PROSPECTUS

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

(A Limited Company Registered in Israel)

$50,000,000 7½% REGISTERED SUBORDINATED CAPITAL NOTES DUE 1998 (1)

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. ALL PERMITS, APPROVALS AND LICENSES REQUIRED UNDER ISRAEL LAW FOR THE OFFER AND THE ISSUANCE OF THE NOTES OFFERED HEREBY AND FOR THE PUBLICATION OF THE PROSPECTUS HAVE BEEN GRANTED. A COPY OF THIS PROSPECTUS HAS BEEN FILED FOR REGISTRATION WITH THE REGISTRAR OF COMPANIES IN ISRAEL. NOTHING IN THE PERMIT OF THE SECURITIES AUTHORITY OF THE STATE OF ISRAEL SHALL BE CONSTRUED AS AUTHENTICATING THE MATTERS CONTAINED IN THIS PROSPECTUS OR AS AN APPROVAL OF THEIR RELIABILITY OR ADEQUACY OR AS AN EXPRESSION OF OPINION ON THE QUALITY OF THE SECURITIES HEREBY OFFERED.

Capital Notes	Price to Public(2)	Underwriting Discounts and Commissions(3)	Proceeds to Registrant(4)
Per Note	$1,000	$75	$925
Total	$50,000,000	$3,750,000	$46,250,000

(1) The maturity date of the Notes will be automatically extended for successive periods of 18 months each, unless the Note is delivered to the Agent of the Bank together with written demand for payment, not less than 30 days prior to the original maturity date or any extended maturity date.

(2) The Notes are being offered only to non-residents of the State of Israel by Capital for Israel, Inc. (the "Underwriter") on a best efforts basis. It is anticipated that the offering will continue for a period of three years, subject to the requirement, under Israel law, for the filing of a new Prospectus (see "Additional Information Required Under Israel Law"). Regardless of the number of Notes sold by the Underwriter, no funds will be returned if all of the Notes are not sold. As of July 31, 1976, $19,241,000 principal amount of Notes had been sold.

(3) In addition the Bank has agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

(4) Before deduction of certain expenses, estimated at approximately $250,000, payable by the Bank in connection with the issuance and sale of the Notes.

The Bank was organized by the State of Israel and other financial institutions. The State owns approximately 24.4% of the outstanding voting rights of the Bank, entitling it to appoint 25% of the Directors. The Bank's policies are coordinated with the development policies of the Government of Israel. (See "Important Factors To Be Considered—Relationship of the Bank to the Israel Government".) The Notes are subordinated to certain senior indebtedness, presently outstanding and which may be created in the future. As at December 31, 1975, the Bank had outstanding senior indebtedness aggregating approximately IL 1,031,560,000 ($145,290,141), comprised of loan and debenture issues for which a floating charge has been placed or agreed to be placed against all of the assets of the Bank. (See "Debentures and Charges," page 26.) Subject to the right retained by the Bank to create senior unsecured indebtedness, the Notes rank *pari passu* with other unsecured indebtedness of the Bank. (See "Outstanding Securities of the Bank—Subordination Provisions," page 24.) This offering may have a special appeal to persons with an interest in Israel, rather than the general public.

As of July 30, 1976 the exchange rate was U.S. $1.00=IL.8.12. Unless otherwise indicated, however, all figures in this Prospectus stated in U.S. Dollars converted from Israeli Pounds have been converted at the exchange rate of U.S. $1.00=IL.7.10, the exchange rate in effect on December 31, 1975.

For additional information, see "Important Factors To Be Considered", on page 3 hereof.

CAPITAL FOR ISRAEL, INC.

The date of this Prospectus is August 17, 1976

No dealer, salesman or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Bank. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank since the date hereof. This Prospectus does not constitute an offer or solicitation by anyone in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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REGISTRATION STATEMENT

Industrial Development Bank of Israel Limited has filed with the Securities and Exchange Commission, Washington, D. C., a registration statement (herein together with all amendments thereto called the "Registration Statement") under the Securities Act of 1933, as amended, with respect to $50,000,000 7½% Registered Subordinated Capital Notes ("Notes") being offered to the public. This Prospectus omits certain information contained in the Registration Statement. For further information, reference is made to the Registration Statement and to the exhibits thereof.

THE BANK

The Industrial Development Bank of Israel Limited was incorporated under the laws of the State of Israel on October 7, 1957, under the name "The Israel Industrial Institution Limited". The present name of the Bank was adopted on July 23, 1959. It commenced business on November 24, 1957.

The Bank's offices, which it owns, are located in a cooperative office building at "Migdal Shalom", 9, Ahad Haam Street, Tel-Aviv.

The incorporation of the Bank was as a result of efforts by the Government of Israel, Bank Leumi le-Israel B.M., Bank Hapoalim, B.M., Israel Discount Bank Ltd., Histadruth General Federation of Labour in Israel. and the Manufacturers' Association of Israel. None of these organizations have received or are entitled to receive anything of value for their services as organizers of the Bank. However, representatives of each of these organizations are represented on the Bank's Board of Directors. (See "Management and Control".)

IMPORTANT FACTORS TO BE CONSIDERED

Relationship of the Bank to the Israel Government

The Government of Israel is the owner of approximately 53.4% of the outstanding share capital of the Bank, entitling it to 24.4% of the Bank's voting rights. This ownership entitles the Government to appoint 25% of the Directors of the Bank. (See "Management and Control".) The Government of Israel does not guarantee either the interest on or the principal of the Notes.

Additionally, the Bank acts as agent for the Government in processing applications for payment of grants by the Government under the Law for the Encouragement of Capital Investments. Representatives of the Ministries of Finance and Commerce and Industry are members of the Board of Directors. The Government also, from time to time, will guarantee loans issued by the Bank where the Government believes it is in the best interests of the Government to cause such loans to be made. The Bank also implements certain loans granted by the Agency for International Development of the United States, which, as at December 31, 1975, had advanced funds to the Bank aggregating IL. 4,732,000 ($666,479).

In addition the Government has made deposits with the Bank which on December 31, 1975 aggregated IL. 283,996,000 ($39,999,437) in general deposits and approximately IL. 369,635,000 ($52,-061,268) in special deposits for the granting of loans. The Government also has made a perpetual deposit with the Bank aggregating IL. 476,010,000 ($67,043,662) as at December 31, 1975.

Enforcement of Liabilities

The Bank is an Israeli Corporation and only four of its Directors are residents of the United States. It may be difficult for investors to effect service within the United States upon its Directors or Officers who are non-residents of the United States or to realize against them in the United States on judgments of courts of the United States predicated upon civil liabilities under the Securities Act of 1933 or the Securities Exchange Act of 1934. Goldstein Shames Hyde Wirth Bezahler & Cahill with an office address at 655 Madison Avenue, New York, New York, has been designated as agent for service of process on the Bank. The Bank has been advised by S. Horowitz & Co. and Mordechai Rottenberg, its

Israel counsel, that there is doubt as to the enforceability in Israel, in original actions, of remedies predicated solely upon such Acts, but that the courts of Israel have jurisdiction to enforce valid final judgments whereby any sum of money is made payable if rendered by courts of competent jurisdiction in the United States and provided that such judgments are not contrary to Israel law or public policy and provided further that the courts in the United States would enforce similar Israeli judgments. Under the provisions of the Securities Law of Israel, enacted in 1968, any person signing a prospectus and any expert giving an opinion or report therein may be liable thereunder, subject to certain limitations, for any misleading statement or the omission of a material statement in the prospectus or in the opinion or report, as the case may be, to a person who acquires securities from the offeror under the prospectus.

Development of Trading Market

The Bank has obtained an agreement for the listing of the Notes on the Tel Aviv Stock Exchange after the completion of the offering. Although it is not anticipated that an active trading market will develop in the Notes, the Government of Israel, the owner of a substantial number of shares of the Bank, has indicated its intention to increase its ownership of securities of the Bank by purchase of the Notes on the Tel Aviv Stock Exchange after the completion of the offering if such Notes are offered for sale at a price of 90% of their principal amount. (See "Convertibility of Currency and United States and Israel Taxes".)

Economic Conditions in Israel

All of Israel's neighbors are more or less linked in their hostility to Israel. This hostility has resulted in armed conflict between the forces of her neighbors and the forces of Israel. The most recent armed conflict occurred on October 6, 1973, and a cease-fire was instituted on October 23, 1973. Pursuant to disengagement of forces agreements entered into between Israel and the United Arab Republic and Syria, United Nations forces have taken positions between Israeli forces and Syrian forces and between Israeli forces and the forces of the United Arab Republic. Agreed upon withdrawals and other provisions contained in said agreements have been completed. In September, 1975, an agreement was entered into between Israel and the United Arab Republic relating to additional agreed upon withdrawals, which have been completed. As a result Israel is required to import substantially all of its oil requirements. Efforts continue to be expended in an attempt to resolve basic issues existing in the Middle East. The future course of events in this area cannot be ascertained at this time.

As a result of the above, Israel has an enormous defense expenditure which is more than 17 times greater than the defense expenditure in 1966 and which absorbs approximately 40% of the State budget. As a result, the amount of money available for economic development and other national purposes has been substantially reduced. Due to the recent extraordinary increased rate of inflation, Israel has experienced a decline in national income and gross and net investments in real terms in the past two years. Israel has also made recent pronouncements concerning indexation policies. See "Conditions in Israel," pages 37, 38.

As at December 31, 1975, the public debt of the State of Israel was approximately 13.7 billion dollars as compared to a gross national product in 1975 of approximately 10.1 billion dollars at the rate of exchange prevailing on December 31, 1975, and as at March 31, 1976 Israel had a total debt of approximately $14.8 billion at the rate of exchange prevailing on March 31, 1976. During 1975 more than 20,000 immigrants arrived in Israel, and to accommodate such immigrants, housing must be constructed, schools built and industries developed, which will further tax the economy of the country. Production of export items must be stimulated in an effort to reduce the enormous trade deficit of Israel. In order for Israel to finance its balance of payments deficit, there must be a continuation of personal restitution payments made by Germany, income resulting from the sale of securities (primarily in the United States) and contributions from world Jewry. Israel has been experiencing substantial inflation, particularly during the past few years. During the first five months of 1976 the inflation rate was approximately 14.2%. The major contributing factors to Israel's inflation, particularly during the past two years, have been the enormous local defense expenditures as well as the absorption of immigrants and Government expenditures to close the social gap.

The Government of the State of Israel plays an active role in the economy of the country. Various economic programs for both industry and agriculture are sponsored by the Government and financed by the Government and by private sources. Since the birth of the country, the Government has been required to promote and develop industrial and agricultural pursuits and has done this through a variety of methods, including direct grants-in-aid, direct ownership in agricultural and industrial enterprises, tax abatements and tax incentives. Since 1967, the Government has, by means of an amendment of the Law for the Encouragement of Capital Investments, commenced the payment of grants to owners of approved enterprises. The Government is also continually engaged in efforts to curb inflation and reduce its balance of payments deficits.

The Government of Israel has imposed exchange control regulations which limit the ability of Israelis to remove Israeli currency from the State. Various exemptions are provided from these regulations, primarily for foreign investors, provided they meet the conditions set forth in the Law for the Encouragement of Capital Investments promulgated by the Knesset. These exemptions permit repatriation of funds out of Israel by foreign investors.

Emergency Economic Programs of the State of Israel

Since the economic after-effects of the 1973 War made themselves strongly felt in the second half of 1974, the Government of the State of Israel has carried through a number of measures in order to attempt to improve the balance of payments situation and attempt to reduce the rate of inflation.

The objectives of the programs are to reduce imports, increase exports and increase transfers of capital to Israel. The programs are aimed at reducing private consumption, thereby freeing resources for exports and defense preparations. In order to help accomplish these objectives, the Israel pound has been steadily devalued. In addition the Government of Israel has reduced subsidies of 14 basic food commodities and on bus fares, electricity and water rates, which will result in substantial increases in the prices of these items. The Government of Israel has also increased taxes by increasing duties on 39 luxury import items, increasing the foreign travel tax, increasing the withholding tax on dividends and capital gains tax, and increasing the tax on bank and insurance services. Additionally, the Government extended a freeze on increases in bank credits until July, 1976, and imposed stringent terms with respect to new development loans and housing loans. Additional policies were instituted with respect to permissible increases in wages resulting from cost of living increases. The results of these programs cannot be estimated at the present time. As a result of these programs and prior programs completed since 1974, fiscal consideration in Israel have effectively reduced private and public construction and the importation of durable consumer goods, thereby reducing the standard of living in Israel. See "Conditions in Israel" on page 37. In the opinion of the management of the Bank, the new economic programs will not have a material adverse effect on the financial condition or operations of the Bank.

Major devaluations of the Israel pound took place in November 1974 and September 1975, while in June 1975, a ministerial committee consisting of the Minister of Finance, the Minister of Commerce and Industry, and the Minister of Justice were given the power to authorize devaluations of the Israeli pound from time to time, but only up to 2%, provided that at least 30 days had expired from the last such devaluation. Any such devaluation is subject to the approval of the Prime Minister of the State of Israel. This power was frequently used to make further devaluations of the pound.

Prior to July 18, 1976 the value of the Israel Pound had been set solely against the Dollar. Commencing July 18, 1976, the value of the Israel Pound will fluctuate on the basis of a combination of the currencies of five countries, i.e., the United States, France, the Netherlands, Great Britain and West Germany. In addition the Israel Pound was devalued further, to U.S. $1.00=IL.8.12, and the ministerial committee was given authority to devalue the Israel Pound an aggregate of 8% every four months, whereas previously it could authorize devaluations only up to 2% each 30 days.

These devaluations as well as future devaluations will not have a material adverse effect on the financial condition of the Bank since the obligations of the Bank in foreign currency are protected by agreements between the Bank and the State of Israel against such devaluations. See "Government Guarantees and Insurance," pages 19-21.

In July 1975, a wide-ranging reform in the field of income taxation was instituted in Israel. This led, in addition to a simplification of the system, to a reduction of the income and company profits tax rates applicable to companies, including the Bank, from 71.4% to a total of 61% and brought about other changes referred to in greater detail on page 36 hereof. On July 1, 1976 a value added tax at the rate of 10% was instituted.

RIGHTS OF PURCHASERS OF NOTES SUBSEQUENT TO APRIL 30, 1976

Under Section 10(a)(3) of the Securities Act of 1933, as amended, the Prospectus of the Bank dated August 8, 1975, was not permitted to be used subsequent to April 30, 1976, since the certified financial statements contained therein were dated as of December 31, 1974. However, sales continued and $3,548,000 principal amount of Notes were sold subsequent to April 30, 1976. Therefore, such sales were in violation of the Securities Act of 1933, as amended. As a result, all persons who purchased Notes subsequent to April 30, 1976 are now entitled to rescind their purchases and receive from the Bank the total purchase price paid.

Persons desiring to rescind their purchases shall forward their Note certificates directly to Capital For Israel, Inc., 215 Park Avenue South, New York, New York 10003. In order for the rescission to be effective, the purchasers should forward their certificates postmarked no later than 5:00 p.m., August 30, 1976, New York time, at which time and on which date the Offer of Rescission shall terminate.

Persons tendering their Notes for rescission will promptly receive a check for the full purchase price of the Notes. All persons not tendering their Notes for rescission by that date will be deemed to have ratified the transaction under the presently dated Prospectus. Any rights such persons have, however, under the Securities Act of 1933, as amended, shall not be affected.

TERMS OF OFFERING

The Notes are being offered hereby only to non-residents of the State of Israel at the face value of $1,000 per Note or in multiples thereof. No charge for accrued interest is made. See "The Notes," pages 23-24. The purchase price is payable either in United States dollars or in State of Israel Bonds (Second, Third, Fourth and Fifth Development Issue, Development Investment Issue or Second, Third or Fourth Development Investment Issue), provided, in the case of the Development Issues, such bonds are at least five years old. The value of the bonds so tendered shall be their nominal values together with interest on coupon bonds and appreciation on savings bonds credited through the last day of the month preceding the month in which the bonds are delivered to the Underwriter. In the case of coupon bonds, the bonds must have attached thereto all interest coupons which mature after the date of delivery of the bonds to the Underwriter.

Each of the Development Issue Bonds bears interest at the rate of 4% per annum and the Development Investment Issue Bonds bear interest at the rate of 4¾% per annum and the Second, Third, and Fourth Development Investment Issue Bonds bear interest at the rate of 5½% per annum. All are direct and unconditional obligations of the State of Israel.

The Bank has been advised by its counsel, Goldstein Shames Hyde Wirth Bezahler & Cahill that persons who pay for the Notes with State of Israel Bonds will be subject to income tax in the United States at capital gains rates on the excess, if any, of the amount at which such Bonds are accepted as payment for the Notes (other than accrued interest on Coupon Bonds and appreciation on Savings Bonds) over the amount paid for the Bonds. Such accrued interest and appreciation will be taxable as ordinary income.

Arrangements have been made for the re-purchase at face amount plus accrued interest in United States currency, of Notes offered by the estate of the original holder thereof, if an individual, or from the estate of the last survivor, in the event of more than one individual owner, at any time but no such repurchase shall be made more than two years from the date of death, unless the estate remains open as of such date, at which time said period shall be extended.

Although this offering is being made on a best efforts basis, funds received from the sale of the Notes will not be segregated in an escrow account but will be delivered, upon receipt thereof, by the Underwriter to the Bank.

In September, 1964, a law was passed in the United States providing for a tax payable by persons resident in the United States and acquiring securities of foreign issuers (Interest Equalization Tax). Under the provisions of the law as currently in effect, there is no tax at the present time.

APPLICATION OF PROCEEDS

The proceeds from the sale of the Notes being offered hereby, to the extent received, will be used as part of the capital of the Bank for the general business purposes of the Bank, including an arrangement with the Government of Israel to provide funds for increased sources of work for professionals or persons with academic studies connected with scientific and technological development. (See "Business of the Bank—Nature of Loans".) Since there is no firm underwriting commitment, there is no assurance as to the extent of the proceeds to be received from this offering. As at July 31, 1976 an aggregate of $19,241,000 principal amount of Notes had been sold. However, if this offering had been completely sold as at December 31, 1975 the Notes would have represented approximately 12% of the total outstanding long-term indebtedness of the Bank. (See "Financial Statements".)

CAPITALIZATION

The following table shows the capital structure of the Bank as at March 31, 1976, adjusted pro forma to reflect the creation of the $50,000,000 7½% Registered Subordinated Capital Notes, due 1998, offered under this Prospectus. The amounts to be outstanding which are payable in foreign currencies or are linked to foreign currency have been adjusted to reflect the official rates of exchange as of March 31, 1976 (U.S. $1=IL. 7.52). The amounts outstanding which are linked to the Consumer Price Index have been adjusted to the Index for February, 1976.

TITLE OF CLASS

A. CAPITAL SHARES

Title of Class	Amount Authorized or to be Authorized (Number of Shares)	Amount Outstanding as of March 31, 1976 (Number of Shares)	Amount to be Outstanding if all the Securities being Registered are Sold (Number of Shares)
Ordinary A Shares, par value IL. 1,000	16,000	15,100	15,100
Ordinary B Shares, par value IL. 1,000	135,400	134,900	134,900
8% Cumulative Participating Preferred Ordinary Shares, par value IL. 10	1,000,000	1,000,000	1,000,000
3½% Cumulative Redeemable Preference A Shares, par value IL. 1,000	57,500	49,500	49,500
7% Cumulative Redeemable Preference B Shares, par value IL. 1,000	6,000	1,735	1,735
6% Cumulative Participating Preference C Shares, par value IL. 1.80	17,000,000	17,000,000	17,000,000
6% Cumulative Participating Preference CC Shares, par value IL. 30	1,000,000	999,998	999,998
6% Cumulative Participating Preference CC1 Shares, par value IL. 30	1,740,000	1,734,779	1,734,779
7½% Cumulative Redeemable Preference D Shares, par value IL. 300	164,000	163,477	163,477
7½% Cumulative Redeemable Preference DD Shares, par value IL. 420	500,000	—	—
Unclassified Shares, par value IL. 1,000 each	50,100	—	—

B. DEBENTURES

Years of Redemption	Rate of Interest p.a.	Linking Terms or Currency	Balance Outstanding at March 31, 1976 (including Linking Increments) IL.	$	To be Outstanding IL.	$
1975/86	5½%	Linked to Consumer price index	67,735,306	9,007,355	67,735,306	9,007,355
1975/84	7 %	U.S. dollar	27,072,000	3,600,000	27,072,000	3,600,000
1975/84	7 %	U.S. dollar	40,608,000	5,400,000	40,608,000	5,400,000
1972/84	7 %	U.S. dollar	25,568,000	3,400,000	25,568,000	3,400,000
1974/86	6 %	S frs.	49,621,320	6,598,580	49,621,320	6,598,580
1974/86	5½ %	S frs.	49,621,320	6,598,580	49,621,320	6,598,580
1975/84	6½ %	Linked to Consumer price index	39,316,152	5,228,212	39,316,152	5,228,212
1976/85	7 %	U.S. dollar	22,560,000	3,000,000	22,560,000	3,000,000
1983/94	6½ %	Linked to Consumer price index	12,851,977	1,709,039	12,851,977	1,709,039
1980/91	6 %	Linked to Consumer price index	12,851,977	1,709,039	12,851,977	1,709,039
1976/85	7 %	U.S. dollar	22,560,000	3,000,000	22,560,000	3,000,000
1979/88	4 %	Linked to Consumer price index	21,030,323	2,796,586	21,030,323	2,796,586
			391,396,375	52,047,391	391,396,375	52,047,391

For a description of the outstanding long-term debt of the Bank, see "Outstanding Securities of the Bank—Debentures and Charges," page 26.

C. LOAN BONDS

Years of Redemption	Rate of Interest p.a.	Currency	Balance Outstanding at March 31, 1976 (including Linking Increments) IL.	$	To be Outstanding IL.	$
1972/82	7%	U.S. dollar	72,192,000	9,600,000	72,192,000	9,600,000

D. CAPITAL NOTES

Years of Redemption	Rate of Interest p.a.	Currency	Balance Outstanding at March 31, 1976	To be Outstanding
1998	7½%	U.S. dollar	$15,693,000	$50,000,000

E. PERPETUAL DEPOSIT

The State of Israel has made a perpetual deposit with the Bank which as of March 31, 1976 aggregated IL. 489,010,300 ($65,027,965). The deposit bears interest at the rate of 7¼% per annum (this rate having been increased from 5% per annum, effective April 1, 1975) and may not be withdrawn by the State of Israel except upon the winding up of the Bank, the appointment of a liquidator or provisional liquidator, default by the Bank, or in the event the Government's ownership of voting securities becomes less than 20% of outstanding voting securities. The deposit is not linked and is convertible at any time into the Bank's Ordinary B Shares at the option of the Government.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
STATEMENT OF INCOME

The following statement of income presents the results of operations of the Bank for the five years ended December 31. 1975, examined by Somekh, Chaikin, Citron & Co., Certified Public Accountants (Israel), whose report thereon appears elsewhere in this Prospectus. These statements and the notes thereto should be read in conjunction with the financial statements of the Bank and the related notes included elsewhere in this Prospectus. These financial statements are presented in accordance with Israel accounting principles which differ in certain respects from United States generally accepted accounting principles as explained in the note immediately following the Statement of Income.

The Bank is an Israeli corporation and its financial statements are expressed in Israel pounds. Solely for convenience of the reader, and as a matter of arithmetical computation only, the income statement for the year ended December 31, 1975 has been translated into U.S. dollars at the rate IL.7.10 equal to U.S. $1.00, which was the rate of exchange in effect on December 31, 1975. Such translation does not constitute a part of the financial statements and should not be construed as a representation that the applicable amounts actually represent, or have been or could be converted into U.S. dollars. Furthermore such translation does not give effect to any changes in currency exchange rates which occurred during the said year.

Since December 31, 1975 the Israel pound has been devalued several times so that as of July 31, 1976 the rate of exchange was U.S. $1.00=IL.8.12. For the calendar years 1971, 1972, 1973, 1974, and 1975, the percentage increases in the average level of the consumer price indexes for each year were 12%, 12.9%, 20%, 39.7%, and 39.3%, respectively.

	Year ended December 31,					
	1971	1972	1973	1974	1975	1975
	IL.000	IL.000	IL.000	IL.000	IL.000	Translated to $ 000
Operating income:						
Interest from loans and deposits	110,499	137,171	166,373	191,469	263,920	37,172
Interest from security investments	1,297	1,121	2,068	1,637	1,786	251
Dividends	1,651	1,593	1,451	557	1,178	166
Commission and other income	4,011	6,068	5,007	6,404	13,661	1,924
Recoveries in respect of payment of exchange differences and linkage increments on interest on the Bank's liabilities	3,340	6,849	8,772	16,892	44,798	6,310
	120,798	152,802	183,671	216,959	325,343	45,823
Operating expenses:						
Interest and commission on deposits, loans and other accounts	40,430	62,453	78,149	90,443	138,165	19,460
Interest on perpetual deposit, capital notes, debentures and loan bonds	15,545	20,134	24,804	36,351	60,153	8,472
Salaries and employees' benefits	2,606	3,102	4,793	6,437	10,572	1,489
Occupancy of bank premises	284	379	494	948	1,328	187
Write off of property and equipment (Note a)	68	180	233	301	416	59
Allowance for possible loan losses (Note b)	1,398	1,542	4,872	1,514	6,629	934
Other expenses (Note c)	1,589	2,554	2,842	4,152	4,184	589
	61,920	90,344	116,187	140,146	221,447	31,190
Operating earnings, before taxes on income and other items	58,878	62,458	67,484	76,813	103,896	14,633
Provision for taxes on income (Note d)	31,440	33,900	38,750	47,400	67,900	9,563
Earnings before other items	27,438	28,558	28,734	29,413	35,996	5,070
Other items, net of related income taxes						
Capital gains (Note e)	438	1,319	3,687	4,803	43	6
Participation of the Israel Treasury in linkage increments on dividends (Note f)	2,930	3,984	3,998	5,817	11,187	1,576
Transfer from provision for diminution in value of investments (Note g)	(1,700)	(861)	(100)	1,350	—	—
Total other items	1,668	4,442	7,585	11,970	11,230	1,582
Net earnings (Note h)	29,106	33,000	36,319	41,383	47,226	6,652
Deduct/—Dividends on non-participating shares (Note 18 to financial statements)						
3% "B" ordinary shares	4,047	4,047	4,047	4,047	4,047	570
3½% "A" preference shares	1,820	1,802	1,785	1,767	1,750	247
7% "B" preference shares	668	649	557	516	587	82
7½% "D" preference shares	4,720	5,149	5,150	5,701	8,080	1,138
	11,255	11,647	11,539	12,031	14,464	2,037
Less/—Reduction in tax liability (Note d)	2,814	2,911	2,885	3,609	5,062	712
Net dividends on non-participating shares	8,441	8,736	8,654	8,422	9,402	1,325
Net earnings applicable to the participating shares	20,665	24,264	27,665	32,961	37,824	5,327

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
STATEMENT OF INCOME—Continued

	Year ended December 31,					
	1971	1972	1973	1974	1975	
	IL.	IL.	IL.	IL.	IL.	$
Earnings per share (Note h)						
"A" ordinary shares of IL.1,000 each	134.17	168.47	200.88	262.19	280.26	39.47
Preferred ordinary shares of IL.10 each	1.51	1.88	2.21	2.76	2.93	0.41
"C" preference shares, linked to the U.S. dollar, of IL.1.80 each (equals $1)	0.39	0.44	0.50	0.59	0.69	0.10
"CC" preference shares, linked to the U.S. dollar, of IL.30 each (equals $10)	3.85	4.47	5.05	5.92	6.91	0.97
"CC1" preference shares, linked to the U.S. dollar, of IL.30 each (equals $10)	3.85	4.47	5.05	5.92	6.91	0.97

U.S. dollar amounts presented below in respect of dividends on the "C," "CC," and "CCI" preference shares, which are linked to the U.S. dollar, are stated on the basis of the rate of exchange in effect on the date of payment of such dividends. The U.S. dollar translation for the year ended December 31, 1975 in respect of dividends on the "A" ordinary and Preferred ordinary shares, payable in Israeli pounds only, is also stated on the basis of the exchange rate in effect on the date of payment.

	Year ended December 31,									
	1971		1972		1973		1974		1975	
	IL.	$	IL.	$	IL.	$	IL.	$	IL.	$
Cash dividends declared per share, gross (Note i)										
"A" ordinary shares	95.00		112.50		112.50		135.00		155.87	20.32
Preferred ordinary shares	1.15		1.32		1.32		1.55		1.76	0.25
"C" preference shares	0.29	0.08	0.35	0.08	0.35	0.08	0.42	0.08	0.57	0.08
"CC" preference shares	2.95	0.76	3.47	0.83	3.47	0.83	4.14	0.83	5.68	0.83
"CC1" preference shares	2.95	0.76	3.47	0.83	3.47	0.83	4.14	0.83	5.68	0.83
Ratio of earnings to fixed charges and dividends on non-participating shares (Note j)	1.74		1.57		1.51		1.50		1.45	
Pro forma ratio of earnings to fixed charges and dividends on non-participating shares giving effect to the issuance of all of the 7.5% Capital Notes									1.31	

NOTES TO THE STATEMENT OF INCOME

Note—ACCOUNTING PRINCIPLES

Israel accounting principles do not require investments in subsidiaries to be stated on equity basis. Following is a statement showing the effect on the net earnings of the Bank had the investment in the 50% owned company been included on equity basis:—

	Year ended December 31,				
	1971	1972	1973	1974	1975
	IL.000	IL.000	IL.000	IL.000	IL.000
Net earnings per statement of income	29,106	32,999	36,319	41,383	47,226
Deduct—Cash dividends received net of tax	(893)	(900)	(900)	(210)	(488)
Add—Equity in net earnings*	1,235	(85)	803	1,491	4,390
Net earnings on equity basis*	29,448	32,014	36,222	42,664	51,128

*Restated for the years 1971 to 1973.

Note a—WRITE OFF OF PROPERTY AND EQUIPMENT

See Note 1 (d) to the financial statements regarding the Bank's policy in respect of writing off property and equipment.

Note b—ALLOWANCE FOR POSSIBLE LOAN LOSSES

Possible loan losses are provided for on the basis of the net loss anticipated to be incurred by the Bank

Analysis of the provision—

Year ended December 31,	Balance at beginning of year IL.000	Additions Charged to expenses IL.000	Deductions Loans written off IL.000	Balance at end of year IL.000
1971	9,000	1,398	(2)	10,400
1972	10,400	1,542	1,142	10,800
1973	10,800	4,872	472	15,200
1974	15,200	1,514	614	16,100
1975	16,100	6,629	229	22,500

In addition to the specific provision charged to income the Bank appropriates amounts out of retained earnings to a special reserve, to cover contingencies (see statement of retained earnings).

Note c—OTHER EXPENSES

These expenses for the years ended December 31, 1972 and 1973 include a special contribution to the Immigrants' Absorption Fund in the amount of IL.750,000 for each year.

Note d—PROVISION FOR TAXES ON INCOME

1. Following is a reconciliation of the theoretical tax expense, assuming all the Bank's income is taxed cable to ordinary corporate income in each year, and the income tax provisions created by the Bank—

	1971 Amount IL.000	1971 Percentage of pre-tax income %	1972 Amount IL.000	1972 Percentage of pre-tax income %	1973 Amount IL.000
					Year ended December 31,
Theoretical tax expense	35,224	53.5	38,864	53.5	50,487
Tax effect of timing differences in respect of allowance for loan losses, debenture issue expenses, depreciation of property and equipment and provision for vacation pay	(107)	(0.2)	(586)	(0.8)	(1,474)
Tax effect of permanent differences—					
Capital gains and other income which is tax-exempt or taxed at lower rates	(1,326)	(2.1)	(1,393)	(1.9)	(3,992)
Non-deductible items	62	0.1	448	0.6	479
Contingencies	1,164	1.8	1,318	1.8	4,053
Income tax provision	35,017	53.1	38,651	53.2	49,553
Less—Cancellation of excess provision for taxes from previous years					
The above provision is reflected as follows:—					
In income statement					
Provision for taxes on income	31,440		33,900		38,750
As a deduction from capital gains	160		—		650
As a deduction from Government participation in linkage increments on dividends	3,400		4,600		4,900
In statement of capital reserves	17		151		818
Deferred taxation	—		—		4,435
	35,017		38,651		49,553

*Includes services tax.

after realization of assets, etc., securing the debts involved.

at the income tax rate appli-

	1974		1975	
Percentage of pre-tax income* %	Amount IL.000	Percentage of pre-tax income* %	Amount IL.000	Percentage of pre-tax income* %
55.13	61,972	61.43	91,293	66.24
(1.60)	852	0.84	2,196	1.59
(4.35)	(5,129)	(5.08)	(1,373)	(1.00)
0.50	210	0.21	171	0.13
4.43	855	0.85	530	0.39
54.11	58,760	58.25	92,817	67.35
			2,500**	
			90.317	
	47,400		67,900	
	1,200		—	
	9,300		21,870	
	860		547	
	58,760		90,317	

**This amount results from over (under) provisions for taxes in the following periods:

		IL.000
Period ending December 31, 1970		4,397
Year ending December 31,	1971	861
	1972	(1,004)
	1973	(1,306)
	1974	(448)
Net Excess		2,500

The distribution of dividends by the Bank reduces its income tax liability, as shown above, by an amount of 25% of the dividends distributed up to December 31, 1973, by 30% of the dividends distributed in the year 1974, and by 35% of the dividends distributed in the year 1975. The dividends reflected in the statements of income and retained earnings are therefore shown net of the said reduction in tax liability.

2. The Bank received final income tax assessments for the years up to and including the 1968 tax year. Assessment orders have been received in respect of the tax years 1969 to 1973 according to which the Bank is required to pay additional taxes, principally as a result of charging capital gains and income from linkage increments on investments with the full rate of tax applicable to ordinary income. The Bank appealed to the Court against these orders but no date has as yet been fixed for the hearing. Adequate provisions to cover the amount of taxes in dispute exist in the books of the Bank.

3. With effect from the fiscal year 1973, banks are subject to a services tax levied at the rate of 3.5% for 1973, 5% for 1974, and 7.5% for 1975 on each of the following—

1. Taxable income
2. Employees' remuneration

The services tax is a deductible expense for income tax purposes.

The provision for taxes on income includes the services tax in the following amounts:—

		IL.000
Year ended December 31,	1973	3,378
	1974	5,120
	1975	11,100

Note e—CAPITAL GAINS

These comprise:—

	Year ended December 31, 1971 IL.000	1972 IL.000	1973 IL.000	1974 IL.000	1975 IL.000
Gains on sale of investments in shares and State of Israel obligations	597	1,187	4,262	5,995	—
Gain on sale of property and equipment	1	132	75	8	43
	598	1,319	4,337	6,003	43
Capital gains tax	160	—	650	1,200	—
Net gains	438	1,319	3,687	4,803	43

Note f—PARTICIPATION OF THE ISRAEL TREASURY IN LINKAGE INCREMENTS ON DIVIDENDS

Pursuant to the agreement with the Israel Treasury in connection with the cancellation of linkage terms on loans to Industry, the Bank bears that part of the linkage increments on dividends resulting from the change in the price of the U.S. dollar from IL.1.80 to IL.3.00, payable on shares issued prior to the date of such change. The balance of the linkage increments on dividends payable on such shares resulting from later changes in the rate of exchange as well as linkage increments on dividends payable on shares issued subsequent to the above mentioned date, are refundable to the Bank by the Treasury, except for linkage increments on that part of the dividends which exceeds the rates specified in the said agreement.