

FACT SHEET -- 7½% CAPITAL NOTES OF ISRAEL BANK OF AGRICULTURE LTD. (IBA)

DISTRIBUTED BY CAPITAL FOR ISRAEL, INC.

1. A total \$35-million in Registered Subordinated Capital Notes of IBA is being offered by Capital for Israel, Inc. (CFI), the underwriter of the Notes.
2. IBA Capital Notes are being offered in units of \$1,000 and can be purchased in any amounts of unbroken units. With a maturity date of December 31, 2003, the Capital Notes pay 7½% interest a year, semi-annually in U.S. dollars.
3. The Capital Notes can be purchased with United States dollars, State of Israel 5½% Development Investment Issue Bonds or with other Israel Bonds which are at least five years old. Capital Notes purchased any time in a calendar quarter earn interest for the full calendar quarter.
4. The Government of Israel has a vital interest in the development of agricultural production in the State. To this end, the Israel Bank of Agriculture makes loans to agricultural producers and to others in the agricultural area. Such loans are made in accord with government policy and direction. The source of the loans are the Bank's own monies, deposits in the Bank of Israel, and deposits made by such institutions as the World Bank which are intended for the purpose of specified agricultural projects.
5. The Government of Israel is the owner of approximately 99% of the outstanding voting shares of the Bank, entitling it to appoint all of the directors of the Bank.
6. IBA has undertaken to finance the purchase of the Notes through its subsidiary, the Agricultural Investment Company Ltd., at the price of 90% of their principal amount. This is stated in the next to last paragraph on page 6 of the prospectus.
7. Interest on IBA Capital Notes purchased by charitable foundations, pension or profit-sharing funds and other tax-exempt institutions in the United States are not subject to income tax in Israel. Other purchasers pay an income tax of 25%, deducted at the source. But, subject to the rules of the Internal Revenue Code, they are entitled to claim a tax credit or a deduction for this payment in their U.S. income tax returns when itemizing their deductions.
8. Upon the death of the original holder, the Capital Notes will be repurchased at face value plus accrued interest when presented by the estate within two years after the death.

This is not an offering. The offering can be made only by a Prospectus, a copy of which can be obtained from Capital for Israel, Inc., 215 Park Avenue South, New York, N.Y. 10003.

6/6/78

PROSPECTUS

ISRAEL BANK OF AGRICULTURE LTD.

(A Limited Company Registered in Israel)

\$35,000,000 7½% REGISTERED SUBORDINATED CAPITAL NOTES DUE 2003

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(1)	Underwriting Discounts and Commissions(2)(3)	Proceeds to Registrant(3)
Per Note	\$1,000	\$75	\$1,000
Total	\$35,000,000	\$2,625,000	\$35,000,000

- (1) 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 two 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.
- (2) In addition the Bank has agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933, as amended.
- (3) The State of Israel has agreed to reimburse the Bank for all underwriting discounts and commissions and all expenses approved by the Ministry of Finance (estimated at \$250,000) in connection with the issuance of the Notes.

The Bank was organized by the State of Israel which owns approximately 99% of its outstanding voting rights. All the Directors of the Bank are State Directors within the meaning of the Government Companies Law, 5735-1975. (See "State Regulation and Control" on page 4 hereof). The Bank's policies are coordinated with the agricultural 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.

This offering may have a special appeal to persons with an interest in Israel, rather than the general public. As of April 25, 1978 the representative rate of exchange as published by the Bank of Israel was U.S. \$1.00=IL. 16.68. Unless otherwise indicated however, all figures in this Prospectus stated in U.S. Dollars converted from Israeli Pounds have been converted at the rate of U.S. \$1.00=IL. 16.42, the representative rate of exchange in effect on March 31, 1978.

After the termination of the offering but no sooner than two years from the date of the Prospectus the Bank will apply to the Tel-Aviv Stock Exchange for listing of the Notes in the official list of quotations. The Bank has been informed by the Tel-Aviv Stock Exchange that until the listing of the Notes in the Official Listing of Quotations, the Notes will be traded forthwith in the hall of the Tel-Aviv Stock Exchange only by foreign residents (except for the Government of Israel, the Bank and its subsidiary), and their quotations will be published in the Blue List of the Tel-Aviv Stock Exchange, in accordance with Section 18, Sub-Section 4, of the Regulations of the Tel-Aviv Stock Exchange. See "Important Factor to be Considered—Development of Trading Market".)

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

CAPITAL FOR ISRAEL, INC.

The date of this Prospectus is May 30, 1978

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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

Israel Bank of Agriculture 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 \$35,000,000 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 Bank was incorporated under the laws of the State of Israel as a company with limited liability, under the name "Israel Bank of Agriculture Ltd.", on April 24, 1951, for the purposes of financing agricultural enterprises in Israel. On April 26, 1951 the Bank was granted permission to commence business. The Bank was organized by the Government of Israel, which supplied the original capital. The Bank's offices, which it owns, are located at 83 Hashmonaim Street, Tel-Aviv, Israel and its telephone number is Tel-Aviv 285141.

The Bank was organized to serve as an instrument to encourage and assist agricultural development in the State of Israel. As such, the Bank grants loans for agricultural purposes. These loans may be granted for either capital investments in agricultural production or for supplying agriculturists with needed working capital. Loans are made by the Bank from its own resources as well as from Government of Israel funds deposited with the Bank, which are mainly utilized for implementing Government Development Budget policies in the field of agriculture (see "Important Factors To Be Considered—Summary of Program for Development of Israel Agriculture"). Loans are also made from funds deposited in the Bank by other financial institutions. In connection with these operations, the Bank has also established joint funds with financial institutions of various agricultural organizations within the State of Israel, from which funds the Bank makes loans to members of said organizations (see "Business of the Bank—Other Loans").

IMPORTANT FACTORS TO BE CONSIDERED

Summary of Program for Development of Israel Agriculture

Israel's agriculture has been the product of a planned transformation of land. Since 1948 there has been extensive development of irrigation and reclamation of swamp lands, sand dunes and hilly areas, with the result that Israel now provides more than 75% of its food needs. Israel is constantly developing an overall national agricultural policy designed to achieve its objectives in the development of agricultural production. These objectives include increasing land under cultivation, increasing gross production and increasing the export value of agricultural products and investments in agriculture. Funds for the implementation of this program come from the Israel Government budget, loans granted by the World Bank (see "Business of the Bank—World Bank Loans") and from private financing such as the funds being raised as a result of this offering. There is no assurance that all of the goals established by the development program will be accomplished.

Relationship of the Bank to the Israel Government

The Government of Israel is the owner of approximately 53% of the paid up share capital and 99% of the outstanding voting shares of the Bank. The Government of Israel is the owner of the following shares: 104,000,000 ordinary shares, 750,000 8% cumulative and participating preference "B" shares, 19,073 7½% cumulative redeemable preference "C" shares (See "Capitalization".) All the Directors of the Bank are State Directors within the meaning of the Government Companies Law, 5735-1975. (See "Management and Control".) The Government of Israel does not guarantee either the interest on or the principal of the Notes. ✓

The Bank's policies are based upon the general policies of the Government of Israel, in accordance with the above stated program for the development of Israel agriculture. These policies are coordi-

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Parent
guarantee
the amount
of interest*

nated with the Ministry of Agriculture. Since the Bank is the prime allocator of funds in accordance with the Government agricultural development policies, the Government of Israel has insured the Bank against linkage differentials (see "Business of the Bank—Linking of Loans" and "Method of Linkage"), and has given a guarantee of the loans made from the World Bank (See "Business of the Bank—World Bank Loans"). The Government has given no guarantee on the Notes.

In addition the Government has made deposits with the Bank which on March 31, 1978 aggregated IL.947,806,000 (\$57,723,000) and a perpetual deposit of IL.184,000,000 (\$11,206,000) as at March 31, 1978.

State Regulation and Control

Since more than 50 percent of the voting rights in the Bank are controlled by the State of Israel, the Bank and its more than 50 percent-owned subsidiaries were brought within the provisions of the recently enacted Government Companies Law 5735/1975 ("the Law"). The following is a brief summary of some of the important provisions of the Law and does not purport to be a complete statement of such provisions. Reference should be made to the full text of the Law, which is set forth as an exhibit to the Registration Statement filed with the United States Securities and Exchange Commission, and to the Regulations issued pursuant thereto.

The Bank is now subject to the administrative regulation of the Government and the Minister of Finance and the Minister of Agriculture (the "Responsible Ministers") and the Government Companies Authority, respectively, (the "said Agencies") (all as fully provided in that Law and the Regulations and the directives issued thereunder). Moreover, the said Agencies are evolving their policies thereunder in accordance with their interpretation of the Law and Regulations. In doing so, and in the absence as yet of an authoritative interpretation by a competent court, the said Agencies greatly rely on the legal opinion of the Attorney-General of the State of Israel and of other legal officers of the Government. These interpretations guide the Bank and the said Agencies.

It is important to note that the Law provides that, subject to its own provisions, the Bank continues to be subject to the Israel Companies Ordinance. It further provides that the Memorandum and Articles of Association cannot derogate from said Law. However, the Law does not infringe upon a contract signed by the Bank before the date of commencement of the Law.

Under the Law, the Bank is obligated to act in accordance with the business considerations applicable to privately controlled corporations, unless the Government, with the approval of the Finance Committee of the Knesset, has determined other operating considerations in which case the State is obliged to purchase the shares of the other shareholders who so wish, but not Redeemable Preference Shares.

Section 11 of the Law provides that certain resolutions of the Bank need the approval of the Government, i.e., a resolution for increasing the capital of the Bank, changing the objects of the Bank, changing the rights attached to its shares, and any resolution calling for the issuance of redeemable preference shares or convertible debentures, or any issuance of equity securities which may change substantially the ratio of control among existing shareholders of the Bank or result in a new person having more than ten percent of the shares in the Bank.

Appointment of State Directors in the Bank

Directors representing the State in the Bank ("State Directors") are appointed by the Responsible Ministers after consultation with the Government Companies Authority. Since approximately 99 percent

*NO
GUARANTEE*

of the voting rights in the Bank are owned by the Government, all the directors in the Bank are State Directors.

Section 17(a) of the Law states that certain persons are incompetent to serve as State Directors, including Ministers, the Bank's employees (other than the Managing Director) and "a person drawn from the public at large, whose other activities, in the opinion of the (said) Ministers, are likely to cause a conflict of interests with his duties as a director in that company" (hereinafter "a conflict of interests"). The purpose of the provision is to prevent the candidate from being placed in a situation of a potential conflict of interest developing between his duties as a State Director and his activities outside the company.

Five of the State Directors of the Bank are State employees. The other twelve Directors are drawn from the public at large (including the Managing Director). Of the latter, eight are connected with the Agricultural sector. Their appointments have been recently reviewed by the Attorney-General. Thus, the majority of the State Directors are State employees and persons who do not have direct connection with the Agricultural sector.

Any one or more of the State Directors may be removed under this Law by the Responsible Ministers if, in their opinion, a Director is unable to, or does not, properly fulfill his function. Any State Director of the Bank who is a Government employee ceases to be a director upon termination of his employment with the Government but may be reappointed by the Responsible Ministers.

A State Director ceases to serve as such a director if circumstances arise subsequent to his appointment which would have made him incompetent to be appointed as such a State Director under the provisions stated above.

The Chairman of the Board and the Managing Director of the Bank are appointed by the Board of Directors of the Bank, with the approval of the Responsible Ministers, after consultation with the Government Companies Authority, and could also be appointed directly by the Government should the Government deem it necessary.

The Chairman of the Board, the Managing Director and the State Directors of the Bank are also each subject to reporting requirements established by the Government Companies Authority and the Responsible Ministers.

Investment

The Law provides that Government investment in a Government Company can only be made with the approval of the Knesset Finance Committee.

Dividends

The decision of the Board with respect to the distribution of profits by the Bank calls for the approval of the Government Companies Authority, and in case of disagreement, for the determination of the Responsible Ministers.

Appointment of Auditors and Counsel

Appointment of the Auditors of the Bank and any legal counsel of the Bank, whether special or general, needs the confirmation of the Government Companies Authority. The Bank cannot remove the Auditors from office without a hearing being given to the Auditors by the Government Companies Authority, after which such removal needs the approval of the Government Companies Authority. The Auditors of the Bank are obliged under the Law, notwithstanding any other law, to give the directors, the Responsible Ministers and the Government Companies Authority, upon their request, such information on the business of the Bank as they require.

The Bank is a "Banking Institution", within the meaning of the laws of Israel and is subject to supervision, regulation and examination by the Governor of the Bank of Israel, whose authority is exercised through the Examiner of Banks (the "Examiner"). The Examiner has authority to demand information from banks and to inspect their records. The Bank is also subject to the control of the State Comptroller of the State of Israel, who reviews the operations of the Bank and the conduct of its affairs since it is controlled by the Government. The State Comptroller's report is submitted to the Knesset and is publicly available.

Enforcement of Liabilities

The Bank is an Israeli Corporation and none of its directors are residents of the United States. It will 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. Finley, Kumble, Wagner, Heine & Underberg, with an office address at 425 Park Avenue, New York, New York, has been designated as agent for service of process on the Bank. The Bank has been advised by E. Likhovski, its special 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. Messrs. Finley, Kumble, Wagner, Heine & Underberg, special counsel to the Bank, have advised that, in their opinion, in the absence of a special ground for impeaching a foreign judgment, such as fraud or prejudice, United States courts will recognize and enforce judgments of the courts of foreign nations, including Israel. 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 will apply for listing of the Notes on the Tel-Aviv Stock Exchange after the completion of the offering and not earlier than two years from the date of this Prospectus, and has also received the approval of the Tel-Aviv Stock Exchange that, until such listing, the Notes will be traded in the hall of the said Stock Exchange only by foreign residents (except for the Government of Israel, the Bank and its subsidiary), and their quotation will be published in the Blue List, in pursuance of Section 18, Sub-Section 4 of the Tel-Aviv Stock Exchange regulations.

✓ The Bank has agreed with the Agricultural Investment Company Ltd., a Subsidiary of the Bank, that the said company will purchase the Notes on the Tel-Aviv Stock Exchange if such Notes are offered for sale, at the price of 90 percent of their principal amount, and the Bank has undertaken to finance such purchases. The Bank, on the other hand, agreed with the Government of Israel that the Government may instruct the Bank either to resell the Notes so purchased to the Government at the actual price of purchase, plus expenses relating thereto, or retire the said Notes.

In case the Bank retires the Notes at the request of the Government, the latter will refund to the Bank the countervalue of the Notes retired by reducing the Bank's dollar deposit with the Government, (See "Application of Proceeds").

Economic Conditions in Israel

A. Political Factors in the Area: Since the establishment of the State of Israel, the hostility between Israel and her neighbours has resulted in a number of armed conflicts, the most recent of which occurred in October, 1973, with a cease-fire being implemented on October 23, 1973. Following the cease-fire, agreed-upon withdrawals were undertaken. In September 1975 an agreement was signed by Israel and the United Arab Republic ("Egypt") relating to additional withdrawals, including the return of the oil fields in the Abu Rodeis area to Egypt. Discussions have taken place and are continuing between Government officials of Egypt and Government officials of Israel in an effort to seek solutions to certain of the problems existing in the Middle East. In March 1978, armed conflict arose between Israel and Palestinian guerillas in Southern Lebanon, which resulted in Israel occupying certain portions of Southern Lebanon. United Nations forces have taken positions between the combatants in an effort to avoid further conflict in the area. It is impossible to predict what the resolution, if any, will be for the foregoing situations.

B. Economic Implications and Policies: The political-military uncertainty dictates continuing high defense expenditures, and, as a result, the resources available for economic development and other national purposes are severely limited. Following the 1973 War, successive governments have carried out a number of measures intended to improve the balance of payments situation and reduce the rate of inflation. As a result, the gross national product increased only marginally in the period 1975-1977, and gross investment declined in real terms.

The objectives of government policy have been to reduce imports, increase exports and increase transfers of capital to Israel. Programs have been aimed at reducing private consumption, thereby freeing resources for exports and defense preparation. In order to help achieve these objectives, the value of the Israeli pound against foreign currencies has been reduced steadily, as have been subsidies on basic food commodities, bus fares, electricity and water rates. As a result there have been substantial increases in the price of these items.

The new Government, elected in May 1977, is putting major emphasis on reducing the role of government in the economy, and favors a greater role for the private sector.

C. The 1977 Economic Reform: On October 28, 1977, the Government introduced a reform in Israel's foreign exchange policy. Controls have been reduced to a minimum and virtually abolished for foreign investors. The liberalization of foreign exchange controls included:

1. Far-reaching reductions in the restrictions on the possession by Israelis of foreign exchange; under present Israeli law there are, in general, no exchange control regulations against payment of interest or principal in foreign currency to overseas investors.
2. The unification of exchange rates, and the abolition of export premiums and substantial elimination of import levies;
3. the floating of the exchange rate with only limited intervention intended to counteract disruptive swings in the rate.

Following the reform, the Israeli pound depreciated by 46.4%, and was established at the level of IL. 15.20 per US dollar on October 31, 1977, as compared with IL. 10.38 per US dollar on October 28, 1977. As a result of the new policy, the effective rate for imports (after the reduction of import levies) increased by approximately 27%, and for exports (after the abolition of export premiums) by an average of about 13%. Since the end of October 1977, the Israeli pound has continued to depreciate at an average

monthly rate of 1.64% against the US dollar. As at April 25, 1978 the representative rate as published by the Bank of Israel was IL. 16.68 per US dollar.

It is not anticipated that the recent depreciation of the Israel pound, and the projected future depreciation, will have a substantial, direct effect on the financial condition of the Bank, this being substantially protected by various arrangements, including insurance arrangements between the Bank and the Government of Israel compensating the Bank for certain losses directly occasioned by the devaluation of the Israel Pound. (See "Business of the Bank", "Other Banking Institutions", "Method of Linkage" and "World Bank Loans".)

D. Current Economic Conditions: As of December 31, 1977, Israel's outstanding foreign debt was an estimated 10.4 billion US dollars, as compared to a gross national product for 1977 of some 12.8 billion dollars (at the average official rate of exchange prevailing during 1977). About 22.9% of the debt was to holders of Israel Bonds, 32.9% to the United States Government resulting from past aid, 7.7% to the West German Government, and the remaining 36.5% to various financial institutions.

The Israel current account deficit amounted to U.S. \$2.7 billion in 1977, a decline of some U.S. \$570 million from 1976, and of U.S. \$1.3 billion compared with the peak deficit of U.S. \$4 billion in 1975. The decline in the deficit resulted from a fast growth of exports (11.1% in 1977 and 11.7% in 1976) and a reduction of imports (down 2.2% in 1977, following a decline of 3.0% in 1976). The deficit was financed by gross capital imports exceeding \$3.8 billion, of which 54% were unilateral transfers (including institutional transfers, U.S. government grants, West German reparation payments and private transfers), and 43% were long and medium term loans (including the sale of Israel Bonds, loans in connection with U.S. government aid, loans from international organizations and commercial loans).

Total utilization of U.S. government aid funds in 1977 is estimated at U.S. \$1.9 billion, of which 54% has been in the form of grants and the remainder as loans (See Balance of Payment summary table, page 40).

Internally, the rate of inflation in Israel has been rapid since 1974. During 1974 consumer prices rose by 56%, during 1975 by 23% and during 1976 by 38%. In 1977 inflation accelerated to 42% as a result of the major devaluation accompanying the foreign exchange reform. During 1978 prices are forecast to rise by some 30%. Additional factors that helped to occasion the rapid increase in prices include the reduction in subsidies on a wide range of basic foods and services, and the increase in the rate of value-added tax to 12% (on commodities and services) and 9% (on profits and wages paid by banks). Sales taxes were reduced in parallel.

For more detailed information see "Conditions in Israel".

Other changes in the tax system pertinent to the Bank are explained in the section: "Convertibility of Currency and United States and Israel Taxes".

The factors contributing to Israel's inflation, particularly during the past several years, have originated in Israel's external financial position, as well as its internal finances. Among the external factors were the sharp rise in international prices, particularly those in grains and oil in 1973 and 1974, and the frequent devaluations of the Israel pound required to curtail Israel's balance of payments deficits by raising the cost of imports and increasing the profitability of exports. Among the internal factors were the large Government deficits due to the enormous defense burden and welfare and social service expenditures required to absorb past and current immigration and protect the deprived sections of the population. The continual increases in indirect taxes and curtailment of price subsidies required to limit the budget deficits

led directly to consumer price increases. It should be noted that the Government's efforts to curb inflationary pressures and to reduce foreign trade deficits may be limited by recent increases in salaries in the public service sector of the economy if similar increases occur in other sectors of the economy as well as by the promulgation of the new economic program, described above, on October 28, 1977.

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.

THE INFORMATION CONTAINED IN THIS SECTION HAS BEEN SUPPLIED BY
THE MINISTRY OF FINANCE OF THE STATE OF ISRAEL

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. Original issue Notes will bear interest from the first day of the calendar quarter in which they are subscribed and paid for; provided, however, that original issue Notes subscribed and paid for within 20 days following the date of this Prospectus shall bear interest from January 1, 1978. See "Outstanding Securities of the Bank—The Notes". The purchase price is payable either in United States dollars or in State of Israel Bonds (Second, Third, Fourth, Fifth, and Reconstruction and Development Issues, Development Investment Issue or Second, Third, Fourth, or Fifth Development Investment Issues), 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, Fourth, and Fifth 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, Finley, Kumble, Wagner, Heine & Underberg, that, under most circumstances, 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.

The Bank has agreed to re-purchase at face amount plus accrued interest in United States currency, 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, subject to certain discretionary exceptions.

In case the Bank retires the Notes at the request of the Government, the latter will refund to the Bank the countervalue of the Notes retired by reducing the Bank's dollar deposit with the Government. (See "Application of Proceeds").

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.

APPLICATION OF PROCEEDS

The proceeds from the sale of the Notes being offered hereby, to the extent received, will be deposited in a U.S. Dollars account with the Ministry of Finance of the Government of Israel. Such deposit will be on terms substantially identical to the Bank's obligations in respect of the Notes. The Government has undertaken to deposit with the Bank, from time to time, in conformity with the Government's plans, with the approval of the Finance Committee of the Knesset and in accordance with budget laws, an equivalent amount in Israel pounds, unlinked, for use by the Bank for purposes agreed to by the Government. This latter deposit will be subject to the General Conditions, as defined in this Prospectus. (See Loans granted from Government deposits.)

The agreement of the Bank with the Government does not create privity of contract or any other legal relationship of the Government to noteholders, nor is the said Dollar deposit with the Government to be considered in any way as a charge or lien for their benefit.

Since there is no firm underwriting commitment, there is no assurance as to the extent of the proceeds to be received from this offering. However, if this offering had been completely sold as at March 31, 1978 the Notes would have represented approximately 34.4% of the total outstanding senior indebtedness of the Bank. (See "Capitalization".)

CAPITALIZATION

The following table shows the capital structure of the Bank as at March 31, 1978, adjusted pro forma to reflect the creation of the \$35,000,000 7½% Registered Subordinated Capital Notes, due 2003, offered under this Prospectus. The amounts to be outstanding which are payable in foreign currencies have been adjusted to reflect the official rates of exchange as of March 31, 1978 (U.S. \$1=IL. 16.42). The amounts outstanding which are linked to the Consumer Price Index have been adjusted to the Index for February 1978.

TITLE OF CLASS	Amount Authorized or to be Authorized (Number of Shares)	Amount Outstanding as of March 31, 1978 (Number of Shares)	Amount to be Outstanding if all the Securities being Registered are Sold (Number of Shares)
A. CAPITAL SHARES			
Title of Class			
Ordinary shares, par value IL.1	134,700,000	104,000,019	104,000,019
8% Cumulative and participating preference "A" shares, par value IL.10	750,000	750,000	750,000
8% Cumulative and participating preference "B" shares, par value IL.10	750,000	750,000	750,000
4% Cumulative preference shares, par value IL.1	300,000	300,000	300,000
7½% Cumulative redeemable linked preference "C" shares, par value IL.420	250,000	250,000	250,000
Receipts on account of ordinary shares—IL. 4,310,303 as of March 31, 1978			

B. DEBENTURES

Series	Years of Redemption	Rate of Interest p.a.	Linking Terms or Currency	Balance outstanding at March 31, 1978 (including Linking Increments)		To be Outstanding	
				IL.000	\$000	IL.000	\$000
4B, listed on Tel Aviv stock exchange as series 5	1969-80	5½ %	Linked to Consumer price index	7,801	475	7,801	475
6	1974-85	5½ %	Linked to Consumer price index	15,265	930	15,265	930
7	1976-87	5½ %	Linked to Consumer price index	31,622	1,926	31,622	1,926
8	1977-88	5½ %	Linked to Consumer price index	7,368	449	7,368	449
9	1977-88	6 %	Linked to Consumer price index	23,992	1,461	23,992	1,461
10	1977-88	6 %	Linked to Consumer price index	17,837	1,086	17,837	1,086
				<u>103,885</u>	<u>6,327</u>	<u>103,885</u>	<u>6,327</u>

C. SECURED LOANS

The International Bank of Reconstruction and Development (World Bank) 7¼ % loans amounts in various currencies repayable in the same currency as received up to 1989 (A)	Balance Outstanding at March 31, 1978 including Linking Increments)		To be Outstanding	
	IL.000	\$000	IL.000	\$000
	990,132	60,300	990,132	60,300

D. CAPITAL NOTES

Years of Redemption	Rate of Interest p.a.	Currency	Balance Outstanding at March 31, 1978	To be Outstanding
2003	7½ %	U.S. dollar	\$ —	\$35,000,000

E. PERPETUAL DEPOSIT

The State of Israel has placed a perpetual deposit with the Bank which as of March 31, 1978 aggregated IL. 184,000,000 (\$11,206,000). IL. 148,000,000 of the deposit bears interest at the rate of 10% per annum and IL. 36,000,000 12% per annum. The deposit will be redeemed only upon the winding up of the Bank except in the event that the Bank ceases to be a Government Company within the meaning of the Government Companies Law—1975. In that event the deposit will be returned within three years and the deposit shall, as of that date, carry interest at the weighted average of interest applicable to Government deposits with the Bank under the General Conditions.

(A) See "Business of the Bank—World Bank Loans" and "Outstanding Securities of the Bank—Debentures and Charges."

ISRAEL BANK OF AGRICULTURE LIMITED

STATEMENTS OF INCOME

The following statements of income presenting the results of operations of the Bank for the five years ended March 31, 1978, have been examined by Bawly Millner & Co., Certified Public Accountants (Israel), as stated in their report which 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.

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 March 31, 1978 has been translated into U.S. dollars at the rate of U.S. \$1=IL. 16.42, which was the rate of exchange on March 31, 1978. 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.

On October 28, 1977 foreign exchange control regulations were liberalized and a floating rate for the Israel pound was instituted.

For the years ended March 31, 1974, 1975, 1976, 1977 and 1978 (index for the month of February) the percentage increases in the level of the consumer price indexes were 37%, 44%, 22%, 36%, 47% for each year, respectively.