

## **FINANCIAL STATEMENTS OF THE LEUMI GROUP FOR THE FIRST HALF OF 2004**

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**NET PROFIT FOR THE FIRST HALF OF 2004:  
NIS 992 MILLION (\$221 MILLION)  
AN INCREASE OF 100.8% COMPARED WITH THE  
CORRESPONDING PERIOD LAST YEAR  
WHEN NEUTRALIZING THE EFFECT OF THE CHANGE IN THE  
TAX RATES, NET PROFIT: NIS 1,086 MILLION (\$241 MILLION)  
AN INCREASE OF 119.8%**

**NET PROFIT FOR THE SECOND QUARTER OF 2004:  
NIS 531 MILLION (\$118 MILLION)  
AN INCREASE OF 64.4% COMPARED WITH THE  
CORRESPONDING PERIOD LAST YEAR  
WHEN NEUTRALIZING THE EFFECT OF THE CHANGE IN THE  
TAX RATES, NET PROFIT: NIS 625 MILLION (\$139 MILLION)  
AN INCREASE OF 93.5%**

**NET RETURN ON EQUITY FOR THE FIRST HALF OF 2004:  
14.4% COMPARED WITH 7.7% IN THE CORRESPONDING  
PERIOD LAST YEAR  
WHEN NEUTRALIZING THE EFFECT OF THE CHANGE IN THE  
TAX RATES, NET RETURN ON EQUITY: 15.9%**

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

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

The financial statements for the first half 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. After this line the comparison is with figures adjusted as of 31 December 2003, pursuant to the determination of the Israeli Accounting Standards Board that starting from 1 January 2004 financial statements will no longer be adjusted for inflation.

The law to reduce corporation tax from 36% to 30% by 2007 reduced net profit by NIS 94 million, as reflected in the financial results for the first half of 2004. Concurrently, the reduction in the tax rate will result in a reduction in the current tax and an improvement in the net profit, mainly in future years.

**The net profit of the Leumi Group** in the first half of 2004 amounted to NIS 992 million (\$221 million), compared with NIS 494 million (\$110 million) in the corresponding period in 2003, an increase of 100.8%. When neutralizing the effect of the change in the tax rates, the net profit was NIS 1,086 million (\$241 million), an increase of 119.8% as compared with the corresponding period last year.

The Leumi Group’s net return on equity in the first half of 2004 reached 14.4% compared with 7.7% in the corresponding period last year. When neutralizing the effect of the change in the tax rates, the net return on equity was 15.9%.

**The increase in the net profit of the Group in the first half of 2004 compared with the corresponding period in 2003 is explained mainly by the following factors:**

- An increase in net interest income before provision for doubtful debts of NIS 180 million (\$40 million), before the effect of tax.
- A decrease in the provision for doubtful debts of NIS 229 million (\$51 million), before the effect of tax.
- An increase in operating and other income of NIS 78 million (\$17 million), before the effect of tax, mainly due to the increase in income from customers’ activities in the capital market and from credit cards, which was partially offset by a decline in income from the reserve for severance pay, recorded in the first half of 2003.
- 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 39 million (\$9 million), compared with negative exchange rate differences in the corresponding period in 2003 of NIS 107 million (\$24 million), after the effect of tax.
- A decrease in voluntary retirement expenses of NIS 58 million (\$13 million), before the effect of tax.
- A decrease in salary expenses of NIS 30 million (\$7 million), before the effect of tax.
- An increase in the Group’s share in profits of companies included on the equity basis of NIS 109 million (\$25 million), net.

**On the other hand, the following factors partially offset the said increase.**

- The gradual reduction of the corporation tax rate from 36% to 30% increased the tax expenses of the Bank and the consolidated companies by NIS 122 million (\$27 million) as a result of revising the deferred taxes according to the new tax rates and calculating the current tax according to a lower rate.

- Due to early implementation of Accounting Standard No. 19, a tax expense of NIS 20 million (\$4 million) was recorded as a cumulative effect of change in an accounting method.

Net profit of the Leumi Group in the second quarter of 2004 amounted to NIS 531 million (\$118 million), an increase of 64.4%, compared with the corresponding period last year. When neutralizing the effect of the change in the tax rates, the net profit was NIS 625 million (\$139 million), an increase of 93.5% as compared with the corresponding period last year.

**Net interest income before provision for doubtful debts** in the first half of 2004 amounted to NIS 3,168 million (\$704 million), compared with NIS 2,988 million (\$664 million) in the corresponding period last year, an increase of 6.0%.

The interest spread including derivative transactions in the first half of 2004 was 1.74%, compared with 1.70% in the corresponding period in 2003.

**Provision for doubtful debts** in the first half of 2004 amounted to NIS 662 million (\$147 million), compared with NIS 891 million (\$198 million) in the corresponding period last year, a decrease of 25.7%.

The total rate of the provision for doubtful debts in the first half of 2004 was 0.78% of total credit to the public, compared with a rate of 1.08% in the corresponding period last year and compared with 1.11% in all of 2003.

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 in the first half of 2004 amounted to NIS 1,094 million (\$243 million), representing 0.64% of total credit to the public.

**Net interest income after provision for doubtful debts of the Leumi Group** in the first half of 2004 amounted to NIS 2,506 million (\$557 million), an increase of 19.5% compared with the corresponding period last year.

**Operating and other income of the Leumi Group** amounted to NIS 1,691 million (\$376 million) in the first half of 2004, compared with NIS 1,613 million (\$359 million) in the corresponding period last year, an increase of 4.8%.

The increase in operating and other income derives mainly from an increase in income from operating commissions from customers' activities in the capital market and an increase in income from credit cards and from handling credit which was partially offset by a decrease in the profits from the reserve for severance pay in the sum of NIS 144 million (\$32 million) in the first half of 2003, and which were not repeated in 2004.

**Operating and other expenses of the Leumi Group** in the first half of 2004 amounted to NIS 2,662 million (\$592 million) compared with NIS 2,732 million (\$608 million) in the corresponding period last year, a decrease of 2.6%.

Salary expenses (including the cost of voluntary retirement) decreased by NIS 88 million (\$20 million) in the first half of 2004, a decrease of 5.3% compared with the corresponding period last year. The voluntary retirement costs decreased by NIS 58 million (\$13 million) and salary and related expenses decreased by NIS 30 million (\$7 million).

**The efficiency ratio** - Operating expenses constituted 54.8% of total income, compared with 59.4% in the corresponding period last year and compared with 60.9% in all of 2003.

**Operating profit before taxes of the Leumi Group** amounted to NIS 1,535 million (\$341 million) in the first half of 2004, compared with NIS 978 million (\$217 million) in the corresponding period last year, an increase of 57.0%.

**Provision for tax on operating profit** in the first half of 2004 amounted to NIS 697 million (\$155 million), compared with NIS 571 million (\$127 million) in the corresponding period last year.

The rate of the provision for tax in the period was 45.4% of pre-tax profit, compared with 58.4% in the corresponding period last year.

The provision for taxes in the first half of the year was principally affected by the following matters:

- On 29 June 2004 the law to amend the Income Tax Ordinance with regard to the gradual reduction of the rate of corporation tax from 36% to 30% in 2007 was approved. In consequence of the tax reduction, the deferred taxes were adjusted on the basis of the new tax rates, according to the date of the recognition of the amounts for tax purposes in the future, and the tax rate for 2004 was also reduced, in accordance with the said law. The change in the tax rates on the balance of deferred taxes increased the provision for tax at the Bank and the consolidated companies by some NIS 131 million (\$29 million), while the current taxes were reduced by NIS 9 million (\$2 million).
- The effect of exchange rate differences in respect of investments abroad that are not included in the basis of the tax calculation, which were positive in the said period as compared with negative exchange rate differences in the corresponding period last year, and the positive inflationary effect of the known index partially offset the above effects.

**Operating profit after taxes** in the first half of 2004 amounted to NIS 838 million (\$186 million), compared with NIS 429 million (\$95 million) in the corresponding period last year, an increase of 95.3%.

**The Group's share in the profits of companies included on the equity basis** in the first half of 2004 amounted to a profit of NIS 183 million (\$41 million), compared with NIS 74 million (\$16 million) in the corresponding period last year, an increase of 147.3%.

**Net operating profit** in the first half of 2004 amounted to NIS 1,015 million (\$226 million), compared with NIS 518 million (\$115 million) in the corresponding period last year, an increase of 95.9%.

**Loss from extraordinary items after taxes** in the first half of 2004 amounted to NIS 3 million (\$0.7 million), compared with a loss of NIS 24 million (\$5 million) in the corresponding period last year.

**The cumulative effect of implementing Accounting Standard No. 19** resulted in a tax expense of some NIS 20 million (\$4 million).

**Net profit** in the first half of 2004 amounted to NIS 992 million (\$221 million), compared with NIS 494 million (\$110 million) in the corresponding period last year, an increase of 100.8%.

**Net return on equity of the Leumi Group** in the first half of 2004 reached 14.4%, compared with 7.7% in the corresponding period last year.

**Shareholders' equity** on 30 June 2004 amounted to NIS 15.0 billion (\$3.3 billion), compared with NIS 13.9 billion (\$3.1 billion) on 30 June 2003, an increase of 7.8%.

**The ratio of shareholders' equity to total assets** on 30 June 2004 was 6.0%, compared with 5.9% on 30 June 2003.

**The ratio of shareholders' equity to risk assets** on 30 June 2004 was 11.0%, compared with 10.8% on 31 December 2003, of which Tier I capital was 7.6% and 7.3%, respectively.

# Press Release



**Total assets of the Leumi Group** on 30 June 2004 amounted to NIS 248.1 billion (\$55.2 billion), compared with NIS 237 billion (\$52.7 billion) on 30 June 2003, an increase of 4.7% and compared with NIS 246.6 billion (\$54.8 billion) on 31 December 2003, an increase of 0.6%.

**Credit to the public** on 30 June 2004 amounted NIS 169.4 billion (\$37.7 billion), compared with NIS 165.0 billion (\$36.7 billion) on 30 June 2003, an increase of 2.7%, and compared with NIS 169.2 billion (\$37.6 billion) on 31 December 2003, an increase of 0.2%.

**Deposits from the public** on 30 June 2004 amounted to NIS 204.5 billion (\$45.5 billion), compared with NIS 197.5 billion (\$43.9 billion) on 30 June 2003, an increase of 3.5%, and compared with NIS 203.6 billion (\$45.3 billion) on 31 December 2003, an increase of 0.5%.

**Mutual fund assets of the Leumi Group** on 30 June 2004 amounted to NIS 28.6 billion (\$6.4 billion). The Leumi Group's market share in this sector on 30 June 2004 was 29.7%.

**The value of the provident and supplementary training fund assets managed by the Leumi Group** on 30 June 2004 amounted to NIS 41.1 billion (\$9.1 billion).

The data in this Press Release has been converted into dollars solely for convenience at the representative rate of exchange published by the Bank of Israel prevailing on 30 June 2004 of NIS 4.497.