

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

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**NET PROFIT FOR 2004:  
NIS 1,864 MILLION (\$433 MILLION), AN INCREASE OF 62.8%  
COMPARED WITH 2003**

**NET OPERATING PROFIT FOR 2004:  
NIS 1,904 MILLION (\$442 MILLION), AN INCREASE OF  
64.3% COMPARED WITH 2003**

**NET PROFIT IN THE FOURTH QUARTER OF 2004:  
NIS 345 MILLION (\$80 MILLION), AN INCREASE OF 46.8%  
COMPARED WITH THE SAME PERIOD LAST YEAR**

**NET RETURN ON EQUITY FOR 2004: 13.1%,  
COMPARED WITH 8.7% IN 2003**

**NET RETURN ON NET OPERATING PROFIT FOR 2004: 13.4%  
NEUTRALIZING THE EFFECT OF THE CHANGE IN THE TAX RATES,  
NET RETURN: 14.1%**

**RATIO OF SHAREHOLDERS' EQUITY TO RISK ASSETS: 11.25%**

**DIVIDEND: NIS 1,004 MILLION (\$233 MILLION)**

**The Leumi Group** announces its audited consolidated financial statements for 2004.

**The net profit of the Leumi Group** in 2004 amounted to NIS 1,864 million (\$433 million), compared with NIS 1,145 million (\$266 million) in 2003, an increase of 62.8%. Neutralizing the effect of the change in the tax rates, net profit was NIS 1,960 million (\$455 million), an increase of 71.2% compared with last year.

**The net operating profit of the Leumi Group** in 2004 amounted to NIS 1,904 million (\$442 million), compared with NIS 1,159 million (\$269 million) in 2003, an increase of 64.3%. Neutralizing the effect of the change in the tax rates, net operating profit was NIS 2,000 million (\$464 million), an increase of 72.6% compared with last year.

Net profit of the Leumi Group in the fourth quarter of 2004 was NIS 345 million (\$80 million), an increase of 46.8% compared with the same period last year.

The Leumi Group's return on equity in 2004 reached 13.1%, compared with 8.7% in 2003. Neutralizing the effect of the change in the tax rates, the net return on equity was 13.8%.

The Leumi Group's return on net operating profit in 2004 reached 13.4%, compared with 8.8% in 2003. Neutralizing the effect of the tax rates, the net return was 14.1%.

The law to reduce corporation tax from 36% to 30% by 2007 reduced net profit by NIS 96 million (\$22 million), as reflected in the financial results for 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 profits of the Leumi Group increased in 2004 against a background of continued improvement in economic activity in Israel, and mainly as a result of an increase in interest income and in operating income, and as result of a decrease in the provision for doubtful debts.

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

- An increase of NIS 384 million (\$89 million) in net interest income before provision for doubtful debts, before the effect of tax.
- A decrease of NIS 369 million (\$86 million) in provisions for doubtful debts, before the effect of tax (as explained below).
- An increase of NIS 258 million (\$60 million), net, in the Group's share in profits of companies included on the equity basis.
- An increase of NIS 187 million (\$43 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 from payments services and credit cards, which was partially offset by a decline of NIS 185 million (\$43 million) in income from the reserve for severance pay.
- A decrease of NIS 133 million (\$31 million) in voluntary retirement expenses, before the effect of tax.

On the other hand, due to early implementation of Accounting Standard No. 19, a tax expense of NIS 32 million (\$7 million) was recorded as a cumulative effect of change in an accounting method.

## **Dividend for 2004**

The extraordinary general meeting which convened on 1 February, 2005 approved the recommendation of the Board of Directors from 16 December, 2004 to distribute a cash dividend of 65.6% of net profit for the first nine months of 2004 (approximately NIS 1,004 million or \$233 million) at a rate of 71% on the paid up capital. The dividend of NIS 1,004 million (\$233 million) was paid on 28 February, 2005.

## **Social responsibility**

At Leumi we believe that the business and economic power of the Group must be used as an engine to drive progress in Israeli society. In 2004 the Leumi Group expanded its contribution to the community, mainly by helping youth from distressed neighborhoods in preparing for military service and by assisting for matriculation exams within the framework of the "Leumi Follow Me" program. Likewise, the Bank also deepened its involvement in the "Young Entrepreneurs" project, mainly by bank employees assisting the participating groups.

In 2005 the Board of Directors made additional social commitments. It was decided to integrate into "Atidim", a national program that aims to close the gaps between the center of the country and the periphery, by education and the pursuit of excellence. This will strengthen the human capital infrastructure and broaden the educational infrastructure in the periphery, while providing equal opportunity for integration into key positions in industry, the IDF, public administration and the academic world.

Therefore, Leumi's involvement in the community will total in excess of NIS 15 million (\$3.5 million) for 2005 by way of donations and sponsorships of community and cultural enterprises.

**Net interest income before provision for doubtful debts** in 2004 amounted to NIS 6,359 million (\$1,476 million), compared with NIS 5,975 million (\$1,387 million) in 2003, an increase of 6.4%.

The interest spread, including derivative transactions, was 1.76% in 2004, compared with 1.61% in 2003, an improvement of 0.15 basis points.

**Provision for doubtful debts** in 2004 amounted to NIS 1,514 million (\$351 million), compared with NIS 1,883 million (\$437 million) in 2003, a decrease of 19.6%.

The rate of the provision for doubtful debts in 2004 was 0.89% of total credit to the public as at the end of the year, compared with 1.11% in 2003.

The aggregate balance of the general provision, the additional provision and the special provision for doubtful debts (according to risk characteristics defined by the Supervisor of Banks) at the Bank and its consolidated companies, amounted to NIS 1,041 million (\$242 million) at the end of 2004 (representing 0.43% of total credit risks), compared with NIS 1,047 million (\$243 million) at the end of 2003.

**Net interest income after provision for doubtful debts of the Leumi Group** in 2004 amounted to NIS 4,845 million (\$1,125 million), an increase of 18.4% compared with 2003.

**Operating and other income of the Leumi Group** in 2004 amounted to NIS 3,403 million (\$790 million), compared with NIS 3,216 million (\$747 million) last year, an increase of 5.8%. Neutralizing the effect of the profit from the severance pay reserve, operating income increased by 12.4%.

The increase in operating and other income derives mainly from an increase in income from operating commissions from customer activities in the capital market, from income from credit cards and from an increase in commissions from handling credit.

Operating and other income covers 62.0% of operating and other expenses, compared with 57.4% in 2003.

**Operating and other expenses of the Leumi Group** in 2004 amounted to NIS 5,488 million (\$1,274 million), compared with NIS 5,603 million (\$1,301 million) in 2003, a decrease of 2.1%.

Salary expenses (including the cost of voluntary retirement) decreased in 2004 by NIS 122 million (\$28 million), a decrease of 3.6% compared with 2003. Salary expenses net of the cost of voluntary retirement increased by a low rate of 0.3%.

**The efficiency ratio** – Operating expenses comprised 56.1% of total income in 2004, compared with 59.4% in 2003 (without taking into account the voluntary retirement costs).

**Operating profit before taxes** amounted to NIS 2,760 million (\$641 million) in 2004, compared with NIS 1,705 million (\$396 million) in 2003, an increase of 61.9%.

**Provision for tax on operating profit** in 2004 amounted to NIS 1,244 million (\$289 million), compared with NIS 824 million (\$191 million) in 2003.

The rate of the provision for tax in the period was 45.1% of pre-tax profit, compared with 44.8% in 2003.

**Operating profit after tax** in 2004 amounted to NIS 1,516 million (\$352 million), compared with NIS 1,016 million (\$236 million) in 2003, an increase of 49.2%.

**The Group's share in the profits of companies included on the equity basis** amounted to a profit of NIS 410 million (\$95 million), compared with NIS 152 million (\$35 million) in 2003, an increase of 169.7%.

**Net operating profit** in 2004 amounted to NIS 1,904 million (\$442 million), compared with NIS 1,159 million (\$269 million) in 2003, an increase of 64.3%.

**The cumulative effect of implementing Accounting Standard No. 19** resulted in a tax expense of about NIS 32 million (\$7 million).

**Net profit** in 2004 amounted to NIS 1,864 million (\$433 million), compared with NIS 1,145 million (\$266 million) in 2003, an increase of 62.8%.

**Net return on equity of the Leumi Group** in 2004 reached 13.1%, compared with 8.7% in 2003.

**Net return on net operating profit of the Leumi Group** in 2004 reached 13.4%, compared with 8.8% in 2003.

# Press Release



**Shareholders' equity** on 31 December 2004 amounted to NIS 15.0 billion (\$3.5 billion), compared with NIS 14.2 billion (\$3.3 billion) on 31 December 2003, an increase of 5.4%.

**The ratio of shareholders' equity to total assets** on 31 December 2004 was 5.9%, compared with 5.8% on 31 December 2003.

**The ratio of shareholders' equity to risk assets** on 31 December 2004 was 11.25%, compared with 10.79% on 31 December 2003, of which the ratio of Tier 1 capital to risk weighted assets was 7.53% and 7.29% respectively.

**Total assets of the Leumi Group** on 31 December 2004 amounted to NIS 255.8 billion (\$59.4 billion), compared with NIS 246.6 billion (\$57.2 billion) on 31 December 2003, an increase of 3.7%.

**Credit to the public** on 31 December 2004 amounted to NIS 169.4 billion (\$39.3 billion), similar to 31 December 2003.

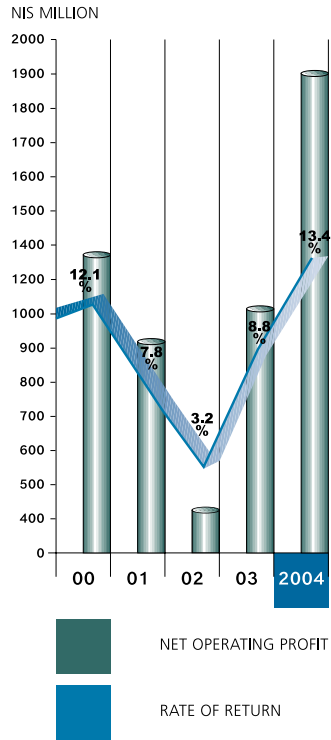
**Deposits from the public** on 31 December 2004 amounted to NIS 209.7 billion (\$48.7 billion), compared with NIS 203.6 billion (\$47.3 billion) on 31 December 2003, an increase of 3.0%.

**Mutual fund assets of the Leumi Group** on 31 December 2004 amounted to NIS 29.0 billion (\$6.7 billion). Leumi Group's market share in this sector on 31 December 2004 was 28.98%.

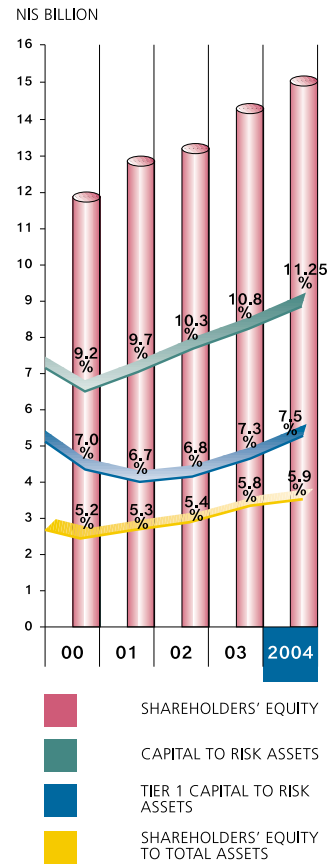
**The value of the provident and supplementary training fund assets managed by the Leumi Group** on 31 December 2004 amounted to NIS 43.0 billion (\$10.0 billion).

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 31 December 2004 of NIS 4.308.

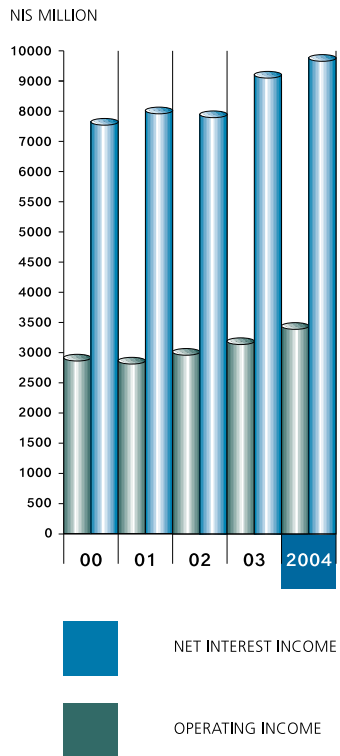
### NET OPERATION PROFIT



### FINANCIAL STABILITY INDICES



### TOTAL INCOME



### EFFICIENCY RATIO

