

T121
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

Leumi House, 34 Yehuda Halevi Street, Tel Aviv 65546

Phone: + 972 3 5148111, + 972 3 5149419; Facsimile: + 972 3 5149732

Electronic Mail: Yaelru@bll.co.il

30 August 2011

Reference: 2011-01-257013

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., published its financial statements as at 30 June 2011.

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: 30 August 2011 Time: 10:26.

Name of Electronic Reporter: Yael Rudnicki, Position: Group Secretary
POB 2 Tel Aviv 61000, Phone: + 972 3 5149419, Facsimile: + 972 3 5149732, Electronic Mail:
Yaelru@bll.co.il

Financial Statements

Summary Balance Sheet As at 30 June 2011 Reported Amounts

| | | 30 June 2011 | 30 June 2010 | 31 December 2010 |
|------------------------------|------|-----------------|-----------------|------------------|
| | | (Unaudited) | (Unaudited) | (Audited) |
| | | (NIS millions) | | |
| Assets | | | | |
| Cash and bank deposits | | 1,236.3 | 1,095.4 | 1,144.4 |
| Securities | 2,10 | 477.9 | 578.0 | 616.2 |
| Credit to the public | | 3,553.8 | (*)(**) 3,223.8 | (*)(**) 3,465.7 |
| Provision for credit losses | 3 | (49.7) | (*)(**) (164.0) | (*)(**) (172.9) |
| Net credit to the public | | 3,504.1 | 3,059.8 | 3,292.8 |
| Buildings and equipment | | 56.5 | 50.5 | 57.2 |
| Other assets | | 63.7 | (**) 48.9 | (**) 53.0 |
| Total assets | | 5,338.5 | 4,832.6 | 5,163.6 |
| Liabilities and equity | | | | |
| Deposits of the public | | 3,632.6 | 3,248.3 | 3,436.6 |
| Deposits from banks | | 980.9 | 889.2 | 1,026.2 |
| Subordinated capital notes | | 153.7 | 152.8 | 156.0 |
| Other liabilities | | 211.0 | (**) 186.6 | (**) 208.2 |
| Total liabilities | | 4,978.2 | 4,476.9 | 4,827.0 |
| Shareholders' equity | 4 | 360.3 | (**) 355.7 | (**) 336.6 |
| Total liabilities and equity | | 5,338.5 | 4,832.6 | 5,163.6 |

* On 1 January 2011, the company adopted, for the first time, the Supervisor of Banks' Directive regarding "Measurement and Disclosure of Impaired Debts, Credit Risk and Credit Loss Provision". The comparative numbers for the previous years have not been restated, and the data for 30 June 2011 are therefore not comparable to the data from 2010 that are marked with an asterisk. For additional explanations regarding the impact of the initial adoption of the Directive, see note 1(d) and (e) below.

** The data were reclassified in order to match them to the item captions and to the presentation method for the current period. See note 1(d) and (e) below.

*** Restated due to the retroactive implementation of the Bank Supervision Department's guidelines concerning "Strengthening of Internal Control Over Financial Reporting, Regarding the Subject of Employees' Rights". See Note 1(d) and (e).

S. Sussman

Chairman of the Board
of Directors

D. Giter

CEO

Y. Tzur

Deputy CEO
and Chief Accountant

Financial statements approved for publication: 30 August 2011

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

Financial Statements

Summary Profit and Loss Statement For the period ending 30 June 2011 Reported Amounts

| | For the three months ending 30 June | | For the six months ending 30 June | | For the Year ending 31 December | |
|--|---|------------------|---|------------------|---------------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 | 2010 | |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) | |
| (NIS millions) | | | | | | |
| Net interest income before expenses for credit losses | 8 | 66.7 | 59.1 | 130.3 | 115.3 | 241.2 |
| Expenses for credit losses | 3 | 0.9 | 6.6 | 2.2 | 11.5 | 23.7 |
| Net interest income after expenses for credit losses | | 65.8 | 52.5 | 128.1 | 103.8 | 217.5 |
| Operating and other income | | | | | | |
| Operating commissions | | 26.8 | 24.4 | 54.5 | 48.8 | 102.4 |
| Other income | | - | - | - | - | 1.4 |
| Total operating and other income | | 26.8 | 24.4 | 54.5 | 48.8 | 103.8 |
| Operating and other expenses | | | | | | |
| Salary and related expenses | | 31.8 | 28.8 | 61.0 | 55.5 | 110.7 |
| Maintenance and depreciation for buildings and equipment | | 7.4 | 7.0 | 14.9 | 13.6 | 27.8 |
| Other expenses | | 16.3 | 16.6 | 32.0 | 31.0 | 65.5 |
| Total operating and other expenses | | 55.5 | 52.4 | 107.9 | 100.1 | 204.0 |
| Pre-tax profit | | 37.1 | 24.5 | 74.7 | 52.5 | 117.3 |
| Provision for taxes | | 12.9 | 9.5 | 26.7 | 19.4 | 42.2 |
| Net profit for the period | | 24.2 | 15.0 | 48.0 | 33.1 | 75.1 |
| Net profit per share | | | | (NIS) | | |
| Net profit for the period | | 23.84 | 14.78 | 47.29 | 32.61 | 73.99 |
| Weighted average of the number of ordinary shares of NIS 0.01 par value each used for calculating profit per share | | 1,015,000 | 1,015,000 | 1,015,000 | 1,015,000 | 1,015,000 |

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

Financial Statements

**Summary statement of changes in shareholders' equity
For the periods ending 30 June 2011
Reported Amounts**

For the three months ending on 30 June

| | 2011 | | | | | 2010 | | | | |
|---|--|---|---|-------------------|--------------|--|---|---|-------------------|-------|
| | 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 | 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 |
| | (Unaudited) | | | | | | | | | |
| Balance as of start of period | 26.6 | (0.5) | 14.7 | (*)294.5 | 335.3 | 26.6 | 2.1 | 15.4 | (*)296.6 | 340.7 |
| Net profit for the accounting period | - | - | - | 24.2 | 24.2 | - | - | - | 15.0 | 15.0 |
| Adjustments from presentation of available for sale securities at fair value | - | 0.7 | - | - | 0.7 | - | 1.4 | - | - | 1.4 |
| Adjustments from presentation of available for sale securities that have been restated to profit and loss | - | - | - | - | - | - | (0.5) | - | - | (0.5) |
| Effect of related taxes | - | (0.3) | - | - | (0.3) | - | (0.2) | - | - | (0.2) |
| Employee benefits from sales of shares in the parent company, net | - | - | 0.4 | - | 0.4 | - | - | (0.7) | - | (0.7) |
| Balance at the end of the period | 26.6 | (0.1) | 15.1 | 318.7 | 360.3 | 26.6 | 2.8 | 14.7 | (*)311.6 | 355.7 |

(*) Restated due to the retroactive implementation of the Bank Supervision Department's guidelines concerning "Strengthening of Internal Controls Over Financial Reporting, Regarding the Subject of Employees' Rights". See Note 1(d) and (e).

Financial Statements

Summary statement of changes in shareholders' equity

For the periods ending 30 June 2011

Reported Amounts

For the six months ending on 30 June

| | 2011 | | | | | 2010 | | | | |
|--|--|---|---|-------------------|---------------|--|---|---|-------------------|-------|
| | 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 | 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 |
| Balance as of start of period (audited) | 26.6 | 1.7 | 14.7 | (*)293.6 | 336.6 | 26.6 | 2.0 | 15.4 | (*)278.5 | 322.5 |
| 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 for the accounting period | – | – | – | 48.0 | 48.0 | – | – | – | 33.1 | 33.1 |
| Adjustments from presentation of available for sale securities at fair value | – | (2.6) | – | – | (2.6) | – | 2.3 | – | – | 2.3 |
| Adjustments from presentation of available for sale securities that have been restated to profit and loss | – | (0.1) | – | – | (0.1) | – | (1.2) | – | – | (1.2) |
| Effect of related taxes | – | 0.9 | – | – | 0.9 | – | (0.3) | – | – | (0.3) |

(*) Restated due to the retroactive implementation of the Bank Supervision Department's guidelines concerning "Strengthening of Internal Controls Over Financial Reporting, Regarding the Subject of Employees' Rights". See Note 1(d) and (e).

Financial Statements

**Summary statement of changes in shareholders' equity
For the periods ending 30 June 2011
Reported Amounts**

For the six months ending on 30 June (continued from previous page)

| | 2011 | | | | 2010 | | | | | |
|---|-------------|--------------|-------------|--------------|--------------|------|-----|-------|----------------------|-------|
| Employee benefits from sales of shares in the parent company, net | - | - | 0.4 | - | 0.4 | - | - | (0.7) | - | (0.7) |
| Balance at the end of the period | 26.6 | (0.1) | 15.1 | 318.7 | 360.3 | 26.6 | 2.8 | 14.7 | ^(*) 311.6 | 355.7 |

^(*) Restated due to the retroactive implementation of the Bank Supervision Department's guidelines concerning "Strengthening of Internal Controls Over Financial Reporting, Regarding the Subject of Employees' Rights". See Note 1(d) and (e).

Financial Statements

Summary statement of changes in shareholders' equity

For the periods ending 30 June 2011

Reported Amounts

For the year ended on 31 December 2010

| | 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 |
|---|--|---|--|-------------------|--------|
| | Audited | | | | |
| Balance as of start of period | 26.6 | 2.0 | 15.4 | (*)278.5 | 322.5 |
| Net profit for the accounting period | - | - | - | 75.1 | 75.1 |
| Dividend | - | - | - | (60.0) | (60.0) |
| Adjustments form 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 in the parent company, net | - | - | (0.7) | - | (0.7) |
| Balance at the end of the period | 26.6 | 1.7 | 14.7 | (*)293.6 | 336.6 |

(*) Restated due to the retroactive implementation of the Bank Supervision Department's guidelines concerning "Strengthening of Internal Controls Over Financial Reporting, Regarding the Subject of Employees' Rights". See Note 1(d) and (e).

Financial Statements
Summary statement of cash flows
For the periods ending 30 June 2011
Reported Amounts

| | For the three months ending 30 June | | For the six months ending 30 June | | Year ending 31 December |
|---|--|-------------|--|-------------|--|
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| NIS millions | | | | | |
| Cash flows from current operations | | | | | |
| Net profit | 24.2 | 15.0 | 48.0 | 33.1 | 75.1 |
| Adjustments required to present cash from operations: | | | | | |
| Depreciation and amortization of buildings and equipment | 2.2 | 1.9 | 4.5 | 3.8 | 7.4 |
| Expenses form credit losses | 0.9 | 6.6 | 2.2 | 11.5 | 23.7 |
| Profit from sale of available-for-sale securities, net | - | (0.5) | (0.1) | (1.2) | (1.2) |
| Interest and linkage increments for securities held to maturity | - | (0.1) | - | (0.2) | 0.2 |
| Loss from sale of buildings and equipment | - | - | - | - | (0.3) |
| Deferred taxes, net | (0.9) | (1.9) | - | (2.4) | (1.7) |
| Increase in surplus of reserves for severance pay, pension, vacation and jubilee grants, beyond the required fund | 2.0 | 4.3 | 4.7 | 3.2 | 1.7 |
| Issue of options and shares by the parent company to employees | 0.4 | - | 0.4 | - | - |
| Provisions for adjustments included in investment and financing activity | 2.0 | 1.5 | (2.3) | (0.7) | 2.5 |
| Net cash from current operations | 30.8 | 26.8 | 57.4 | 47.1 | 107.4 |
| Cash flows for asset transactions | | | | | |
| Proceeds from redemption of securities held to maturity | - | 11.9 | - | 11.9 | 11.9 |
| Purchase of available-for-sale securities | (72.1) | (78.7) | (103.6) | (84.2) | (233.3) |
| Proceeds from sale of available-for-sale securities | 8.8 | 19.3 | 155.0 | 39.9 | 61.4 |
| Proceeds from redemption of available-for-sale securities | 72.7 | 28.3 | 84.4 | 165.4 | 253.2 |
| Deposits in banks, net | (40.0) | (38.6) | (79.1) | (73.7) | (132.9) |
| Credit to the public, net | (136.8) | (104.8) | (248.3) | (113.5) | (358.7) |
| Purchase of buildings and equipment (a) | (1.9) | (2.7) | (5.9) | (4.2) | (12.7) |
| (Increase) decrease in other assets | (2.6) | (1.1) | 2.7 | 0.9 | (0.9) |
| Net cash used for asset transactions | (171.9) | (166.4) | (194.8) | (57.5) | (412.0) |

Financial Statements

Summary statement of cash flows
For the periods ending 30 June 2011
Reported Amounts

| | | | | | |
|---|--------------|--------|---------------|--------|---------|
| Cash flows from liabilities and equity transactions | | | | | |
| Deposits of the public, net | 104.7 | 122.1 | 196.0 | 87.0 | 275.3 |
| Deposits from banks, net | 34.1 | 30.1 | (45.3) | (48.5) | 88.5 |
| (Decrease) increase in other liabilities | (5.2) | (12.7) | (0.4) | (4.5) | 14.2 |
| Dividend paid to shareholders | - | - | - | - | (60..0) |
| Net cash from liabilities and equity transactions | 133.6 | 139.5 | 150.3 | 34.0 | 318.0 |
| (Decrease) increase in cash | (7.5) | (0.1) | 12.9 | 23.6 | 13.4 |
| Cash balance at start of period | 214.9 | 204.8 | 194.5 | 181.1 | 181.1 |
| Cash balance at end of period | 207.4 | 204.7 | 207.4 | 204.7 | 194.5 |

(a) Non-cash liabilities transactions during the reported period:

At the end of June 2011, the balance of fixed assets purchased with supplier credit amounted to NIS 2.0 million.

At the end of June 2010, the balance of fixed assets purchased with supplier credit amounted to NIS 2.1 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 summarized financial statements constitute an integral part thereof.