

FINANCIAL STATEMENTS OF THE LEUMI GROUP AS AT MARCH 31, 2005

**NET PROFIT: NIS 528 MILLION (\$121.1 MILLION),
AN INCREASE OF 23.1% COMPARED WITH THE
CORRESPONDING PERIOD LAST YEAR**

**NET RETURN ON EQUITY: 14.9%,
COMPARED WITH 12.6% IN THE CORRESPONDING
PERIOD LAST YEAR**

RATIO OF SHAREHOLDERS' EQUITY TO RISK ASSETS: 11.72%

The Leumi Group announces its unaudited consolidated financial statements for the first quarter of 2005.

The net profit of the Leumi Group in the period January – March 2005 amounted to NIS 528 million (\$121.1 million), compared with NIS 429 million (\$98.4 million) in the corresponding period last year, an increase of 23.1%.

The Leumi Group's net return on equity in the first quarter of 2005 reached 14.9%, compared with 12.6% in the corresponding period last year.

The accrued effect of a change in an accounting method – In July 2004 the Israeli Accounting Standards Board published Accounting Standard No. 19 – “Taxes on Income” (the “Standard”). The new Standard applies to the periods from January 2005. Notwithstanding this, the Bank decided to adopt the Standard already in 2004. The data for the first quarter have been restated by way of an accrued effect at the beginning of the year of a change in an accounting method. In consequence, the net profit for the first quarter of 2004 was reduced by NIS 32 million (\$7.3 million).

The increase in the net profit of the Group in the period January – March 2005 compared with the same period in 2004, is explained mainly by the following factors*:

- An increase of NIS 47 million (\$10.8 million) in net interest income before provision for doubtful debts, before the effect of tax.
- An increase of NIS 42 million (\$9.6 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.
- An increase of NIS 80 million (\$18.3 million), net, in the Group's share in profits of companies included on the equity basis.
- In the first quarter of 2004 an aggregate negative effect of NIS 32 million (\$7.3 million) was recorded in consequence of a change in an accounting method in respect of the implementation of Accounting Standard No. 19 – “Taxes on Income” for the first time.

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

- An increase of NIS 60 million (\$13.8 million) in operating and other expenses (including salaries and voluntary retirement), an increase of 4.4%, before the effect of tax.
- An increase of NIS 44 million (\$10.1 million) in provisions for doubtful debts, an increase of 11.0%.

* Before minority rights in consolidated companies.

Net interest income before provision for doubtful debts of the Leumi Group in the period January – March 2005 amounted to NIS 1,592 million (\$365.1 million), compared with NIS 1,545 million (\$354.3 million) in the corresponding period last year, an increase of 3.0%.

The interest spread (excluding derivative transactions) in the period January – March 2005 was 2.52%, compared with 2.55% in the same period in 2004. The interest spread including derivative transactions was 1.76% in the period January – March 2005, compared with 1.62% in the same period in 2004 and similar to all of 2004.

The ratio of net interest income before provision for doubtful debts to the average balance of financial assets was 2.69%, compared with 2.71% (in annual terms) in the same period last year.

Provision for doubtful debts in the period January – March 2005 amounted to NIS 445 million (\$102.0 million), compared with NIS 401 million (\$92.0 million) in the corresponding period last year, an increase of 11.0%.

The total rate of the provision for doubtful debts in the period January – March 2005 was 1.06% of total credit to the public (in annual terms), compared with 0.96% in the corresponding period last year and compared with 0.89% in all of 2004.

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 1,054 million (\$241.7 million) on March 31, 2005 (representing 0.62% of total credit to the public), compared with NIS 1,041 million (\$238.7 million) at the end of 2004.

Net interest income after provision for doubtful debts of the Leumi Group in the period January – March 2005 amounted to NIS 1,147 million (\$263.0 million), compared with NIS 1,144 million (\$262.3 million) in the corresponding period in 2004.

Operating and other income of the Leumi Group in the period January – March 2005 amounted to NIS 887 million (\$203.4 million), compared with NIS 845 million (\$193.8 million) in the corresponding period last year, an increase of 5.0%.

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

The ratio of operating and other income to total income (i.e. net interest income before provision for doubtful debts and operating and other income) was 35.8%, compared with 35.4% in the corresponding period last year and compared with 34.9% in all of 2004.

Operating and other income covered 62.5% of operating and other expenses, compared with 62.1% in the corresponding period last year and compared with 62.0% in all of 2004.

Operating and other expenses of the Leumi Group in the period January – March 2005 amounted to NIS 1,420 million (\$325.6 million), compared with NIS 1,360 million (\$311.9 million) in the corresponding period last year, an increase of 4.4%.

Salary expenses (including the cost of voluntary retirement) increased in the period January – March 2005 by NIS 30 million (\$6.9 million), an increase of 3.6% compared with the corresponding period last year. Voluntary retirement costs increased by NIS 4 million (\$0.9 million), and salary and related expenses increased by NIS 26 million (\$6.0 million), (3.1%).

Operating and other expenses (building and equipment maintenance, depreciation and other expenses) increased in the period January – March 2005 by NIS 30 million (\$6.9 million), an increase of 5.7% compared with the corresponding period last year.

Operating expenses constituted 57.3% of total income, compared with 56.9% in the corresponding period last year and compared with 56.2% in all of 2004.

Operating and other expenses (in annual terms) constituted 2.23% of total assets, similar to the corresponding period last year and compared with 2.15% in 2004.

Operating profit before taxes of the Leumi Group in the period January – March 2005 amounted to NIS 614 million (\$140.8 million), compared with NIS 629 million (\$144.2 million) in the corresponding period in 2004.

Provision for tax on operating profit of the Leumi Group in the period January – March 2005 amounted to NIS 233 million (\$53.4 million), compared with NIS 224 million (\$51.4 million) in the corresponding period last year.

The rate of the provision for tax in the period was approximately 37.9% of pre-tax profit, compared with 35.6% in the corresponding period last year.

The low rate of the provision for tax was principally affected by the following factors:

- Recording receivable deferred taxes pursuant to an arrangement with the tax authorities.
- The reduction in the rate of corporate tax from 36% in the first quarter of 2004 to 34% in 2005.

On the other hand, the exchange rate differences in respect of overseas investments that are not included in the basis of the tax calculation and which in the said period were negative, resulted in a small increase in the rate of the provision for tax as compared with positive exchange rate differences in material amounts that resulted in a decline in the rate of the provision for tax in the corresponding period last year.

Operating profit after tax in the period January – March 2005 amounted to NIS 381 million (\$87.4 million), compared with NIS 405 million (\$92.9 million) in the corresponding period last year, a decrease of 5.9%.

The Group's share in the profits of companies included on the equity basis in the period January – March 2005 amounted to NIS 141 million (\$32.3 million) compared with NIS 61 million (\$14.0 million) in the corresponding period in 2004, an increase of 131.1%.

The net profit of the Leumi Group in the period January – March 2005 amounted to NIS 528 million (\$121.1 million), compared with NIS 429 million (\$98.4 million) in the corresponding period last year, an increase of 23.1%.

The net operating profit in the first quarter of 2005 amounted to NIS 531 million (\$121.8 million), compared with NIS 463 million (\$106.2 million) in the first quarter of 2004, an increase of 14.7%.

Loss from extraordinary items after taxes in the period January – March 2005 amounted to NIS 3 million (\$0.7 million), compared with a loss of NIS 2 million (\$0.5 million) in the corresponding period in 2004.

Operating profit before tax to net shareholders' equity^(*) in annual terms in the period January – March 2005 reached 19.5%, compared with 20.6% in the corresponding period last year.

Net return on equity of the Leumi Group in the period January – March 2005 reached 14.9%, compared with 12.6% in the corresponding period last year.

Operating profit after tax to net shareholders' equity (net return on equity^(*)) in annual terms in the period January – March 2005 reached 11.8%, compared with 12.9% in the corresponding period last year.

Net operating profit per NIS 1 par value of share capital in the period January – March 2005 reached NIS 0.375, compared with NIS 0.327 in the corresponding period last year.

Net profit per NIS 1 par value of share capital in the period January – March 2005 reached NIS 0.373, compared with NIS 0.303 in the corresponding period last year.

Shareholders' equity on March 31, 2005 amounted to NIS 15.5 billion (\$3.6 billion), compared with NIS 15.0 billion (\$3.4 billion) on December 31, 2004, an increase of 3.2%.

The ratio of shareholders' equity to total assets on March 31, 2005 was 6.0%, compared with 5.9% on December 31, 2004.

The ratio of shareholders' equity to risk assets on March 31, 2005 was 11.72%, compared with 11.25% on December 31, 2004, of which Tier I capital was 7.72% and 7.53% respectively.

Total assets of the Leumi Group on March 31, 2005 amounted to NIS 256.9 billion (\$58.9 billion), compared with NIS 255.8 billion (\$58.7 billion) at the end of 2004, an increase of 0.4%, and compared with March 31, 2004, an increase of 4.4%.

Credit to the public on March 31, 2005 amounted to NIS 168.9 billion (\$38.7 billion), compared with NIS 169.4 billion (\$38.8 billion) on December 31, 2004, a decrease of 0.3%, and compared with March 31, 2004, an increase of 0.3%.

Deposits from the public on March 31, 2005 amounted to NIS 210.1 billion (\$48.2 billion), compared with NIS 209.7 billion (\$48.1 billion) on December 31, 2004, an increase of 0.2%, and compared with March 31, 2004, an increase of 3.9%.

Mutual fund assets under the management of the Leumi Group in Israel on March 31, 2005 amounted to NIS 32.3 billion (\$7.4 billion), compared with NIS 29.4 billion (\$6.7 billion) at the end of 2004. These assets as at the end of March 2005 represent 27.97% of mutual funds in the system.

The value of the provident and supplementary training fund assets managed by the Leumi Group on March 31, 2005 amounted to NIS 43.7 billion (\$10.0 billion), compared with NIS 43.0 billion (\$9.9 billion) at the end of 2004.

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 March 31, 2005 of NIS 4.361.

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