

FINANCIAL STATEMENTS OF THE LEUMI GROUP AS AT 30.9.2004

**NET PROFIT FOR THE FIRST NINE MONTHS OF 2004:
NIS 1,531 MILLION (\$342 MILLION),
AN INCREASE OF 68.2% COMPARED WITH THE
SAME PERIOD LAST YEAR.
NEUTRALIZING THE EFFECT OF THE CHANGE IN THE
TAX RATES, NET PROFIT: NIS 1,620 MILLION (\$361 MILLION),
AN INCREASE OF 78.0%**

**NET PROFIT IN THE THIRD QUARTER OF 2004:
NIS 539 MILLION (\$120 MILLION), AN INCREASE OF 29.6%
COMPARED WITH THE SAME PERIOD LAST YEAR**

**NET RETURN ON EQUITY FOR THE FIRST NINE MONTHS OF 2004:
14.6%, COMPARED WITH 9.3% IN THE SAME
PERIOD LAST YEAR.
NEUTRALIZING THE EFFECT OF THE CHANGE IN THE
TAX RATES, NET RETURN ON EQUITY: 15.5%**

**RATIO OF SHAREHOLDERS' EQUITY TO RISK ASSETS:
11.1%**

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

The financial statements of the first nine months 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 at 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 net profit of the Leumi Group in the first nine months of 2004 amounted to NIS 1,531 million (\$342 million), compared with NIS 910 million (\$203 million) in the corresponding period last year, an increase of 68.2%. Neutralizing the effect of the change in the tax rates, net profit was NIS 1,620 million (\$361 million), an increase of 78.0% compared with the same period last year.

Net profit of the Leumi Group in the third quarter of 2004 amounted to NIS 539 million (\$120 million), an increase of 29.6% compared with the corresponding period last year.

The Leumi Group's return on equity in the first nine months of 2004 reached 14.6% compared with 9.3% in the same period last year. Neutralizing the effect of the change in the tax rates, the net return on equity was 15.5%.

The law to reduce corporation tax from 36% to 30% by 2007 reduced net profit by NIS 89 million (\$20 million), as reflected in the financial results for the first nine months 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 increase in the net profit of the Group in the first nine months of 2004 compared with the same period in 2003 is explained mainly by the following factors:

- An increase of NIS 344 million (\$77 million) in net interest income before provision for doubtful debts, before the effect of tax.
- A decrease of NIS 286 million (\$64 million) in the provision for doubtful debts, before the effect of tax.
- An increase of NIS 161 million (\$36 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 credit cards, which was partially offset by a decline in income from the reserve for severance pay, recorded in the first nine months of 2003.
- A decrease of NIS 79 million (\$18 million) in voluntary retirement expenses, before the effect of tax.
- A decrease of NIS 16 million (\$3 million) in salary expenses, before the effect of tax.
- An increase of NIS 183 million (\$41 million), net, in the Group's share in profits of companies included on the equity basis.
- A decrease in the rate of the provision for tax from 47.0% to 44.7% as a result of the effect of the net positive exchange rate differentials of NIS 44 million (\$10 million) in respect of overseas investments, offset by exchange rate differentials for financing investments abroad, after tax, compared with negative exchange rate differentials of NIS 86 million (\$19 million) in the same period in 2003, after the effect of tax, and a decrease of the corporation tax rate from 36% to 35%.

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

- An increase of NIS 36 million (\$8 million), in operating and other expenses (excluding wages and voluntary retirement), before the effect of tax.
- 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.

In the first nine months of 2004, the Leumi Group broadened its contribution to the community, principally assisting youths in distressed areas to prepare for their military service and to matriculate from high school. Also, the Bank supported over the course of the year some four hundred families living below the poverty line, and prior to the New Year holiday expanded its support to some 1,000 families. Hundreds of Bank employees volunteer on a personal basis to assist youths and families.

Net interest income before provision for doubtful debts in the first nine months of 2004 amounted to NIS 4,769 million (\$1,064 million), compared with NIS 4,425 million (\$987 million) in the corresponding period last year, an increase of 7.8%.

The interest spread, including derivative transactions, in the first nine months of 2004 was 1.73%, compared with 1.64% in the same period last year.

Provision for doubtful debts in the first nine months of 2004 amounted to NIS 984 million (\$220 million), compared with NIS 1,270 million (\$283 million) in the corresponding period last year, a decrease of 22.5%.

The total rate of the provision for doubtful debts in the first nine months of 2004 was 0.77% of total credit to the public, compared with 0.99% in the corresponding period last year and 1.11% for the whole of 2003.

In the first nine months of 2004, 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 1,084 million (\$242 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 nine months of 2004 amounted to NIS 3,785 million (\$844 million), an increase of 20.0% compared with the corresponding period last year.

Operating and other income of the Leumi Group in the first nine months of 2004 amounted to NIS 2,526 million (\$564 million), compared with NIS 2,365 million (\$528 million) in the corresponding period last year, an increase of 6.8%.

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 credit cards and from handling credit, which was partially offset by a decrease of NIS 141 million (\$31 million) in the profits from the reserve for severance pay in the first nine months of 2003 and which was not repeated in 2004.

Operating and other income covers 62.9% of operating and other expenses, compared with 58.0% in the corresponding period last year and compared with 57.4% for the whole of 2003.

Operating and other expenses of the Leumi Group in the first nine months of 2004 amounted to NIS 4,016 million (\$896 million), compared with NIS 4,075 million (\$909 million) in the corresponding period last year, a decrease of 1.4%.

Salary expenses (including the cost of voluntary retirement) decreased in the first nine months of 2004 by NIS 95 million (\$21 million), a decrease of 3.8% compared with the corresponding period last year. Voluntary retirement costs decreased by NIS 79 million (\$18 million), and salary and related expenses decreased by NIS 16 million (\$3 million).

The efficiency ratio – operating expenses comprise 55.1% of total income, compared with 60.0% in the same period last year and compared with 61.0% for the whole of 2003.

Operating profit before taxes of the Leumi Group amounted to NIS 2,295 million (\$512 million) in the first nine months of 2004, compared with NIS 1,445 million (\$322 million) in the corresponding period last year, an increase of 58.8%.

Provision for tax on operating profit in the first nine months of 2004 amounted to NIS 1,026 million (\$229 million), compared with NIS 725 million (\$162 million) in the corresponding period last year. The rate of the provision for tax in the period was 44.7% of pre-tax profit, compared with 47.0% in the corresponding period last year.

Operating profit after tax in the first nine months of 2004 amounted to NIS 1,269 million (\$283 million), compared with NIS 818 million (\$183 million) in the same period last year, an increase of 55.1%.

The Group's share in the profits of companies included on the equity basis amounted to a profit of NIS 294 million (\$66 million), compared with NIS 111 million (\$25 million) in the corresponding period last year, an increase of 164.9%.

Net operating profit in the first nine months of 2004 amounted to NIS 1,556 million (\$347 million), compared with NIS 928 million (\$207 million) in the corresponding period last year, an increase of 67.7%.

Loss from extraordinary items after taxes in the first nine months of 2004 amounted to NIS 5 million (\$1 million), compared with a loss of NIS 18 million (\$4 million) in the same period last year.

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

Net profit in the first nine months of 2004 amounted to NIS 1,531 million (\$342 million), compared with NIS 910 million (\$203 million) in the same period last year, an increase of 68.2%.

Net return on equity of the Leumi Group in the first nine months of 2004 reached 14.6%, compared with 9.3% in the corresponding period last year.

Shareholders' equity on 30 September 2004 amounted to NIS 15.6 billion, (\$3.5 billion), compared with NIS 14.2 billion (\$3.2 billion) on 30 September 2003, an increase of 9.5%.

The ratio of shareholders' equity to total assets on 30 September 2004 was 6.3%, compared with 5.9% on 30 September 2003.

The ratio of shareholders' equity to risk assets on 30 September 2004 was 11.1%, compared with 10.8% on 31 December 2003, of which Tier I capital was 7.8% and 7.3% respectively.

Total assets of the Leumi Group on 30 September 2004 amounted to NIS 246.9 billion (\$55.1 billion), compared with NIS 241.9 billion (\$54.0 billion) on 30 September 2003, an increase of 2.0% compared with NIS 246.6 billion (\$55.0 billion) on 31 December 2003, an increase of 0.1%.

Credit to the public on 30 September 2004 amounted to NIS 170.0 billion (\$37.9 billion), compared with NIS 169.4 billion (\$37.8 billion) on 30 September 2003, an increase of 0.3%, and compared with NIS 169.2 million (\$37.8 million) on 31 December 2003, an increase of 0.5%.

Deposits from the public on 30 September 2004 amounted to NIS 202.8 billion (\$45.2 billion), compared with NIS 201.0 billion (\$44.8 billion) on 30 September 2003, an increase of 0.9%, and compared with NIS 203.6 billion (\$45.4 billion) on 31 December 2003, a decrease of 0.4%.

Mutual fund assets of the Leumi Group on 30 September 2004 amounted to NIS 28.1 billion (\$6.3 billion). Leumi group's market share in this sector on 30 September 2004 was 29.46%.

The value of the provident and supplementary training fund assets managed by the Leumi Group on 30 September 2004 amounted to NIS 40.8 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 September 2004 of NIS 4.482.