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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

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

16 August 2012

Reference: 2012-01-212166

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 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: 15 August 2012 Time: 14:30.

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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 2012 Reported Amounts

		30 June 2012	30 June 2011	31 December 2011
	Note	(Unaudited)	(Unaudited)	(Audited)
(NIS millions)				
Assets				
Cash and bank deposits		1291.7	1,236.3	1,336.0
Securities	2,11	589.6	477.9	571.1
Credit to the public	3	3,952.6	3,553.8	3,773.7
Provision for credit losses	3	(50.2)	(49.7)	(50.4)
Net credit to the public		3,902.4	3,504.1	3,723.3
Buildings and equipment		65.9	56.5	62.2
Other assets		70.8	63.7	68.4
Total assets		5,920.4	5,338.5	5,761.0
Liabilities and equity				
Deposits of the public		4,094.7	3,632.6	3,892.2
Deposits from banks		964.3	980.9	1,056.1
Subordinated capital notes		153.6	153.7	157.9
Other liabilities <sup>(a)</sup>		232.9	211.0	231.3
Total liabilities		5,445.5	4,978.2	5,337.5
Shareholders' equity		474.9	360.3	423.5
Total liabilities and equity		5,920.4	5,338.5	5,761.0

(a) Of this: provision for credit losses for off-balance sheet credit instruments – NIS 2.4, 2.3, and 2.1 million, respectively.

Z. Nahari	F. Azaya	D. Giter	Y. Tzur
Chairman of the Board of Directors	Director	CEO	Deputy CEO and Chief Accountant

Date of approval of financial statements –15 August 2012

## Financial Statements

### Summary Profit and Loss Statement

For the periods ending 30 June 2012

Reported Amounts

	Note	For the three month period ending 30 June		For the six month period ending 30 June		For the year ending 31 December 2011(a)
		2012	2011(a)	2012	2011(a)	
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
		NIS millions				
Interest income	8	104.9	99.3	199.5	187.5	381.8
Interest expenses	8	34.0	33.7	59.6	59.5	116.7
Net interest income		70.9	65.6	139.9	128.0	265.1
Expenses from provisions for credit losses	3	4.2	0.9	3.9	2.2	6.5
Net interest income after expenses from provisions for credit losses		66.7	64.7	136.0	125.8	258.6
<b>Non-interest income</b>						
Non-interest finance income	9	0.2	-	0.3	-	0.6
Commissions		28.1	27.9	57.2	56.8	113.8
Other (expenses) income		2.3	-	2.3	-	(0.1)
Total non-interest income		30.6	27.9	59.8	56.8	114.3
<b>Operating and other expenses</b>						
Salaries and related expenses		32.5	31.8	65.8	61.0	124.1
Maintenance and depreciation of buildings and equipment		8.5	7.4	16.5	14.9	30.1
Other expenses		17.2	16.3	34.3	32.0	66.1
Total operating and other expenses		58.2	55.5	116.6	107.9	220.3
Profit before taxes		39.1	37.1	79.2	74.7	152.6
Provision for taxes on profit		14.1	12.9	28.5	26.7	43.9
<b>Net profit</b>		25.0	24.2	50.7	48.0	108.7
Profit per share				NIS		
Net profit attributed to Bank shareholders		24.63	23.84	49.95	47.29	107.09
Number of ordinary shares of NIS 1 nominal value (weighted average)		1,015,000	1,015,000	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 corresponding period and for 2011 in its entirety 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 1D and E below.

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

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Financial Statements

**Summary statement of changes in shareholders' equity**

**For the periods ending 30 June 2012**

**Reported Amounts**

For the three months ending on 30 June

	2012					2011				
	Fully paid share capital and capital funds	Adjustments for presentation of available-for-sale securities at fair value	Capital fund from transactions with control-ling share-holder	Retained earnings	Total share-holders' equity	Fully paid share capital and capital funds	Adjustments for presentation of available-for-sale securities at fair value	Capital fund from transactions with control-ling share-holder	Retained earnings	Total share-holders' equity
	(Unaudited) NIS millions									
Balance as of start of period	<b>26.6</b>	<b>2.2</b>	<b>15.1</b>	<b>405.1</b>	<b>449.0</b>	26.6	(0.5)	14.7	294.5	335.3
Net profit for the period	-	-	-	<b>25.0</b>	<b>25.0</b>	-	-	-	24.2	24.2
Adjustments for presentation of available-for-sale securities at fair value	-	<b>1.5</b>	-	-	<b>1.5</b>	-	0.7	-	-	0.7
Adjustments from presentation of available-for-sale securities that have been restated to profit and loss	-	<b>(0.2)</b>	-	-	<b>(0.2)</b>	-	-	-	-	-
Effect of related taxes	-	<b>(0.4)</b>	-	-	<b>(0.4)</b>	-	(0.3)	-	-	(0.3)
Employee benefits from sales of shares in the parent company, net	-	-	-	-	-	-	-	0.4	-	0.4
Balance at the end of the period	<b>26.6</b>	<b>3.1</b>	<b>15.1</b>	<b>430.1</b>	<b>474.9</b>	26.6	(0.1)	15.1	318.7	360.3

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 2012**

**Reported Amounts**

For the six months ending on 30 June

	2012					2011				
	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-holder	Retained earnings	Total share-holders' equity	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-holder	Retained earnings	Total share-holders' equity
	(Unaudited) NIS millions									
Balance as of start of period (audited)	<b>26.6</b>	<b>2.4</b>	<b>15.1</b>	<b>379.4</b>	<b>423.5</b>	26.6		1.7	14.7	293.6
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 for the period	-	-	-	<b>50.7</b>	<b>50.7</b>	-	-	-	48.0	48.0
Adjustments for presentation of available-for-sale securities at fair value	-	<b>1.3</b>	-	-	<b>1.3</b>	-	(2.6)	-	-	(2.6)
Adjustments from presentation of available-for-sale securities that have been restated to profit and loss	-	<b>(0.3)</b>	-	-	<b>(0.3)</b>	-	(0.1)	-	-	(0.1)
Effect of related taxes	-	<b>(0.3)</b>	-	-	<b>(0.3)</b>	-	0.9	-	-	0.9
Employee benefits from sales of shares in the parent company, net	-	-	-	-	-	-	-	0.4	-	0.4
Balance at the end of the period	<b>26.6</b>	<b>3.1</b>	<b>15.1</b>	<b>430.1</b>	<b>474.9</b>	26.6	(0.1)	15.1	318.7	360.3

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 2012**

**Reported Amounts**

For the year ending 31 December 2011

	Fully paid share capital and capital funds	Adjustments for presentation of available-for-sale securities at fair value	Capital fund from transactions with control- ling share-holder	Retained Earnings	Total
	(Audited)				
	(NIS millions)				
Balance as of start of period (audited)	26.6	1.7	14.7	293.6	336.6
Cumulative effect, net of taxes, of the initial implement- ation 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 period	—	—	—	108.7	108.7
Adjustments for 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 in the parent company, net	-	-	0.4	-	0.4
Balance at the end of the period	26.6	2.4	15.1	379.4	423.5

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

Financial Statements

**Summary statement of cash flows**  
**For the periods ending 30 June 2012**  
**Reported Amounts**

	For the three months ending 30 June		For the six months ending 30 June		For the Year ending 31 December
	2012	2011 <sup>(a)</sup>	2012	2011 <sup>(a)</sup>	2011 <sup>(a)</sup>
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
NIS millions					
Cash flows from current operations					
Net profit	25.0	24.2	50.7	48.0	108.7
Adjustments:					
Depreciation of buildings and equipment	2.6	2.2	5.1	4.5	9.1
Expenses for credit losses	4.2	0.9	3.9	2.2	6.5
Profit from sale of available-for-sale securities, net	(0.2)	-	(0.3)	(0.1)	(0.4)
(Profit) loss from sale of buildings and equipment	(2.3)	-	(2.3)	-	0.2
Issue of options and shares by the parent company to employees	-	0.4	-	0.4	0.4
Adjustment of values of subordinated capital notes	1.8	2.0	(4.3)	(2.3)	1.9
Deferred taxes, net	(1.4)	(0.9)	0.3	-	(11.2)
Increase in surplus of reserves for severance pay, pension, vacation and jubilee grants, beyond the required fund, net	2.7	2.0	2.7	4.7	9.4
Adjustments for changes in exchange rate differentials	-	-	-	-	(0.1)
Net change in current assets					
Deposits in banks	(24.9)	(40.0)	(43.9)	(79.1)	(190.2)
Credit to the public	(80.7)	(136.8)	(183.3)	(248.3)	(472.0)
Other assets	(1.0)	(2.6)	(5.0)	2.7	9.4
Net change in current liabilities					
Deposits of the public	98.0	104.7	202.5	196.0	455.6
Deposits from banks	(107.9)	34.1	(91.8)	(45.3)	29.9
Other liabilities	(0.1)	(5.2)	4.7	(0.4)	10.2
Net cash used in current operations	(84.2)	(15.0)	(61.0)	(117.0)	(32.6)
Cash flows from investment activity					
Purchase of available-for-sale securities	(42.7)	(72.1)	(131.3)	(103.6)	(337.5)
Proceeds from sale of available-for-sale securities	62.5	8.8	102.7	155.0	260.0
Proceeds from redemption of available-for-sale securities	11.4	72.7	11.4	84.4	124.2
Purchase of buildings and equipment	(4.1)	(1.9)	(13.1)	(5.9)	(12.8)
Proceeds from sale of buildings and equipment	3.1	-	3.1	-	-
Net cash from (used in) investment activity	30.2	7.5	(27.2)	129.9	33.9
Increase (decrease) in cash	(54.0)	(7.5)	(88.2)	12.9	1.3
Cash balance at start of period	161.7	214.9	195.9	194.5	194.5
Impact of exchange rate movements on cash balances	-	-	-	-	0.1

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

Financial Statements

**Summary statement of cash flows**  
**For the periods ending 30 June 2012**  
**Reported Amounts**

Cash balance at end of period	<b>107.7</b>	207.4	<b>107.7</b>	207.4	195.9
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Financial Statements

**Summary statement of cash flows**  
**For the periods ending 30 June 2012**  
**Reported Amounts**

<u>Interest and taxes paid and/or received</u>					
Interest received	<b>92.4</b>	98.5	<b>190.8</b>	185.8	<sup>(b)</sup> 376.3
Interest paid	<b>31.5</b>	19.5	<b>59.7</b>	47.7	92.7
Tax on income paid	<b>13.1</b>	15.3	<b>23.2</b>	22.5	54.7
Tax on income received	-	-	<b>0.5</b>	9.0	9.0

- (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 1E below.

- (b) Restated.

Addendum:

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

At the end of June 2012, the balance of fixed assets purchased with supplier credit amounted to NIS 2.1 million.

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

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