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Public

Translation of Immediate Report

Bank Leumi le-Israel B.M.

Registration No. 520018078

Securities of the Corporation are listed on The Tel Aviv Stock Exchange

Abbreviated Name: Leumi

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Electronic Mail: Yaelru@bll.co.il

26 February 2012

Reference: 2013-01-047337

To: Israel Securities Authority (www.isa.gov.il)
The Tel Aviv Stock Exchange (www.tase.co.il)

Immediate Report

Nature of Event: Arab Israel Bank - Financial Statements

Bank Leumi le-Israel B.M. announces that a subsidiary of the Bank, Arab Israel Bank Ltd today published its financial statements as at 31 December 2012.

The full financial statements will be published on the company's website, at:
<http://www.aibank.co.il/Home03/Financial-reports/7954>

See attached Annex.

Date and time at which the corporation first became aware of the matter being the subject of the report: 25 February 2013 Time: 18:45.

The report was signed on behalf of the corporation, in accordance with regulation 5 of the Securities (Periodic and Immediate Reports) Regulations, 1970, by Mr. D. Giter, CEO of Arab Israel Bank Ltd .

Name of Electronic Reporter: Yael Rudnicki, Position: Group Secretary
POB 2 Tel Aviv 61000, Phone: + 972 3 5149419, Facsimile: + 972 3 5149732, Electronic Mail:
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Balance Sheet

As at 31 December 2012
Reported Amounts

		2012	2011
	Note	(NIS millions)	
Assets			
Cash and bank deposits	2	1,467.0	1,336.0
Securities	3,12	397.9	571.1
Credit to the public	4	4,146.7	3,773.7
Provision for credit losses	4	(54.1)	(50.4)
Net credit to the public		4,092.6	3,723.3
Buildings and equipment	5	68.6	62.2
Other assets	6	77.8	68.4
Total assets		6,103.9	5,761.0
Liabilities and equity			
Deposits of the public	7	4,334.8	3,892.2
Deposits from banks	8	823.8	1,056.1
Subordinated capital notes	9	157.1	157.9
Other liabilities ^(a)	10,16	251.4	231.3
Total liabilities		5,577.1	5,337.5
Shareholders' equity	11	526.8	423.5
Total liabilities and equity		6,103.9	5,761.0

(a) Of this, provision for credit losses with respect to off-balance sheet credit instruments: NIS 2.4 million as of 31 December 2012 and NIS 2.1 million as of 31 December 2011.

Z. Nahari

Chairman of the Board
of Directors

F. Azayza

Director

D. Giter

CEO

Y. zur

Deputy CEO
and Chief Accountant

Financial statements approved for publication: 25 February 2013

Profit and loss statement for the year ending 31 December
Reported Amounts

		2012	(a)2011	(a)2010
	Note	NIS Millions		
Interest income	19	388.4	381.8	314.3
Interest expenses	19	105.6	116.7	77.9
Net interest income	19	282.8	265.1	236.4
Expenses for credit losses	4	14.6	6.5	23.7
Net interest income after expenses for credit losses		268.2	258.6	212.7
Non-interest income				
Non-interest finance income	20	5.3	0.6	1.2
Commissions	21	115.4	113.8	106.0
Other (expenses) income	22	2.4	(0.1)	1.2
Total non-interest income		123.1	114.3	108.4
Operating and other expenses				
Salaries and related expenses	23	127.7	124.1	110.7
Maintenance and depreciation of buildings and equipment	5	35.0	30.1	27.8
Other expenses	24	70.1	66.1	65.3
Total operating and other expenses		232.8	220.3	203.8
Profit before taxes		158.5	152.6	117.3
Provision for taxes on profit	25	55.4	43.9	42.2
Net profit		103.1	108.7	75.1
Profit per ordinary share	26		In NIS	
Net profit		101.58	107.09	73.99
Number of ordinary shares of NIS 0.01 nominal value each used in calculating the basic profit per share		1,015,000	1,015,000	1,015, 000

(a) On 1 January 2012, the Bank adopted, for the first time, the provisions of the Supervisor of Banks' Directive regarding the Profit and Loss Statement Format for Banking Corporations, including the new definition of interest, as established in the Supervisor of Banks' Circular on the Profit and Loss Statement Format for Banking Corporations and Adoption of United States Banks' Accounting Rules Regarding Measurement of Interest Income. The rules were adopted retroactively, except for the cancellation of accumulated and unpaid provisions for linkage of principal to the CPI for debts that have been classified as impaired prior to the initial implementation date. In light of this, the data included in the profit and loss statement for the years 2010-2011 were restated in order to conform to the new definition, and to the captions and manner of presentation used in the current report. For details, see note 1C(6) and D(1) below.

Statement of changes in shareholders' equity for the year ended 31 December 2012

	Fully paid share capital and capital funds	Adjustments for presentation of available for sale securities at fair value	Capital fund from transactions with controlling share-holders	Retained earnings	Total
	Reported amounts				
	NIS millions				
Balance as of 1 January 2010	26.6	2.0	15.4	278.5	322.5
Net profit	-	-	-	75.1	75.1
Dividend	-	-	-	(60.0)	(60.0)
Adjustments from presentation of available for sale securities at fair value	-	0.6	-	-	0.6
Adjustments from presentation of available for sale securities that have been restated to profit and loss	-	(1.2)	-	-	(1.2)
Effect of related taxes	-	0.3	-	-	0.3
Employee benefits from sales of shares of the parent company, net	-	-	(0.7)	-	(0.7)
Balance at 31 December 2010	26.6	1.7	14.7	293.6	336.6
Cumulative effect, net of taxes, of the initial implementation on 1 January 2011 of the directive concerning the measurement of impaired debts and the provision for credit losses				(22.9)	(22.9)
Net profit				108.7	108.7
Adjustments from presentation of available for sale securities at fair value	-	1.6	-	-	1.6
Adjustments from presentation of available for sale securities that have been restated to profit and loss	-	(0.4)	-	-	(0.4)
Effect of related taxes	-	(0.5)	-	-	(0.5)
Employee benefits from sales of shares of the parent company, net	-	-	0.4	-	0.4
Balance at 31 December 2011	26.6	2.4	15.1	379.4	423.5

The notes to the financial statements constitute an integral part thereof

Statement of changes in shareholders' equity for the year ended 31 December 2012

	Fully paid share capital and capital funds	Adjustments for presentation of available for sale securities at fair value	Capital fund from transactions with controlling shareholders	Retained earnings	Total
	Reported amounts				
	NIS millions				
Balance at 31 December 2011	26.6	2.4	15.1	379.4	423.5
Net profit	-	-	-	103.1	103.1
Adjustments from presentation of available for sale securities at fair value	-	5.7	-	-	5.7
Adjustments from presentation of available for sale securities that have been restated to profit and loss	-	(5.4)	-	-	(5.4)
Effect of related taxes	-	(0.1)	-	-	(0.1)
Balance at 31 December 2012	26.6	2.6	15.1	482.5	526.8

The notes to the financial statements constitute an integral part thereof.

Financial Statements
Summary statement of cash flows
For the year ending 31 December
Reported Amounts

	2012	^(a) 2011	2010
	Reported amounts		
	NIS millions		
Cash flows from current operations			
Net profit for the year	103.1	108.7	75.1
<u>Adjustments:</u>			
Depreciation and amortization of buildings and equipment	10.6	9.1	7.4
Expenses for credit losses	14.6	6.5	23.7
Profit from sale of available-for-sale securities, net	(5.4)	(0.4)	(1.2)
Interest and linkage increments for securities held to maturity	-	-	(0.3)
(Profit) loss from sale of buildings and equipment	(1.5)	0.2	0.2
Issue of options and shares by the parent company to employees	-	0.4	-
Adjustment of value of subordinated notes	(0.8)	1.9	2.5
Deferred taxes, net	(1.7)	(11.2)	(1.7)
Increase in surplus of reserves for severance pay, pension, vacation and jubilee grants, beyond the required fund, net	2.6	9.4	1.7
Adjustments for changes in exchange rate differentials	0.7	(^(b) 2.5)	3.0
<u>Net change in current assets</u>			
Deposits in banks	(117.7)	(190.2)	(132.9)
Credit to the public	(383.6)	(472.0)	(358.7)
Other assets	(7.1)	9.4	(0.9)
<u>Net change in current liabilities</u>			
Deposits of the public	452.6	455.6	275.3
Deposits from banks	(232.3)	29.9	88.5
Other liabilities	18.7	10.2	14.2
Net cash from current operations	(147.2)	(35.0)	(4.1)
Cash flows from investment activity			
Proceeds from redemption of securities held to maturity	-	-	11.9
Purchase of available-for-sale securities	(384.5)	(337.5)	(233.3)
Proceeds from sale of available-for-sale securities	364.1	260.0	61.4
Proceeds from redemption of available-for-sale securities	199.3	124.2	253.2
Purchase of buildings and equipment	(20.8)	(12.8)	(12.7)
Proceeds from sale of buildings and equipment	3.1	-	-
Net cash from investment activity	161.2	33.9	80.5
Cash flows from financing activity			
Dividend paid to shareholders	-	-	(60.0)
Net cash for financing activity	-	-	(60.0)

Financial Statements
Summary statement of cash flows
For the year ending 31 December
Reported Amounts

Increase (decrease) in cash	14.0	(1.1)	16.4
Cash balance at start of year	195.9	194.5	181.1
Impact of exchange rate movements on cash balances	(0.7)	^(b) 2.5	(3.0)
Cash balance at end of period	209.2	195.9	194.5
<u>Interest and taxes paid and/or received</u>			
Interest received	382.4	376.3	293.5
Interest paid	110.5	92.7	55.2
Tax on income paid	59.1	54.7	44.8
Tax on income received	0.5	9.0	0.7

(a) On 1 January 2012, the Bank adopted, for the first time, the provisions of Supervisor of Banks' instructions regarding International Accounting Standard 7 – Cash Flow Statement – as presented in the Supervisor of Banks' Circular on the Adoption of Certain International Fiscal Reporting Standards (IFRS), dated 30 November 2011. The comparative data for the previous years were restated in order to conform to the new definitions, and to the captions and manner of presentation used in the current report. For details, see note 1C(6) and D(1) below.

(b) Restated.

Addendum:

Non-cash investment and finance activities during the reported period:

At the end of December 2012, the balance of fixed assets purchased with supplier credit amounted to NIS 3.4 million.

At the end of December 2011, the balance of fixed assets purchased with supplier credit amounted to NIS 5.6 million.

At the end of December 2010, the balance of fixed assets purchased with supplier credit amounted to NIS 4.1 million.

The notes to the financial statements constitute an integral part thereof.