

PROSPECTUS

ISRAEL BANK OF AGRICULTURE LTD.

(A Limited Company Registered in Israel)

**150,000 7½% CUMULATIVE REDEEMABLE PREFERENCE "C" SHARES
LINKED TO THE DOLLAR**

Par Value IL. 420 per Share

(The Shares are non-voting, are redeemable at the option of the Bank but not prior to ten years from the date of this Prospectus and do not participate in surpluses of the Bank, on liquidation, over and above the par value thereof. Dividends are subject to a 25% tax withheld in Israel.)

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.

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.

Preference "C" Shares par value IL. 420 per share	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to Registrant(3)
Per Share	\$100.00	\$7.50	\$92.50
Total	\$15,000,000	\$1,125,000	\$13,875,000

- (1) The Shares 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 Shares sold by the Underwriter, no funds will be returned if all of the Shares are not sold. As at May 31, 1972, 6,936 Shares had been sold.
- (2) The Underwriter will receive commissions of 7½%, and the Bank has agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933 as amended.
- (3) Before deduction of certain expenses, estimated at approximately \$100,000 payable by the Bank, in connection with the issuance and sale of the Shares.

The Bank was organized by the State of Israel, which owns approximately 93% of the outstanding voting shares of the Bank. In addition, the Government of Israel, to a large degree, determines Bank policies with respect to loans made by the Bank (see "Important Factors To Be Considered—Relationship of the Bank to the Israel Government").

As at March 31, 1972, the Bank had outstanding senior debt aggregating IL. 62,427,289 and other preference shares aggregating IL. 15,300,000. In addition, there is a floating charge, created by outstanding issues of debt securities, on all of the assets of the Bank.

This offering may have a special appeal to persons with an interest in Israel, rather than the general public.

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

All permits, approvals and licenses required under Israel Law for the offer and the issuance of the shares 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.

CAPITAL FOR ISRAEL, INC.

The date of this Prospectus is June 29, 1972

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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Until July 11, 1972, being ninety days after the date of the original offering hereof, all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters.

REGISTRATION STATEMENT

The Israel Bank of Agriculture Ltd. 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 150,000 7½% Cumulative Redeemable Linked Preference "C" Shares 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 262141.

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—Nature of 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 about 78% of its food needs. Israel has developed an agricultural program designed to achieve certain specific objectives within the years 1972 through 1976. These objectives include increasing land under cultivation, increasing gross production and the export value of agricultural products and investments in agriculture. Funds for the implementation of this program come from the Israel Government budget, a loan granted by the World Bank (see "Business of the Bank—World Bank Loan") 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, which supplied substantially all of the original capital of the Bank, is the owner of approximately 93% of the outstanding voting shares of the Bank. As such, the Government has the power to elect all of the directors of the Bank. The Bank's policies are based upon the general policies of the Ministry of Agriculture, in accordance with the above stated program for the development of Israel agriculture. These policies are coordinated with the Ministry of Agriculture through a joint committee for the granting of loans (see "Business of the Bank—Nature of Loans"). Since the Bank is the prime allocator of funds in accordance with the Government development program, the Government of Israel has granted certain guarantees to the Bank. These guarantees include

guarantees in certain cases with respect to loans granted (see "Business of the Bank—Nature of Loans"), a guarantee with respect to linking provisions contained in liabilities of the Bank (see "Business of the Bank—Linking of Loans"), and a guarantee of the loan made from the World Bank (see "Business of the Bank—World Bank Loan").

Enforcement of Liabilities

All of the directors and officers of the Bank and certain of the experts named herein are residents of Israel. It may be difficult for investors to effect service within the United States on such directors or officers or experts, or to realize against them in the United States on judgments of courts of the United States predicated upon civil liability under the Securities Act of 1933 or the Securities Exchange Act of 1934. The Bank has been advised by 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 of the United States would enforce similar Israeli judgments. Under the provisions of the recently enacted Securities Law of Israel, 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 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

At the present time there is no market in the Shares and it is unlikely that any active trading market will develop for the Shares. It is contemplated that the Shares will be listed on the Tel-Aviv Stock Exchange upon completion of this offering (see "Convertibility of Currency and Israel Taxes").

Economic Conditions in Israel

Israel has an enormous defense expenditure which has multiplied approximately 500% since 1966 and which absorbs approximately 45% of its state budget. As a result, the amount of money available for economic development and other national purposes has been depleted. In addition, Israel, at September 30, 1971, had a foreign debt of approximately \$3.5 billion as compared to a gross national product in 1971 of approximately \$5.2 billion. In addition, during 1972 more than 65,000 immigrants are expected in Israel and to accommodate such immigrants housing must be constructed, schools built and industry developed, which will further tax the economy of Israel. Production of export items must be stimulated in an effort to attempt to reduce the enormous trade deficit of Israel. If Israel is to finance its balance of payments deficit, there must be a continuation of compensation payments made by Germany, income resulting from the sale of securities (primarily in the United States) and contributions from world Jewry. (For additional information, see "Conditions in Israel".)

TERMS OF OFFERING

The Shares being offered hereby are being offered only to non-residents of the State of Israel, at a price of \$100.00 per share. The purchase price is payable either in United States dollars or in State of Israel bonds (Development Issue, Second, Third and Fourth Development Issue, Development Investment Issue or Second or Third 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 and Third Development 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, that persons who pay for the Shares with State of Israel Bonds will be subject to income tax in the United States on the excess, if any, of the amount at which such bonds are accepted as payment for the Shares over the amount paid for the Bonds.

Arrangements have been made for the re-purchase at par, in United States currency, of Shares 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 up to five years from the date of this Prospectus, but no such repurchase shall be made more than two years from the date of death.

Although this offering is being made on a best efforts basis, funds received from the sale of the Shares 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, the acquisition of securities of "less developed country corporations" are exempt from the tax. The Bank has received an exemption from the Interest Equalization Tax on the basis that the Bank qualifies as a "less developed country corporation" under the terms of the law and the present regulations of the Treasury Department relating thereto.

APPLICATION OF PROCEEDS

The proceeds from the sale of the Shares being offered hereby, to the extent received, will be used as part of the capital of the Bank for agricultural purposes and will not be allocated for any specific purposes (see "Business of the Bank—Nature of Loans" and "Important Factors To Be Considered—Summary of Program for Development of Israel Agriculture"). Since there is no firm underwriting commitment, there is no assurance that any proceeds will be received from this offering. As at May 31, 1972, 6,936 of the Shares had been sold. However, if the offering had been completely sold as at March 31, 1972, the proceeds of the offering would have represented approximately 40% of the total outstanding share capital of the bank (see "Capitalization").

CAPITALIZATION

The following table shows the capital structure of the Bank as at March 31, 1972, adjusted pro forma to reflect the creation of 150,000 7½% Cumulative Redeemable Preference "C" Shares, linked to the U.S. dollar, par value IL.420 per share, 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 (U.S. \$1=IL.4.20). The amounts outstanding which are linked to the Cost of Living Index have been adjusted to the Index for February 1972.

TITLE OF CLASS	Authorized (Shares)	Outstanding or to be Outstanding as of March 31, 1972 (Shares)	Outstanding if all securities being Registered are Sold (Shares)
A. SHARE CAPITAL			
Ordinary Shares, par value IL.1	104,700,000	79,550,926	79,550,926
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	150,000	—	150,000
Receipts on account of Ordinary Shares—IL. 1,889,260 as of March 31, 1972			

B. DEBENTURES

Series	Years of Redemption	Rate of Interest p.a.	Linking Terms	Balance Outstanding (including Linking Increments) IL.	To be Outstanding IL.
				1,225,000	1,225,000
1	1964-73	6½%	U.S. dollar		
	1964-73	6½%	Cost-of-living index	435,285	435,285
2	1964-73	6 %	U.S. dollar	453,600	453,600
	1964-73	6 %	Cost-of-living index	1,555,063	1,555,063
3	1965-74	6½%	U.S. dollar	712,133	712,133
	1965-74	6½%	Cost-of-living index	581,474	581,474
4B, listed on Tel- Aviv Stock exchange as series 5	1969-80	5½%	Cost-of-living index	5,614,296	5,614,296
6	1974-85	5½%	Cost-of-living index	3,957,903	3,957,903
7	1976-87	5½%	Cost-of-living index	6,728,053	6,728,053
8	1977-88	5½%	Cost-of-living index	1,405,702	1,405,702
9	1977-88	6 %	Cost-of-living index	4,672,813	4,672,813
10	1977-88	6 %	Cost-of-living index	3,422,816	3,422,816
				30,764,138	30,764,138

C. LOAN

	<u>Balance Outstanding (including Linking Increments)</u>	<u>To be Outstanding</u>
The International Bank of Reconstruction and Development 7¼% loan amounts in various currencies equivalent to US\$20 million and repayable in the same currency as received up to 1987(A)	IL.31,663,151	IL.31,663,151

(A) See "Business of the Bank—Nature of Loans" page 11 and "Outstanding Securities of the Bank—Debentures and Charges" page 21 of the Prospectus.

ISRAEL BANK OF AGRICULTURE LTD.
STATEMENTS OF INCOME
(Note D)

The following statements of income of the Israel Bank of Agriculture Ltd. for the five years ended March 31, 1972 have been examined by Messrs. Bawly Millner & Co., certified public accountants (Israel), whose opinion thereon appears elsewhere herein. These statements should be read in conjunction with the notes thereto and with the financial statements and related notes set forth elsewhere in this Prospectus.

	Year ended March 31,				
	1968 IL.	1969 IL.	1970 IL.	1971 IL.	1972 IL.
Operating income:					
Interest on loans* (Note A)	24,738,530	25,198,348	30,006,870	32,609,893	37,807,380
Interest on deposits with the Ministry of Finance and on balances with the Bank of Israel and banking institutions*	3,080,202	1,969,466	3,412,867	5,082,954	6,756,260
Income on Government securities (Note D)**	320,982	481,262	482,586	704,801	1,423,495
Dividends on shares	70,862	118,064	121,617	4,800	6,760
Other income	117,082	124,365	294,555	490,683	1,235,819
Total operating income	28,327,658	27,891,505	34,318,495	38,893,131	47,229,714
Operating expenses:					
Interest on debentures*	4,092,397	2,451,940	2,569,433	2,734,359	3,525,150
Interest on deposits and loans*	9,594,695	9,445,596	13,548,800	15,661,202	20,352,042
Provision for possible losses on loans (Note B) ..	2,200,118	1,375,000	1,760,000	1,059,602	1,220,000
Salaries and employees' benefits	1,166,664	1,392,806	1,447,742	1,877,437	2,110,891
Maintenance of bank premises	151,239	154,317	167,540	218,430	246,646
Depreciation of bank premises and equipment (Note C)	22,242	35,316	87,618	13,119	69,423
Other expenses	291,051	337,338	337,611	562,003	914,622
Total operating expenses	17,518,406	15,192,313	19,918,744	22,126,152	28,438,774
Operating earnings before income taxes	10,809,252	12,699,192	14,399,751	16,766,979	18,790,940
Income taxes applicable to operating earnings (Note D)	6,259,985	6,608,003	7,863,610	8,957,000	9,870,000
Net operating earnings	4,549,267	6,091,189	6,536,141	7,809,979	8,920,940
Non-operating income (deductions):					
Capital increase expenses	(825)	—	(47,947)	(75,002)	—
Provision for decrease in value of shares (1970; 1972—cancellation of provision)	—	(115,000)	115,000	(14,000)	14,000
Total non-operating income (deductions)	(825)	(115,000)	67,053	(89,002)	14,000
Net Income	4,548,442	5,976,189	6,603,194	7,720,977	8,934,940
Less dividends on 4% cumulative preference shares (net)	9,000	9,000	9,000	9,000	9,000
Net income after dividend on 4% cumulative shares (net)	4,539,442	5,967,189	6,594,194	7,711,977	8,925,940
Earnings per share (Note E)					
Ordinary shares of IL. 1	0.06	0.08	0.09	0.09	0.10
8% cumulative and participating preference shares of IL. 10	1.28	1.48	1.56	1.56	1.71
Ratio of earnings to fixed charges and preference dividends combined	1.78	2.06	1.89	1.90	1.78

* Includes linking differences received or paid, respectively.

** Includes linking differences accrued—see Note D.

The notes to the statements of income are an integral part thereof.

ISRAEL BANK OF AGRICULTURE LTD.

NOTES TO THE STATEMENTS OF INCOME

For the five years ended March 31, 1972

NOTE A—INTEREST ON LOANS

Income from interest is included in the statements of income on a cash basis, with the addition of estimated collections during one and a half months after balance sheet date, less estimated corresponding collections in the previous year.

Interest includes the following amounts on loans granted to subsidiaries:

<u>Year ended March 31,</u>	<u>IL.</u>
1968	173,772
1969	132,404
1970	241,619
1971	148,133
1972	562,250

NOTE B—PROVISION FOR POSSIBLE LOSSES ON LOANS

The annual provision for the year ended March 31, 1968 was based on a proportion of the instalments overdue at that date.

As from the year ended March 31, 1969 the annual provision was based on the sum total of loans outstanding at balance sheet date, at a yearly rate of approximately 0.5% of the amount of loans outstanding on March 31, 1969 and 1970 and 0.25% of the amount of loans outstanding on March 31, 1971 and 1972, respectively.

Had the Bank computed the provisions for the whole period on the same basis as for the year ended March 31, 1972, the amounts provided would have been:

<u>Year ended March 31,</u>	<u>IL.</u>
1970	880,000
1969	690,000
1968	690,000

and operating earnings before and after income tax would have been increased by IL. 880,000, IL. 685,000, and IL. 1,510,000, respectively, and the earnings per share would have been increased by IL. 0.01; IL. 0.01 and IL. 0.02 per ordinary share and by IL. 0.11; IL. 0.09 and IL. 0.09 per 8% cumulative and participating preference shares, respectively.

ISRAEL BANK OF AGRICULTURE LTD.

NOTES TO THE STATEMENTS OF INCOME (Continued)

For the five years ended March 31, 1972

NOTE C—DEPRECIATION OF BANK PREMISES AND EQUIPMENT

For depreciation policy in connection with the Bank's premises and equipment, see Note 4 to financial statements.

NOTE D—ADJUSTMENT OF THE STATEMENTS OF INCOME

- a. The Bank's liability for income tax is lower than the amounts stated in the statements of income by an amount equal to 25% of the dividends declared or paid each year since the amount withheld from the dividends is an allowable deduction for income tax purposes. The dividends declared or paid are reflected in the statements of earned surplus net of the deduction of the credit for 25% for such dividend. The amounts for prior years were accordingly restated.
- b. Interest accrued in the year ended March 31, 1971 and linkage differences accrued in the year ended March 31, 1972 on bonds approved for investment (Note 2a to financial statements) and relating to previous years were included in the statements of income for the relevant years, together with the related tax effect.

NOTE E—EARNINGS PER SHARE

Earnings per share were based on the outstanding share capital at the end of each year since—according to the terms of allotment—shares allotted during any year are entitled to the same dividends as shares outstanding at the beginning of each year.

NOTE F—RATIO OF EARNINGS TO FIXED CHARGES

For purposes of this ratio, earnings consist of income before non-operating deductions, income taxes and interest on debentures, deposits and loans; fixed charges consist of interest on debentures, deposits and loans and dividends on the 4% cumulative preference shares. The pro forma ratio of earnings to fixed charges for the year ended March 31, 1972, adjusted to give effect to the issuance of the 7½% cumulative redeemable linked preference "C" shares and a reduction in the interest on deposits and loans from the receipt of the proceeds of this offering, would be 1.50.

BUSINESS OF THE BANK

Nature of Loans

As previously stated, loans are made by the Bank from: (i) the Bank's own resources; (ii) Government deposits in the Bank; and (iii) other deposits in the Bank, primarily deposits made from other financial institutions.

The following table indicates the division of such loans for the three years ended March 31, 1972:

	March 31,		
	<u>1970</u>	<u>1971</u>	<u>1972</u>
Bank's own resources	IL. 112,155,700	IL. 107,678,476	IL. 124,759,730
Government Deposits	239,631,177	264,270,794	282,521,029
Other Deposits	8,358,110	31,784,950	79,741,771
TOTAL	<u>IL. 360,144,987</u>	<u>IL. 403,734,220</u>	<u>IL. 487,022,530</u>

Most of the loans made from Government deposits are for a period of from 12 to 17 years and those made from the Bank's own resources are normally for a period of up to six years. Approximately 65% of the loans made by the Bank during the year ended March 31, 1972 were passed upon by a joint committee consisting of representatives of the Ministry of Agriculture and the Bank with the balance not submitted for approval to such joint committee. All loan applications must be submitted to the Board of Directors of the Bank for final approval. However, short-term loans are granted after approval by management, pursuant to a general authorization of the Board of Directors.

The Bank normally grants loans only to the extent of from 60% to 80% of the cost of any particular project. The borrower is expected to provide the balance of funds necessary from his own resources. Where the borrower cannot meet his share of the financing of such project, the borrower normally applies to his affiliated financial institution. This institution will then recommend the granting of the loan, usually for a shorter term period than the principal loan made by the Bank, and such loans will be made from the joint funds maintained by the Bank and the financial institution. Such loans are usually made on a basis of 50% by the Bank and 50% by the financial institution. The joint fund is managed by a joint committee consisting of a representative of the Bank and a representative of the financial institution concerned.

The Bank maintains joint funds with financial institutions of agricultural organizations. As at March 31, 1972 thirty-eight such funds were in existence and these funds represented approximately 4% of the outstanding loans of the Bank. In connection with loans issued from these joint funds, the Organizations guarantee the repayment of all loans so made, but only to the extent of the deposit made by such Organizations with the Bank for the financing of the activities of the joint fund.

The Bank also arranges for planned and supervised credit operations under which the Bank undertakes to furnish investment and operational capital, on an agreed annual basis, to the recipient of the loan. These planned and supervised credit operations are generally financed by the Bank and the Ministry of Agriculture within the framework of general Government plans to rehabilitate the financing structure of individual agricultural developments. As at March 31, 1972 the Bank had invested IL. 252,967,971 in the planned and supervised credit operations.

The following table sets forth information relating to the outstanding loans of the Bank as at March 31, 1972.

Aggregate Amount of Loans (in IL. 000)	Number of Borrowers	Size of Loan per Borrower (in IL.)*
9,783	1,045	To 50,000
8,623	121	50,001 to 100,000
19,221	133	100,001 to 200,000
27,043	109	200,001 to 300,000
35,211	88	300,001 to 500,000
34,346	55	500,001 to 750,000
38,763	44	750,001 to 1,000,000
125,769	87	1,000,001 to 2,000,000
67,966	28	2,000,001 to 3,000,000
36,562	11	3,000,001 to 4,000,000
34,522	8	4,000,001 to 5,000,000
49,214	8	Over 5,000,000
<u>487,023</u>	<u>1,737</u>	

* Reflects consolidation of loans per borrower.

All loans are usually secured by mortgages on real estate, liens and specific or floating charges on plant or equipment. A floating charge is a charge on property which does not relate to any definitive property. A floating charge is contrasted with a fixed charge in that a floating charge does not prevent the owner from disposing of the property without the consent of the creditor, whereas, in a fixed charge, the consent of the holder of the lien would be required to approve any transaction involving property against which a lien exists. In many instances, the Bank insists upon guarantees of such loans by the marketing organization of agricultural produce or by a third party.

Loans are generally made at an interest rate of 9% per annum, although short-term loans are normally made at an interest rate higher than 9% per annum.

On March 31, 1972 approximately IL. 2,236,590 was owed to the Bank for more than three months past the due date of such loans and legal proceedings had been instituted with respect to unpaid loans aggregating IL. 338,060. The Bank believes that substantially all of the above arrears will ultimately be collected since substantially all of them are secured by mortgages or other security deposits. As at March 31, 1972, the reserve for "doubtful debts" amounted to IL. 13,370,000.

Linking of Loans

Prior to April, 1968, the Bank made long-term loans at varying rates of interest. However, certain of these loans were linked either to the United States Dollar or to the Cost of Living Index. The concept of linkage was instituted as a result of a high rate of inflation in Israel and, therefore, in order to attempt to provide a protection to the substance of the outstanding loans receivable, linkage became an important factor. Loans were linked to the United States Dollar, under which interest and principal were repaid, based upon the official rate of exchange then prevailing. Therefore, upon devaluation of Israeli currency, borrowers were required to repay principal and interest with a greater number of Israeli pounds than those originally borrowed, in proportion to the new parity of the Israel Pound to

the Dollar. A similar linkage procedure was instituted with respect to the Cost of Living Index, under which the number of pounds to be repaid on any outstanding loan was changed, based upon such Index at the time of the loan and at the time of repayment.

In 1968 the Government of Israel determined that the granting of linked loans was contributing to the rising cost of living, and therefore generating further inflationary tendencies. It therefore instituted a new policy retroactive to January 1, 1967, with respect to the granting of loans by the Bank from Government resources (and from other deposits which qualified under the Government's regulations) which, under the first stage, was designed to enable borrowers, whose loans were originally linked, to cancel the payment of linkage increments by paying an additional 4% interest per annum to be added to the original interest rate on the loan. The Government thereupon cancelled the linkage increments on Government deposits with the Bank, against payment of the 4% interest by the Bank to the Government. The second stage of the policy, which became effective retroactive to October 1, 1967, placed an upper ceiling of 9% interest on such loans, whatever the original terms, which 9% included the aforesaid additional 4% interest per annum. The Government thereupon agreed to adjust the rate of interest paid by the Bank to the Government on Government deposits, so as to leave unchanged the profit margin previously realized by the Bank.

In April 1968, (effective retroactively to January 1, 1967) the Bank co-ordinated its long term loan policy with respect to loans made before that date and agreed to cancel linkage provisions on loans made from sources other than those described above in exchange for an additional charge of 4% per annum. The Government, on the other hand, undertook to carry for its own account, the linkage differences on moneys borrowed by the Bank from others in order to finance loans made by the Bank in respect of which linkage provisions were cancelled as aforesaid. The Bank, on its part, pays the Government the additional interest which it collects from borrowers, as aforesaid. Thereafter, the Bank decided in accordance with the Government request to put a ceiling of 9% per annum on the said loans in consideration whereof the Government agreed, effective October 1, 1967, to compensate the Bank for any difference between the original interest charged by the Bank on such loans and the 9% interest which the Bank agreed to charge borrowers.

Notwithstanding the general change made with respect to the granting of loans linked to the U.S. Dollar, certain outstanding loans made by the Bank are still so linked. As at March 31, 1972, the outstanding loans linked to the U.S. Dollar aggregated IL.1,989,273, of which IL.10,735 were loans granted from Government Deposits and IL.1,978,537 were loans granted from the Bank's own resources. As at March 31, 1972, linkage differences with respect to such loans aggregated IL.2,555,009.

World Bank Loan

On October 21, 1970 the Bank signed a Loan Agreement with the International Bank for Reconstruction and Development (hereinafter the "World Bank") (hereinafter the "Loan Agreement"). Thereunder, the Bank will receive a loan totalling \$20,000,000, which may be made by the World Bank in currencies other than U.S. dollars, which is designed for financing a part of the Israel Agricultural Development Program. The loan was received for a period of 17 years. It carries interest at the rate of 7¼% per annum and repayments will commence on December 15, 1974, in semi-annual instalments, ending on June 15, 1987. Repayment must be made in the currencies in which the loan was received.

The Bank undertook to pay to the World Bank a Commitment Charge of ¾% per annum on the outstanding balances undrawn until June 30, 1974, which is the last date of utilizing the said loan. The Ministry of Finance of the State of Israel, agreed to reimburse the Bank for the said Commitment Charge. As security for the repayment of the said loan, the Bank has charged its assets, as more fully described under "Outstanding Securities of the Bank—Debentures and Charges". The full responsibility for repayment of the loan is on the Bank. The Government of Israel, however, has guaranteed to the World Bank the repayment of the loan.

