees of the Bank and Leumi Mortgage Bank. The Group, through Leumi Gemel Ltd, provides services for the funds of various entities.

The value of the assets of the provident funds managed by the Group amounted to some NIS 30.5 billion on 31 March 2004, compared with some NIS 30.9 billion at the end of 2003.

During the period January - March 2004, the provident funds' yields were positive.

See page 4 above with regard to proposed legislation relating to the provident funds.

Supplementary Training Funds

Kahal Employees Supplementary Training Fund Ltd. ("Kahal") (jointly managed by the Bank and Israel Discount Bank) - the value of the assets managed by Kahal and Kahal Paths Supplementary Training Fund reached some NIS 9.3 billion on 31 March 2004, compared with some NIS 9.4 billion at the end of 2003. The number of employers contributing to the fund is some 39 thousand and the number of accounts in the fund is some 396 thousand. Kahal's real net yield in the period January - March 2004 was positive in all paths.

Non-Banking Activities of Companies Included on the Equity Basis

Total investments of the Group in companies included on the equity basis amounted to NIS 1,424 million on 31 March 2004, compared with NIS 1,361 million on 31 December 2003.

In the period January - March 2004 the contribution to net profit amounted to a profit of some NIS 61 million, compared with a profit of some NIS 35 million in the corresponding period in 2003.

Africa Israel Investments Group

The consolidated assets as at 31 March 2004 totaled some NIS 7.6 billion.

Shareholders' equity was NIS 1,063 million on 31 March 2004, compared with NIS 1,151 million at the end of 2003. The net profit in the period January - March 2004 amounted to some NIS 60 million, compared with some NIS 29 million in the corresponding period in 2003. Net return on equity in annual terms was 22.7%, compared with 10.3% in the corresponding period in 2003.

Migdal Insurance and Financial Holdings Group

The group has total assets of some NIS 42.0 billion, of which some NIS 34.2 billion are life insurance reserves and some NIS 3.3 billion are general insurance reserves.

Shareholders' equity as at 31 March 2004 totaled some NIS 2,444 million, compared with some NIS 2,415 million at the end of 2003.

The group's net profit for the period January - March 2004 was NIS 153 million, compared with some NIS 74 million in the corresponding period in 2003. The net return on equity in annual terms was 27.9%, compared with 14.8% in the corresponding period in 2003.

The profit from life insurance amounted to some NIS 160 million, compared with a profit of some NIS 113 million in the corresponding period in 2003, an increase of 41.6%.

The profit from general insurance amounted to some NIS 27 million, compared with some NIS 31 million in the corresponding period in 2003, a decrease of 12.9%.

See Note 9 to the Financial Statements concerning the pending claims against the Migdal Group and others.

Israel Corporation Ltd.

Israel Corporation Ltd is a holding company whose principal holdings are in the spheres of chemicals (holding 53% of the shares of Israel Chemicals Ltd.), shipping (holding some 97.5% of Zim Israel Navigation Co. Ltd.), energy (holding some 26% of Oil Refineries Ltd.) and additional interests.

The consolidated assets of Israel Corporation totaled some NIS 21.2 billion as at 31 March 2004, compared with NIS 15.8 billion at the end of 2003.

Shareholders' equity totaled some NIS 2,378 million as at 31 March 2004, compared with some NIS 2,170 million at the end of 2003.

The net profit in the period January - March 2004 totaled some NIS 151 million, compared with a profit of some NIS 94 million in the corresponding period in 2003.

See Note 10 to the Financial Statements regarding the pending claims against Israel Corporation Group.

At the meeting of the Board of Directors held on 31 May 2004, it was decided to approve and publish the Group's condensed unaudited consolidated Financial Statements as at 31 March 2004 and for the periods ending on that date.

During the period January - March 2004 the Board of Directors held 7 plenary meetings and 18 committee meetings.

Eitan Raff	Galia Maor
Chairman of the Board of Directors	President and Chief Executive Officer

31 May 2004