

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

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

D. CAPITAL NOTES

| <u>Years of Redemption</u> | <u>Rate of Interest p.a.</u> | <u>Currency</u> | <u>Balance Outstanding at March 31, 1976</u> | <u>To be Outstanding</u> |
|----------------------------|------------------------------|-----------------|--|--------------------------|
| 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, | | | | | Translated to \$ 000 |
|---|-------------------------|----------------|----------------|----------------|----------------|-------------------------|
| | 1971 | 1972 | 1973 | 1974 | 1975 | |
| | IL.000 | IL.000 | IL.000 | IL.000 | IL.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 |
| | <u>120,798</u> | <u>152,802</u> | <u>183,671</u> | <u>216,959</u> | <u>325,343</u> | <u>45,823</u> |
| 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 |
| | <u>61,920</u> | <u>90,344</u> | <u>116,187</u> | <u>140,146</u> | <u>221,447</u> | <u>31,190</u> |
| 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 | <u>27,438</u> | <u>28,558</u> | <u>28,734</u> | <u>29,413</u> | <u>35,996</u> | <u>5,070</u> |
| 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 | <u>1,668</u> | <u>4,442</u> | <u>7,585</u> | <u>11,970</u> | <u>11,230</u> | <u>1,582</u> |
| Net earnings (Note h) | <u>29,106</u> | <u>33,000</u> | <u>36,319</u> | <u>41,383</u> | <u>47,226</u> | <u>6,652</u> |
| 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 |
| | <u>11,255</u> | <u>11,647</u> | <u>11,539</u> | <u>12,031</u> | <u>14,464</u> | <u>2,037</u> |
| Less/—Reduction in tax liability (Note d) | 2,814 | 2,911 | 2,885 | 3,609 | 5,062 | 712 |
| Net dividends on non-participating shares | <u>8,441</u> | <u>8,736</u> | <u>8,654</u> | <u>8,422</u> | <u>9,402</u> | <u>1,325</u> |
| Net earnings applicable to the participating shares | <u>20,665</u> | <u>24,264</u> | <u>27,665</u> | <u>32,961</u> | <u>37,824</u> | <u>5,327</u> |

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 |
| "CCI" 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 |
| "CCI" 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 | Additions Charged to expenses | Deductions Loans written off | Balance at end of year |
|-------------------------|------------------------------|-------------------------------|------------------------------|------------------------|
| | IL.000 | IL.000 | IL.000 | 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 taxable to ordinary corporate income in each year, and the income tax provisions created by the Bank—

| | 1971 | | 1972 | | 1973 |
|---|------------------|---|------------------|---|------------------|
| | Amount IL.000 | Percentage of pre-tax income % | Amount IL.000 | Percentage of pre-tax income % | Amount IL.000 |
| 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 | <u>35,017</u> | <u>53.1</u> | <u>38,651</u> | <u>53.2</u> | <u>49,553</u> |
| 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 |
| | <u>35,017</u> | | <u>38,651</u> | | <u>49,553</u> |

*Includes services tax.

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

at the income tax rate appli-

| Percentage of pre-tax income* | 1974 | | 1975 | |
|-------------------------------------|---------------|-------------------------------------|---------------|-------------------------------------|
| | Amount | Percentage of pre-tax income* | Amount | Percentage of pre-tax income* |
| | <u>IL.000</u> | <u>%</u> | <u>IL.000</u> | <u>%</u> |
| 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 |
| <u>54.11</u> | <u>58,760</u> | <u>58.25</u> | <u>92,817</u> | <u>67.35</u> |
| | | | 2,500** | |
| | | | <u>90,317</u> | |
| | 47,400 | | 67,900 | |
| | 1,200 | | — | |
| | 9,300 | | 21,870 | |
| | 860 | | 547 | |
| | <u>58,760</u> | | <u>90,317</u> | |

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

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

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:—

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

Note e—CAPITAL GAINS

These comprise:—

| | Year ended December 31, | | | | |
|--|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 1971 <u>IL.000</u> | 1972 <u>IL.000</u> | 1973 <u>IL.000</u> | 1974 <u>IL.000</u> | 1975 <u>IL.000</u> |
| Gains on sale of investments in shares and State of Israel obligations | 597 | 1,187 | 4,262 | 5,993 | — |
| Gain on sale of property and equipment | 1 | 132 | 75 | 8 | 43 |
| Capital gains tax | 598 | 1,319 | 4,337 | 6,003 | 43 |
| Net gains | <u>438</u> | <u>1,319</u> | <u>3,687</u> | <u>4,803</u> | <u>43</u> |

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.

The amounts of the Treasury's participation in linkage increments on dividends are shown net of taxes thereon as follows:—

| Year ended December 31, 1971 | Amount of taxes <u>IL.000</u> |
|------------------------------|----------------------------------|
| 1972 | 3,400 |
| 1973 | 4,600 |
| 1974 | 4,900 |
| 1975 | 9,300 |
| | <u>21,870</u> |

See Notes 1 and 5 to Notes to Financial Statements.

Note g—PROVISION FOR DIMINUTION IN VALUE OF INVESTMENTS

| Year ended December 31, | Balance at beginning of year <u>IL.000</u> | Additions Charged to expenses <u>IL.000</u> | Deductions | | Balance at end of year <u>IL.000</u> |
|-------------------------|---|--|-------------------------------------|---|---|
| | | | Credited to Income <u>IL.000</u> | Credited to Investment Account <u>IL.000</u> | |
| 1971 | 3,050 | 1,700 | — | — | 4,750 |
| 1972 | 4,750 | 861 | — | — | 3,400 |
| 1973 | 3,400 | 100 | — | 2,211 | 3,500 |
| 1974 | 3,500 | — | 1,350 | 1,968 | 182 |
| 1975 | 182 | — | — | — | 182 |

Note h—EARNINGS PER SHARE

Earnings per share have been computed on the share capital outstanding at the end of each year (since participation in the distribution of profits over and above the fixed dividend applicable to each class of shares is determined on that basis).

Note i—CASH DIVIDENDS DECLARED PER SHARE

The amounts of cash dividends declared per share are shown gross before withholding tax at the rate of 25% for the period to June 30, 1975, and at the rate of 35% thereafter.

Note j—RATIO OF EARNINGS TO FIXED CHARGES

For the purpose of computing this ratio, earnings consist of operating earnings before other items, taxes on income and interest paid on deposits, loans, debentures and other accounts. Fixed charges consist of interest paid on deposits, loans, debentures and other accounts as well as dividends on non-participating shares net of the linkage increments thereon refunded by the Israel Treasury.

Note k—RECONCILIATION OF NET EARNINGS PREVIOUSLY REPORTED

As mentioned in Note 1 (b) to the financial statements, the investment in a 50% owned company is stated at cost. Prior to the year 1972, this company was a majority-owned subsidiary, and for the years 1970 and 1971 the Bank presented consolidated financial statements which included the above subsidiary.

Following is a statement reconciling the consolidated net earnings, as previously reported by the Bank, with the net earnings reported in this statement of income:—

| | Year ended December 31, <u>1971</u> |
|--|--|
| Consolidated net earnings as previously reported* | <u>IL.000</u> 29,448 |
| Adjustment to reflect investment in subsidiary on cost basis—Deduct—Equity in net earnings of the consolidated subsidiary* | (1,235) |
| Add—Cash dividend received from above subsidiary net of income tax | 893 |
| Restated net earnings | <u>29,106</u> |

*Restated.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
CONDENSED UNAUDITED INCOME STATEMENT
FOR THE SIX MONTH PERIODS ENDED JUNE 30, 1975 AND 1976

The statements of income presented below for the six months ended June 30, 1975 and 1976, are unaudited but, in the opinion of the management, reflect all adjustments (comprising only normal recurring accruals) necessary to present fairly the results of operations for those periods. These statements 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 statement of income for the six months ended June 30, 1976 has been translated into U.S. dollars at the rate IL.7.97 equal to U.S. \$1.00, which was the rate of exchange in effect on June 30, 1976. 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 six month period ended June 30, 1976.

Since June 30, 1976 the Israel pound has been devalued 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.

| | Six months ended June 30, | | |
|---|---------------------------|----------------|--------------------------------|
| | 1975 IL.000 | 1976 IL.000 | 1976 Translated to \$000 |
| Operating income | 135,056 | 219,063 | 27,486 |
| Operating expenses | 93,429 | 147,688 | 18,531 |
| Operating earnings before taxes on income and other items | 41,627 | 71,375 | 8,955 |
| Provision for taxes on income | 27,000 | 46,000 | 5,772 |
| Earnings before other items | 14,627 | 25,375 | 3,183 |
| Other items net of related income taxes (mainly Israel Treasury's participation in linkage increments on dividends) | 3,739 | 5,991 | 752 |
| Net earnings for the period | 18,366 | 31,366 | 3,935 |
| Dividends on non-participating shares (net) | 4,474 | 5,134 | 644 |
| Net earnings applicable to the participating shares | <u>13,892</u> | <u>26,232</u> | <u>3,291</u> |
| | <u>IL</u> | <u>IL</u> | <u>Translated to \$</u> |
| Earnings per share | | | |
| "A" ordinary | 96.62 | 200.33 | 25.14 |
| Preferred ordinary | 1.03 | 2.07 | 0.26 |
| "C" Preference | 0.26 | 0.48 | 0.06 |
| "CC" Preference | 2.57 | 4.77 | 0.60 |
| "CCI" Preference | 2.57 | 4.77 | 0.60 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE STATEMENT OF INCOME

A. YEAR ENDED DECEMBER 31, 1974 AS COMPARED WITH YEAR ENDED DECEMBER 31, 1973

For the year ended December 31, 1974, the Bank showed an increase of Operating Earnings, before taxes and other items, of approximately IL. 9,300,000 over 1973. However, as a result of increased taxes of IL. 8,600,000 the Bank's earnings only increased by approximately IL. 700,000. This increase arose on an increase of Operating Income of approximately IL. 33,300,000. This, together with other income, consisting of capital gains, increased participations from the Israeli Treasury and the sale of a subsidiary corporation resulted in a total increase in Net Earnings of approximately IL. 5,100,000 over 1973.

B. YEAR ENDED DECEMBER 31, 1975, AS COMPARED WITH YEAR ENDED DECEMBER 31, 1974

For the year ended December 31, 1975, the Bank showed net earnings after taxes of approximately IL. 47.2 million, as compared to net earnings after taxes of approximately IL. 41.4 million for the period ended December 31, 1974. The increase in net earnings arose as a result of an increase of approximately IL. 27 million in net operating income, accompanied by an increase in tax of IL. 20.5 million and a decrease of approximately IL. 700,000 in other income (net of tax). There was an increase in recoveries relating to payments of exchange differences of approximately IL. 28,000,000 due to the substantial devaluation in November, 1974 (approximately 43%), the subsequent series of mini devaluations and the considerable rise in the consumer price index, which sums were paid by the Bank as a result of linked obligations.

Operating income increased by approximately 50% and operating expenses by approximately 58% and with an increase in tax of 43% as a result of changes in the system of taxation, the mentioned increase in net after tax profit was achieved.

C. SIX MONTHS ENDED JUNE 30, 1976 AS COMPARED WITH SIX MONTHS ENDED JUNE 30, 1975

For the interim period of six months ended June 30, 1976 the Bank showed operating earnings after taxes and before other items of approximately IL.25.4 million as compared to approximately IL.14.6 million in the corresponding period ended June 30, 1975. This increase of over 70% is due to:

- (i) An increase of over IL. one billion in outstanding loans from July 1, 1975 to June 30, 1976,
- (ii) Changes in interest rates charged by the Bank which took place in the latter part of 1975 with retroactive effect from April 1, 1975 (see also details on page 18), and
- (iii) The impact of the above increase in interest rates, although fully reflected in the income statements for the full year of 1975 and later period, is not included in interim capsule figures for the six months ended June 30, 1975 as it is not considered material in relation to that period.

BUSINESS OF THE BANK

Nature of Loans

The Bank was organized to serve as an instrument to encourage and assist in the establishment and expansion of economically useful and sound industrial enterprises in Israel. In its Memorandum of Association, the Bank was given wide powers to grant financial assistance to industrial enterprises by way of grant of loans, participation in capital or by other means. The Bank's main activities consist of the granting of long-term loans to industrial enterprises.

Since 1967 the Government of Israel has, by reason of an amendment to the Law for the Encouragement of Capital Investments, commenced the payment of grants to owners of approved enterprises. The Bank has been acting as agent for the Government in processing the applications for payment of the grants and making the payments thereof on behalf of the Government of Israel against payment of a commission ranging between 0.25% and 0.75% of the amount of such grants.

Other activities of the Bank include (a) the implementation of certain loans granted by the Agency for International Development of the United States; and (b) managing funds, or participating in funds, established with objects similar to those of the Bank.

The average duration of the loans made by the Bank is for a period of from seven to nine years. During the twelve months ended December 31, 1975 the Bank approved 443 loans aggregating 2.2 billion pounds (\$310 million) from all of the Bank's sources.

Applications for loans are reviewed by various Bank committees which include technical experts, engineers and economists. The application is then referred to the Loan Committee of the Board of Directors for its decision. In cases where the loan indebtedness of a borrower (including outstanding loans granted or agreed to be granted) will exceed IL.3,000,000 (\$422,535), the matter is reviewed by the Executive Committee of the Board of Directors, whose decision is final. However, where such loan indebtedness will not exceed IL.500,000 (\$70,423) the matter is decided by the Management of the Bank. (See "Management and Control," page 29.)

In cases where the Bank is not willing or able to accept full responsibility for the repayment of a loan, whether because of the inability of the borrower to give sufficient security or because of any other reasonable ground, and the Government is interested in the granting of such loans, the Government accepts partial and sometimes even full responsibility towards the Bank for losses which it may sustain as a result of the granting of the loan. The extent of the Government's responsibility for each such loan is fixed by the Bank in agreement with the Government, subject to the final approval of the Finance Committee of the Knesset. In cases where the Government accepts partial responsibility, as aforesaid, the primary risk lies with the Government. The balance of the loans at December 31, 1975 that were granted on full or partial responsibility of the Government, as aforesaid, amounts to IL. 980 (\$138) million. The maximum liability of the Government with respect to these loans was IL. 795 (\$112) million. The Finance Committee of the Knesset has approved, under the Law of State Guarantees, 1958, the grant of guarantee of the State for all said loans granted under the primary responsibility of the Government.

The Bank generally grants loans against mortgages on immovable property and/or fixed and/or floating charges on machinery and 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 goods in the ordinary course of

business without the consent of the creditor, whereas, in a fixed charge, the consent of the holder of the charge would be required to approve any transaction involving property against which a charge exists. In certain cases, the Bank also requires third-party guarantees (generally from the shareholders of the borrowing companies). Advances, if any, made by the Bank for short terms, until the execution of formal loan agreements, are usually made against guarantees of banks or financial institutions.

In accordance with arrangements made at the beginning of 1968 between the Government of Israel and the Bank, the rate of interest on loans to industrial enterprises was fixed at 9% per annum. As of April 1, 1975, these arrangements were altered with respect to loans made after that date. Henceforth the basic rate of interest will be 5% per annum, and in addition thereto, interest amounting to 50% of the percentage increase in the retail price index during the year is payable by the borrower, up to a maximum total interest rate of 12%, 14% or 17%, depending upon the type of development zone in which the industrial enterprise is located. In special cases, an interest rate of up to 20% per annum may be applied. In cases where loans are granted below or above the rate of 9% per annum, the Government compensates the Bank for, or the Bank pays to the Government—as the case may be—the difference in interest.

The Bank charges a one time commission of 1% of the amount of the loan, except that in some cases, generally loans of exceptionally large amounts, a smaller sum is charged.

Legal proceedings had been instituted by the Bank as of December 31, 1975 with respect to unpaid loans aggregating IL.112 (\$16) million, of which IL.94 (\$13) million represented loans granted at the responsibility of the Government and the balance, i.e. IL.18 (\$2.5) million, represented loans granted at the responsibility of the Bank. Of the IL.18 (\$2.5) million in loans granted on its responsibility, the Bank believes that it will recover approximately IL.10 (\$1.4) million by executing on the mortgages or other security given for these loans. In addition, on December 31, 1975 approximately IL.8.0 (\$1.1) million in installments on loans aggregating IL.67.7 (\$9.5) million was owed to the Bank for more than three months past the due date of such installments, and IL.12.0 (\$1.7) million in loans, although not yet due, were considered by the Bank, to involve a reasonable probability of not being collectible. As at December 31, 1975 the reserve for "doubtful debts" amounted to IL.22,500,000 (\$3,169,000). In 1975 and 1974 the Bank declared IL.229,011 (\$32,255) and IL.613,908 (\$86,466), respectively, of the unpaid balances of outstanding loans, including accrued interest, as bad debts.

The following table sets forth information relating to the outstanding loans of the Bank as of December 31, 1974 and December 31, 1975 before deduction of the amounts of IL.16,100,000 (\$2,267,606) and IL.22,500,000 (\$3,169,000), respectively, for doubtful debts:

| Size of Loan per Borrower (in IL.) | December 31, 1974 | | | December 31, 1975 | | |
|---|---------------------|--|--------------|---------------------|--|--------------|
| | Number of Borrowers | Aggregate Amount of Loans (in Million) | | Number of Borrowers | Aggregate Amount of Loans (in Million) | |
| | | IL. | \$ | | IL. | \$ |
| Up to IL. 500,000 (\$ 70,423) | 862 | 114.4 | 16.1 | 1,207 | 141.4 | 19.9 |
| From IL. 500,001 (\$ 140,845) to IL. 1,000,000 (\$ 140,845) | 120 | 85.2 | 12.0 | 125 | 92.0 | 13.0 |
| " IL. 1,000,001 (\$ 704,225) to IL. 5,000,000 (\$ 704,225) | 176 | 382.7 | 53.9 | 174 | 383.9 | 54.1 |
| " IL. 5,000,001 (\$ 1,408,451) to IL. 10,000,000 (\$ 1,408,451) | 36 | 248.2 | 35.0 | 34 | 238.3 | 33.6 |
| " IL. 10,000,001 (\$ 2,816,902) to IL. 20,000,000 (\$ 2,816,902) | 16 | 247.9 | 34.9 | 21 | 308.0 | 43.4 |
| " IL. 20,000,001 (\$ 4,225,352) to IL. 30,000,000 (\$ 4,225,352) | 11 | 275.6 | 38.8 | 16 | 392.1 | 55.2 |
| " IL. 30,000,001 (\$ 4,225,352) to IL. 50,000,000 (\$ 7,042,254) | 4 | 155.2 | 21.9 | 7 | 290.8 | 41.0 |
| " IL. 50,000,001 (\$ 7,042,254) to IL. 60,000,000 (\$ 8,450,704) | — | — | — | 1 | 57.7 | 8.1 |
| " IL. 60,000,001 (\$ 8,450,704) to IL. 80,000,000 (\$ 11,267,606) | 3 | 204.2 | 28.8 | 2 | 141.0 | 19.9 |
| Over IL. 80,000,001 (\$11,267,606) | 4 | 419.1 | 59.0 | 7 | 994.4 | 140.1 |
| | <u>1,232</u> | <u>2,132.5</u> | <u>300.4</u> | <u>1,594</u> | <u>3,039.6</u> | <u>428.3</u> |

The Bank has approximately 1600 customers and maintains a follow-up department whose employees inspect the plants of companies which have received loans from the Bank and also receives and studies their financial reports. In addition, many companies apply for additional loans, giving the Bank an opportunity for a review of such companies. The Bank has no fixed policy as to declaring loans delinquent or as to curing delinquent loans. The Bank's decision on these matters depends upon the facts of each individual situation involved.

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 Consumer Price 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 Consumer Price 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 April 1968, (effective retroactively to January 1, 1967) the Bank co-ordinated its long term loan policy with that of the Government of Israel with respect to loans made before that date and agreed to cancel linkage provisions on loans 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. For a description of a new policy of the Government with respect to the interest rates charged on loans made by the Bank, see "Nature of Loans."

Notwithstanding the general change made with respect to the granting of loans linked to the U.S. Dollar, as at December 31, 1975 two outstanding loans of the Bank were still so linked. The outstanding balances on these loans, part of which are guaranteed by the Government, are IL.131,331,000 (\$18,497,324) (including IL.60,256,000 (\$8,486,761) in linking increments) and IL.117,370,000 (\$16,530,986) (repayable in various foreign currencies).

Government Guarantees and Insurance

In consideration of the cancellation of the linking increments and the reduction of interest rates by the Bank as hereinbefore mentioned, the Government has, by the aforementioned arrangements and subsequent arrangements further agreed (a) that in respect of dividends which the Bank will pay on the Preference B Shares, the Preference C Shares, the Preference CC Shares, the Preference CC1 Shares and the Preference D Shares, the Government will pay to the Bank such amount as will, after allowance for Company tax and any other tax or imposition then payable by the Bank thereon, leave the Bank

with a net amount equivalent to the additional amount which the Bank will pay as part of such dividends due to the change in the price of the U.S. Dollar which occurred on November 19, 1967 or any further change which may subsequently take place. The liability of the Government as aforesaid is limited to the extent required to pay dividends at an annual rate of 7% on the Preference B Shares and 7½% on the other shares mentioned above, such percentage being calculated in each case on the nominal amount of the shares converted into U.S. Dollars at the rate of exchange which prevailed at the time of the creation of such shares; and (b) that likewise, in respect of capital which the Bank will pay on the shares mentioned above in the case of redemption or winding-up, the Government will pay to the Bank, to the extent which may be necessary, such amount as will, after allowance for any taxes or impositions then payable by the Bank thereon, leave the Bank with a net amount equivalent to the additional amount which the Bank will pay as part of such capital payment due to any change in the price of the U.S. Dollar as described above; and (c) that payment by the Government under (a) and (b) above shall be applicable to the extent of the devaluation of the Israel Pound based upon the ratio of IL. 3—to one U.S. Dollar except with respect to the Preference D Shares, to the extent of such devaluation based upon the ratio of IL. 3.50 to one U.S. Dollar; and (d) that the Government will insure or procure the insurance for the Bank to cover the Bank's obligations in respect of the difference in rate of exchange or linking increments on interest and principal which will be payable by the Bank on loans in foreign currency or linked to the Consumer Price Index, which had been received or contracted by the Bank through March, 1968. The said insurance will be applicable to the extent of the rise in the price of the U.S. Dollar above IL. 3—or, in respect of such part of any loans in foreign currency which have been obtained by the Bank when the price of the U.S. Dollar was or will be above IL. 3—, the insurance will be applicable to the extent of the rise of the price of the Dollar above the rate of exchange then prevailing.

Pursuant to an agreement made on September 30, 1969 between the Government, the Bank, and Yuval Insurance Co. Ltd., the Government undertook, without premium, to pay to the Bank, on the dates due the amounts which the Bank will pay as a result of the devaluation of the Israel Pound with respect to the U.S. Dollar based upon the ratio of IL. 3—to one U.S. Dollar in respect of long term loans which the Bank has up to the said date undertaken to repay in foreign currency. With respect to loans which the Bank has converted into Israel currency at the time when the rate was more than IL. 3 to one U.S. Dollar, the Government has undertaken to pay the difference between the rate subsisting on the date of conversion and the date of payment in proportion to the amounts received by the Bank at different rates of exchange. Up to March 31, 1973 these payments were made by Yuval on behalf of the Government and since that date are effected by the Government directly. The Agreement applies also to additional loans in foreign currency in respect whereof the Government and the Bank have agreed in each case to apply the provisions of the said agreement.

Accordingly changes in the rate of exchange beyond IL. 3—to U.S. Dollar are insured, but changes arising from obligations in respect of the rise in the price of the U.S. Dollar up to IL. 3 are not covered and are the Bank's obligations.

On December 12, 1973 the Government agreed to apply the provisions of the above-mentioned agreement of September 30, 1969 to the Notes, thereby insuring the Bank against the devaluation of the Israel currency with relation to the U.S. Dollar in respect of the payment of interest and repayment of principal on the Notes. This approval is given with respect to the proceeds of this offering which are used for the granting of the Ordinary Loans of the Bank. Proceeds of this offering used for loans for special purposes will be so insured only to the extent such loans are approved by the Accountant General

of the Ministry of Finance, which approval has usually been granted, and the Bank will make application in every such instance.

Under an agreement with the Government effective January 1, 1970, the Bank is permitted a profit margin of 1¾ % on borrowings made by the Bank. For a description of the current interest rates being charged on loans made by the Bank, see "Nature of Loans."

Competition

There are a number of other banks and financial institutions in Israel, some considerably larger than the Bank, which, through affiliated companies, grant long-term loans, *inter alia*, to industry. However, the Bank was established to grant long-term industrial loans, and accounts for approximately 60%-70% of this type of loan in Israel.

Property

The Bank's offices, which are owned by the Bank, are located in a cooperative office building at "Migdal Shalom," 9 Ahad Haam Street, Tel-Aviv, Israel. Its premises encompass approximately 25,000 square feet.

Employees

In addition to the Chairman, The Joint General Managers and the Deputy General Manager and General Counsel, the Bank employs approximately 170 employees, including five assistant general managers, one General Secretary, and the Chief Accounting Officer, and more than 60 professionals, consisting of economists, attorneys, accountants, and engineers. The Management believes that its relations with its employees have been satisfactory.

Subsidiaries

The Bank owns approximately 50% of the capital stock of the Investment Company for Industrial Development in Israel Ltd. (the "Investment Company"), with the balance owned by the Government of Israel. The Investment Company was organized in 1962 under the laws of the State of Israel. Its principal object is to act as an investment company in various branches of industry. The Investment Company is the main organ of the Bank through which it makes its investments in the share capital of companies. The Investment Company also holds immovable property. The authorized share capital of the Investment Company is IL.50,000,000 (\$7,042,254) of which IL.30,000,000 (\$4,225,352) has been issued and is fully paid up.

The Consolidated Income Statement of the Investment Company and its subsidiaries for the year ended December 31, 1975 showed a net profit of IL.8,779,313 (\$1,236,523), after providing for income tax and after providing for depreciation in the value of investments of IL.556,991 (\$78,449). The Consolidated Balance Sheet of the Investment Company and its subsidiaries as at December 31, 1975 shows an unappropriated balance of profit in the amount of IL.5,401,111 (\$760,720) after deduction of dividends for the year 1975. The Investment Company has distributed dividends from 1970 through 1975 in the amounts of IL.1,100,000, IL.1,600,000, IL.1,600,000, IL.2,400,000, IL.1,500,000, and IL.1,500,000 (\$211,268), respectively.

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth certain information concerning ownership of the voting securities of the Bank, including all persons known by the Bank and its directors to own more than ten percent (10%) of any class of such securities or 5% of all such securities as at December 31, 1975:

| <u>Name and Address</u> | <u>Title of Class **</u> | <u>Type of Ownership</u> | <u>Amount Owned</u> | <u>Percentage of Class</u> |
|--|---------------------------------|--------------------------|---------------------|----------------------------|
| State of Israel, The Treasury Jerusalem, Israel | Ordinary A Shares | Direct and Beneficial | 3,925 | 25.99% |
| Bank Hapoalim B.M.* | Ordinary A Shares | Direct and Beneficial | 4,370 | 28.94% |
| Bank Hapoalim B.M.* | Preferred Ordinary Shares | Direct and Beneficial | 50,000 | 5.00% |
| Israel Discount Bank Ltd. Israel* | Ordinary A Shares | Direct and Beneficial | 2,030 | 13.44% |
| Israel Discount Bank Ltd. Israel* | Preferred Ordinary Shares | Direct and Beneficial | 156,050 | 15.60% |
| Bank Leumi Le-Israel B.M. Israel | Ordinary A Shares | Direct and Beneficial | 2,750 | 18.21% |
| Bank Leumi Le-Israel B.M. Israel | Preferred Ordinary Shares | Direct and Beneficial | 78,996 | 7.90% |

*Includes affiliated companies, none of which beneficially owns in excess of 5% of any class of voting securities of the Bank. Hevra Lerishumim Shel Bank Discount Le-Israel B.M., affiliated with Israel Discount Bank Ltd., owns of record but not beneficially 604,798 or 60.47%, of the Preferred Ordinary Shares of the Bank, and Keren Hashkaot Shel Hevrat Haovdim, affiliated with Bank Hapoalim B.M., owns of record but not beneficially 1,560, or 10.33%, of the Ordinary A Shares of the Bank.

**See page 28 for the description of the voting rights of the Preferred Ordinary Shares and the Ordinary A shares.

In addition to the foregoing, the State of Israel, Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., and Israel Discount Bank Ltd., respectively, beneficially owned the following non-voting shares as of December 31, 1975:

The State of Israel

All issued Ordinary "B" Shares in the aggregate amount of IL. 134,900,000 (\$19,000,000)
49,500 Preference "A" Shares in the aggregate amount of IL. 49,500,000 (\$6,971,831)
329 Preference "B" Shares in the aggregate amount of IL. 329,000 (\$46,338)
21,864 Preference "D" Shares in the aggregate amount of IL. 6,559,200 (\$923,831)

Bank Hapoalim B.M.*

111,111 Preference "C" Shares in the aggregate amount of IL. 200,000 (\$28,169)
55,000 Preference "CC" Shares in the aggregate amount of IL. 1,650,000 (\$232,394)
120,000 Preference "CC1" Shares in the aggregate amount of IL. 3,600,000 (\$507,042)

Bank Leumi Le-Israel B.M.*

106 Preference "B" Shares in the aggregate amount of IL. 106,000 (\$14,930)
1,710,355 Preference "C" Shares in the aggregate amount of IL. 3,078,639 (\$433,611)
100,681 Preference "CC" Shares in the aggregate amount of IL. 3,020,430 (\$425,413)
141,111 Preference "CC1" Shares in the aggregate amount of IL. 4,323,330 (\$608,920)
104 Preference "D" Shares in the aggregate amount of IL. 31,200 (\$4,394)

Israel Discount Bank Ltd.*

114 Preference "B" Shares in the aggregate amount of IL. 114,000 (\$16,056)
2,279,335 Preference "C" Shares in the aggregate amount of IL. 4,102,803 (\$577,860)
108,988 Preference "CC" Shares in the aggregate amount of IL. 3,269,640 (\$460,513)
377,632 Preference "CC1" Shares in the aggregate amount of IL. 11,328,960 (\$1,595,628)
925 Preference "D" Shares in the aggregate amount of IL. 277,500 (\$39,085)

* Includes affiliated companies.

OUTSTANDING SECURITIES OF THE BANK

The Notes

The Notes are issued under an indenture dated as of July 25, 1974 (the "Indenture") between the Bank and Manufacturers Hanover Trust Company, as Trustee (the "Trustee"), a copy of which may be examined at the office of the Trustee. The statements under this caption are brief summaries of certain provisions contained in the Indenture and do not purport to be complete and are qualified in their entirety by reference to the Indenture.

The Notes are direct unsecured obligations of the Bank. However, in order to be qualified as debentures under the Israeli Companies law, the Notes are secured by a charge on assets of the Bank and therefore a floating charge has been created on certain furniture contained in the Bank's offices. The Notes will, upon presentation by the holders thereof, mature on December 31, 1998 and bear

interest from the first day of the calendar quarter in which they are subscribed and paid for or from the most recent interest payment date to which interest has been paid or duly provided for at a rate of 7½% per annum. Original issue Notes purchased hereunder will be dated as of the first day of the calendar quarter in which they are purchased. Interest is payable semi-annually on December 31 and June 30 of each year to Noteholders of record as of December 16 and June 15 of each year, and no later than 30 days after said interest payment dates to holders who have purchased original issue Notes on or prior to said interest payment dates but who are not of record as of said record dates (subject to certain modifications contained in the Indenture). Principal and interest are payable at the office or agency of the Bank designated and maintained for that purpose, which is the office of the Trustee, 40 Wall Street, New York, New York, except that the Bank reserves the right to make such payments directly to holders of the Notes who are non-residents of the United States. At the option of the Bank, interest payments may be mailed by check to the address of the person entitled thereto.

The Notes will be issued in fully registered form only in denominations of \$1,000 and any multiple thereof and may be transferred or split up (but not in denominations of less than \$1,000) without payment of any charge other than stamp duties or other governmental and state charges. No charge is made for accrued interest.

Optional Redemption Provisions

Subject to the approval of the Ministry of Finance of the State of Israel, the Notes may be redeemed at the option of the Bank in whole or in part on any date on or after January 2, 1981, upon not less than 30 nor more than 60 days' notice at a redemption price equal to 105% of the principal amount thereof. However, after the original maturity date of the Notes on December 31, 1998, only the principal amount thereof shall be paid for such redemption. If the date of redemption shall be other than an interest payment date, accrued interest to the date of redemption shall be added to the redemption price. The Bank will not reissue Notes that have been redeemed or repurchased.

Repurchase

The Bank reserves the right to purchase the Notes on any exchange on which they are registered or by private purchase at such prices as shall be determined by the Bank.

Maturity Date

The Notes will mature by their terms on December 31, 1998. However, Noteholders who do not elect to have their Notes mature on the maturity date will have an extended maturity date for an additional period of 18 months from said date. During this period of extension or subsequent extension thereto interest will continue to run. The Bank will notify each registered Noteholder not more than 75 nor less than 45 days prior to the maturity date of the Notes advising each such person that all Notes for which repurchase is requested must be delivered to the Trustee for payment and cancellation not less than 30 days prior to December 31, 1998. All Notes not presented at that time will be automatically extended until June 30, 2000. The same procedure will be adopted at the extended maturity date and additional extensions of the maturity date in each instance will be for periods of 18 months.

Subordination Provisions

The indebtedness of the Bank evidenced by the Notes, including the principal thereof, and premium, if any, and interest thereon is:

(i) subordinate and junior in right of payment to all secured indebtedness and obligations of the Bank, present and future;

(ii) subordinate to all future indebtedness or obligations of the Bank, secured or unsecured, which by their terms shall be senior in right of payment to the indebtedness evidenced by the Notes; and

(iii) rank equally and not prior to all other unsecured indebtedness or obligations of the Bank, present and future.

With respect to the charge created against certain furniture of the Bank in order to qualify said Notes as a debenture under the Israeli Companies law, the indebtedness evidenced by the Notes shall be subordinate to all other indebtedness and obligations of the Bank having charges against the same furniture. (See "Outstanding Securities of the Bank—Debentures and Charges".)

The Bank shall be entitled to create or extend further mortgages or charges, whether specific or floating, unlimited in amount, ranking in priority to or *pari passu* with or subsequent to the floating charge hereby created to secure the repayment of any sums, debentures, capital notes, indebtedness, obligations, deposits, borrowings or book debts or any other liability of the Bank hereinbefore or hereafter borrowed, raised or undertaken in whatever currency without any limitation whatsoever. In the case of any insolvency, receivership, conservatorship, reorganization, readjustment of debt, marshalling of assets and liabilities or similar proceedings or any liquidation or winding up of or relating to the Bank, whether voluntary or involuntary, all secured obligations shall be entitled to be paid in full before any payments shall be made on account of the principal of or premium, if any, or interest on the Notes, except for the charge, of limited value, created by the floating charge on certain furniture of the Bank.

Defaults and Waiver Thereof

The Indenture provides that the occurrence of one or more of the following events shall constitute an Event of Default: (i) default for 30 days in the payment of interest on any Note; (ii) default in the payment of the principal of any Note; (iii) default, for 60 days after notice, in the performance or observance of any other of the covenants or agreements in the Indenture or in the Note; (iv) certain events in insolvency. In case an Event of Default shall have occurred and be continuing the Trustee or the holders of at least 25% in principal amount of Notes then outstanding may declare the principal of all the Notes to be due and payable immediately, but such declaration may be annulled and certain past defaults waived by the holders of not less than a majority in aggregate principal amount of the Notes upon the conditions provided in the Indenture.

Modification of the Indenture

The Indenture provides that with the consent of the holders of not less than 66 $\frac{2}{3}$ % in aggregate principal amount of the Notes, modification and alteration of the Indenture may be made which affect the rights of the holders of the Notes; but no such modification or alteration may be made which would (i) extend the fixed maturity of the Notes or reduce the rate or extend the time of payment of interest thereon or reduce the amount of principal thereof or reduce any premium payable on the redemption thereof without the consent of the holder of each Note so affected; or (ii) reduce the above stated percentage of holders of Notes required to modify or alter the Indenture without the consent of the holders of all of the Notes.

Regarding the Trustee

Manufacturers Hanover Trust Company, the Trustee, has its principal corporate trust office at 40 Wall Street, New York, New York 10015.

Debentures and Charges

As of December 31, 1975, the Bank had outstanding various Debenture Issues aggregating IL. 370,763,000 (\$52,220,141) all of which were either linked to, or expressed in, U.S. Dollars or Swiss Francs or the Consumer Price Index. (See "Capitalization".) All outstanding Debenture Issues are secured by floating charges on the assets of the Bank. The Bank also has received loans and deposits secured by floating charges on its assets, which, as of December 31, 1975, aggregated IL. 577,481,000 (\$81,335,352). In addition, the Bank has (i) agreed to create a charge on demand to secure a loan, which as at December 31, 1975 aggregated IL. 9,682,000 (\$1,363,662), (ii) given a conditional charge on its assets to secure a loan, which as at December 31, 1975 aggregated IL. 68,160,000 (\$9,600,000) and (iii) deposited notes in the amount of IL. 5,474,000 (\$770,986) with the Bank of Israel to secure a loan.

Except for special deposits for the granting of loans, as of December 31, 1975, the following represent deposits and loans made with and to the Bank:

| | Currency or linkage terms**** |
|---|----------------------------------|
| The Israel Treasury | Israel Pounds |
| The United States Agency for International Development | Israel Pounds |
| *** The International Bank for Reconstruction & Development | Various foreign currencies |
| *** Export-Import Bank of the United States | U.S. Dollars |
| *** Consortium of British financial institutions | Pounds Sterling |
| *** Syndicate of Belgian banks | Belgian Francs |
| *** Export Development Corporation, Canada | Canadian Dollars |
| Israel Discount Bank Limited | Consumer price index |
| Israel Discount Bank Limited | U.S. Dollars |
| Barclays Discount Bank Limited | U.S. Dollars |
| First Pennsylvania Bank, Philadelphia | U.S. Dollars |
| Crocker National Bank, San Francisco | U.S. Dollars |
| Exchange National Bank, Chicago | U.S. Dollars |
| Consortium of financial institutions in France | U.S. Dollars |
| Effi Banca, Roma | French Francs |
| Bank Leumi Le-Israel B.M. | Italian Lire |
| Bank Hapoalim B.M. | U.S. Dollars |
| Union Bank of Israel Ltd. | U.S. Dollars |
| Israel Development Corporation Limited | U.S. Dollars |
| Ampal (Israel) Limited | U.S. Dollars |
| Technion—Israel Institute of Technology | U.S. Dollars |
| The Hebrew University, Jerusalem | U.S. and Canadian Dollars |
| Hadassah Medical Relief Association Inc. | Various foreign currencies |
| Bank of Israel | U.S. Dollars |
| United Mizrahi Bank Ltd. | Consumer Price Index |
| Discount Bank Investment Corporation Limited | Consumer Price Index |
| A banking institution in Europe | Consumer price index |
| A banking institution in the United States | German Marks |
| *** Barclays Bank Limited, London | U.S. Dollars |
| Various | Pounds Sterling |
| | Various foreign currencies |

* Interest rates are subject to changes in the Inter-Bank rates of interest, prime rates of interest and Euro-Dollar market interest rates.

** The amounts comprise various loans and deposits received in various foreign currencies, which have been expressed above in U.S.\$ according to rates of exchange prevailing on December 31 1975.

*** Secured, wholly or partly, by Floating Charges on the Assets of the Bank.

**** As at December 31, 1975, the official rates of exchange were U.S.\$1 = 7.10 Israeli Pounds, 0.9 Pounds Sterling, 40 Belgian Francs, 1.00 Canadian Dollars, 2.63 German Marks, 2.63 Swiss Francs, 4.50 French Francs, 688 Italian Lire, and 307 Japanese Yen.

***** Repayment requirements are as follows:

| Years | IL.000 | \$000 | Can. \$000 |
|-----------------|----------------|----------------|---------------|
| 1976 | 22,356 | 25,780 | 4,734 |
| 1977 | 14,745 | 20,446 | 1,304 |
| 1978 | 30,323 | 20,937 | 1,440 |
| 1979 | 28,226 | 14,425 | 1,200 |
| 1980 | 25,786 | 13,501 | 1,200 |
| 1981-1985 | 152,894 | 19,433 | 6,000 |
| 1986-1990 | 94,678 | — | 600 |
| 1991-1994 | 8,007 | — | — |
| | <u>377,015</u> | <u>114,522</u> | <u>16,478</u> |

The loan from the International Bank for Reconstruction and Development is to be repaid in a total of 14 different currencies. The three primary currencies are \$6,364,636, DM 25,270,264 and Japanese Yen 2,330,609,126.

| Repayable in the years: ***** | Rate of Interest % | Amount of loan or deposit (In Million) | Amount utilized by December 31, 1975 (In Million) | Balance December 31, 1975 (including Linking Increments) | |
|-------------------------------|--------------------|--|---|--|----------------|
| | | | | IL.000 | \$000 |
| 1976-1994 | 3-7.25 | 289.4 IL. | 289.4 IL. | 283,996 | 39,999 |
| 1976-1989 | 3½ | 40.0 IL. | 40.0 IL. | 24,889 | 3,505 |
| 1976-1983 | 5½-7 | 60.0 \$ | 58.1 \$ | 210,314 | 29,622 |
| 1976-1983 | 6-7 | 42.7 \$ | 39.5 \$ | 132,973 | 18,729 |
| 1976-1980 | 5½-7 | 32.7 £ | 15.0 £ | 117,056 | 16,487 |
| 1976-1983 | 6.3-7.2 | 1063.3 BFr | 870.4 BFr. | 91,843 | 12,936 |
| 1976-1986 | 6 | 16.1 C\$ | 15.4 C\$ | 90,272 | 12,714 |
| 1976-1987 | 6.1 | 4.0 IL. | 4.0 IL. | 4,015 | 565 |
| 1976-1977 | * | 21.5 \$ | 21.5 \$ | 23,075 | 3,250 |
| 1977-1981 | * | 8.2 \$ | 8.2 \$ | 58,220 | 8,200 |
| 1976-1979 | * | 5.0 \$ | 4.5 \$ | 11,686 | 1,646 |
| 1976-1979 | * | 7.8 \$ | 5.4 \$ | 27,277 | 3,842 |
| 1976-1978 | * | 2.6 \$ | 2.2 \$ | 7,380 | 1,039 |
| 1976-1980 | * | 50.0 F.Fr. | 33.5 F.Fr | 37,217 | 5,242 |
| 1976-1983 | * | 7447.5 Italian Lire | 3621.0 Italian Lire | 26,730 | 3,765 |
| 1976-1980 | * | 16.0 \$ | 16.0 \$ | 109,163 | 15,375 |
| 1976-1980 | * | 10.0 \$ | 10.0 \$ | 71,000 | 10,000 |
| 1976-1980 | * | 10.0 \$ | 10.0 \$ | 71,000 | 10,000 |
| 1976-1984 | 8½-10½ | 4.0 \$ | 4.0 \$ | 23,406 | 3,297 |
| 1976-1981 | 8½ | 0.3 \$ | 0.3 \$ | 1,242 | 175 |
| -1976 | 10 | 2.0 Can. and U.S.\$ | 2.0 Can. and U.S.\$ | 14,056 | 1,980 |
| 1976-1978 | 8-10 | 15.0 \$** | 11.3 \$** | 61,321 | 8,637 |
| -1978 | 8 | 2.0 \$ | 2.0 \$ | 14,200 | 2,000 |
| -1976 | 5 | 4.3 IL. | 4.3 IL. | 5,475 | 770 |
| 1976-1992 | 6.7-8.7 | 15.0 IL. | 14.0 IL. | 15,350 | 2,162 |
| 1976-1989 | 6.6-9 | 20.0 IL. | 20.0 IL. | 42,049 | 5,922 |
| 1976-1987 | * | 30.0 DM. | 30.0 DM. | 77,496 | 10,915 |
| 1976-1983 | * | 15.0 \$ | 15.0 \$ | 9,682 | 1,364 |
| -1976 | 5½-7 | 3.3 £ | 3.3 £ | 37,499 | 5,282 |
| 1976-1978 | 5-7.3 | 8.5 \$** | 3.6 \$** | 12,893 | 1,816 |
| TOTAL | | | | 1,712,775 | 241,236 |

| Pounds Sterling 000 | German Marks 000 | Belgian Francs 000 | Swiss Francs 000 | French Francs 000 | Italian Lire 000 |
|------------------------|---------------------|-----------------------|---------------------|----------------------|---------------------|
| 2,040 | 2,500 | 124,501 | 1,000 | 8,901 | 724,205 |
| 1,518 | 2,500 | 115,673 | — | 8,243 | 724,205 |
| 3,299 | 2,500 | 98,751 | — | 5,034 | 628,328 |
| 2,646 | 2,500 | 71,183 | 460 | 932 | 347,153 |
| 398 | 2,500 | 47,077 | — | 452 | 165,869 |
| 959 | 12,500 | 56,552 | — | — | — |
| — | 3,750 | — | — | — | — |
| — | — | — | — | — | — |
| <u>10,860</u> | <u>28,750</u> | <u>513,737</u> | <u>1,460</u> | <u>23,562</u> | <u>2,589,760</u> |

Preference Shares

The Bank had outstanding, as of December 31, 1975, six classes of Preference Shares: (i) 49,500 3½% Cumulative Redeemable Preference A Shares, par value IL. 1,000 per share (Preference "A" Shares); (ii) 1,735 7% Cumulative Redeemable Preference B Shares, par value IL. 1,000 per share (Preference "B" Shares); (iii) 17,000,000 6% Cumulative Participating Preference C Shares, par value IL. 1.80 per share (Preference "C" Shares); (iv) 999,998 6% Cumulative Participating Preference CC Shares, par value IL. 30 per share (Preference "CC" Shares); (v) 1,734,779 Cumulative Participating Preference CC1 Shares, par value IL. 30 per share (Preference "CC1" Shares); and (vi) 163,477 7½% Cumulative Redeemable Preference D Shares, par value IL. 300 per share (Preference "D" Shares).

All of the foregoing classes of Preference Shares (other than the Preference "A" Shares) have linking provisions and they, as well as the Preference "A" Shares, rank *pari passu* as to dividends and on liquidation. All of the foregoing classes of Preference Shares (other than the Preference "A" Shares) and the Preferred Ordinary Shares, and the Ordinary A Shares, described below, are listed on the Tel-Aviv Stock Exchange. The Preference "A" Shares are owned by the Government of Israel. None of the classes of Preference Shares have any voting rights.

Preferred Ordinary Shares

As of December 31, 1975 the Bank had outstanding 1,000,000 8% Cumulative Participating Preferred Ordinary Shares, par value IL. 10 per share (Preferred Ordinary Shares). The Preferred Ordinary Shares are subordinated to the Preference Shares as to dividends and on liquidation. The holders thereof are entitled to one vote per share for all purposes, except the appointment of Directors.

Ordinary Shares

As of December 31, 1975 the Bank had outstanding two classes of Ordinary Shares: (i) 15,100 Ordinary A Shares, with a par value of IL. 1,000 per share (Ordinary "A" Shares) and (ii) 134,900 Ordinary B Shares, with a par value of IL. 1,000 per share (Ordinary "B" Shares). Both classes of Ordinary Shares are subordinated to the Preference Shares and Preferred Ordinary Shares as to payment of dividends and on liquidation. Each Ordinary "A" Share entitles the holder thereof to 1,000 votes for all purposes except the appointment of Directors. The holders of the Ordinary "A" Shares are entitled to appoint the Directors of the Bank. (See "Management and Control".)

MANAGEMENT AND CONTROL

The Directors of the Bank are not elected, but appointed by the Ordinary "A" Shareholders. Each holder of 250 or more Ordinary "A" Shares is entitled, by instrument in writing, to appoint one Director for every 250 such shares held, and each group of shareholders who together hold 250 or more Ordinary "A" Shares is entitled, by an instrument in writing, to appoint one Director for every 250 such shares held. As at December 31, 1975 an aggregate of 60 Directors could be so appointed. Shareholders who have appointed a Director may remove such Director at any time and appoint another person in his place. Each Director, therefore, holds office until removed by the Ordinary "A" Shareholders who have appointed him.

The appointor or appointors of a Director is or are entitled to appoint an alternate Director to serve for an indefinite length of time, or for a specific time under specific circumstances. Such appointment may be subject to such limitations and qualifications on the alternate Director, as to time of service or otherwise, as the appointor or appointors think fit. The alternate Director is entitled to notices of meetings and to attend and vote thereat, but he may not attend and vote at meetings at which the Director for whom he is an alternate is present and voting. The appointment of a Director or of an alternate Director is required to be in writing, signed by the appointor or appointors, and by the appointee.

The Board of Directors may, from time to time, appoint from its number a Managing Director and one or more Committees to whom powers of the Board may be delegated. The Board may also delegate to local boards or agencies authority to exercise the Board's powers in the management of the Bank's affairs in any specified locality, in Israel or abroad.

The Board of Directors has delegated certain of its powers to certain committees of the Board. The Vice-Chairmen's Committee is concerned with administrative and personnel matters; the Loan Committee deals with loan applications of up to IL.3,000,000 (\$422,535); the Management of the Bank deals with loan applications of less than IL.500,000 (\$70,423) and the Executive Committee, which has had delegated to it all the powers of the Board except the power of appointing the Chairman, Vice Chairmen, and General Managers, has the final decision on all loan applications in excess of IL.3,000,000 (\$422,535) (See "Business of the Bank—Nature of Loans" page 17.)

There are no family relationships between any Director or Executive Officer and any other Director or Executive Officer with the exception of two Directors who are brothers.

The name, age, and background of each Director of the Bank is as follows:

| <u>Name</u> | <u>Age</u> | <u>Director Since</u> | <u>Business Experience During Past Five Years</u> |
|-----------------------|------------|-----------------------|--|
| Chairman: | | | |
| Dr. Zvi Dinstein (1) | 49 | November, 1971 | Chairman, Board of Directors of the Bank; Government Advisor on Petroleum and Energy; (Formerly Deputy Minister of Finance). |
| Vice-Chairmen: | | | |
| M. B. Gitter (2) | 56 | November, 1970 | Director, Israel Discount Bank Ltd.; Vice-Chairman, IDB Bankholding Corp. Ltd. |

- (1) Appointee of State of Israel
- (2) Appointee of Israel Discount Bank Ltd. and affiliates
- (3) Appointee of Bank Leumi Le-Israel B.M. and affiliates
- (4) Appointee of Bank Hapoalim B.M. and affiliates

| <u>Name</u> | <u>Age</u> | <u>Director Since</u> | <u>Business Experience During Past Five Years</u> |
|--------------------------|------------|-----------------------|--|
| Yaaqov Macht (3) | 56 | September, 1970 | Deputy General Manager, Bank Leumi Le-Israel B.M. (Formerly Manager, Principal Branch, Tel Aviv). |
| Dr. Moshe Mandelbaum (1) | 42 | November, 1966 | Director General, Ministry of Commerce and Industry. (Formerly in charge of Food and Chemical Division and in charge of Prices). |
| Moshe Olenik (4) | 47 | August, 1971 | Joint Managing Director, Bank Hapoalim B.M.; Member, Advisory Board, Bank of Israel. Work at Kibbutz (co-operative settlement). Advanced Studies—London. |
| Mordechai Zagagi (1) | 77 | October, 1957 | Formerly Chairman, Securities Authority. |
| Directors: | | | |
| Abroad: | | | |
| Victor Carter (4) | 65 | February, 1971 | Chairman of the Board of Directors, Israel Development Corp., and Director of Companies, U.S.A. |
| Maurice C. Mayer | 33 | July, 1965 | Director of Companies, Switzerland. |
| Hermann Merkin (2) | 68 | October, 1968 | President, Merkin & Co. Inc., members New York Stock Exchange, U.S.A. |
| Joseph Meyerhoff | 76 | October, 1962 | Chairman, Board of Directors and Executive Committee of P.E.C. Israel Economic Corporation, U.S.A. |
| Raphael Recanati (2) | 51 | December, 1964 | Vice-Chairman and Managing Director, Israel Discount Bank Limited; Vice-Chairman, IDB Bankholding Corp. Ltd. |

- (1) Appointee of State of Israel
- (2) Appointee of Israel Discount Bank Ltd. and affiliates
- (3) Appointee of Bank Leumi Le-Israel B.M. and affiliates
- (4) Appointee of Bank Hapoalim B.M. and affiliates

| <u>Name</u> | <u>Age</u> | <u>Director Since</u> | <u>Business Experience During Past Five Years</u> |
|------------------------|------------|-----------------------|---|
| In Israel: | | | |
| Raphael Allon (1) | 55 | December, 1969 | Director of Companies; General Manager of Lehavott; (Formerly Managing Director of Hashomer Hatzair Fund Ltd.). |
| Meir Amit (4) | 54 | August, 1971 | President, Koor Industries Ltd. |
| Richard Armon (4) | 42 | August, 1975 | Deputy General Manager, Bank Hapoalim B.M. (Formerly Assistant General Manager). |
| Haim Ben-David (2) | 62 | February, 1969 | Senior Assistant General Manager, Israel Discount Bank Limited. |
| Amos Bergner (4) | 41 | February, 1975 | Joint Managing Director, Bank Hapoalim B.M. |
| Naftali Blumenthal (4) | 54 | February, 1975 | Joint Managing Director and Deputy Chairman of the Management, Bank Hapoalim B.M.; Vice President Finance and Trade, Koor Industries Ltd. |
| Ralph Cohen (4) | 57 | February, 1976 | President, Ampal-American Israel Corp.; President, Israel Development Corp.; Director of Companies. |
| Reuben David-Ravid (1) | 30 | November, 1974 | Assistant to the Minister of Commerce and Industry i/charge of the Development Areas. |
| Haim Duvshani (4) | 50 | August, 1971 | Managing Director, Israel Ampal Industrial Development Bank Ltd. (Formerly Chief, Southern European Division, International Monetary Fund). |
| Isaac Ellman (3) | 61 | May, 1975 | Managing Director of Bank Leumi Investment Company Limited and of Otsar La Taasiya Limited and of Yaad Agricultural Development Limited. |
| Asher Friedman (4) | 53 | August, 1968 | General Director, Miluot Haifa Bay Settlements Development Co. Ltd. and Miluot Plants. |
| Abraham Friedmann | 70 | February, 1963 | Joint Managing Director, Clal Israel Investment Company Ltd.; Joint Managing Director Israel Central Trade & Investment Company (Formerly Managing Director). |

(1) Appointee of State of Israel

(2) Appointee of Israel Discount Bank Ltd. and affiliates

(3) Appointee of Bank Leumi Le-Israel B.M. and affiliates

(4) Appointee of Bank Hapoalim B.M. and affiliates

| <u>Name</u> | <u>Age</u> | <u>Director Since</u> | <u>Business Experience During Past Five Years</u> |
|-----------------------------|------------|-----------------------|--|
| Israel Galitzky (4) | 59 | August, 1971 | Member of Kibbutz Nir-Am. In Charge of The Committee of the Industrial Dept. Ihud Hakvutzot Vehakibutzim; (Formerly Economic Adviser Kibbutz Nir Am Michsaf Factory). |
| Giora Gazit (1) | 42 | August, 1971 | Deputy Accountant General, The Treasury, State of Israel; (Formerly Economist). |
| Arie Geva (4) | 38 | February, 1975 | Managing Director, Continental Bank Ltd.; Department Manager, Bank Hapoalim B.M. |
| Dr. Erwin Tsvi Goldmann (3) | 71 | January, 1964 | Director of Companies; Formerly Assistant General Manager, Bank Leumi Le-Israel B.M. |
| Avraham Goldwasser | 56 | February, 1974 | Managing Director of Oxidon Limited. |
| Moshe Goren (1) | 55 | October 1974 | Director of The Investment Center. |
| Wilhelm Hauck (3) | 65 | May, 1975 | Joint General Manager of Union Bank of Israel Limited. |
| Dr. Alexander Kagan (1) | 55 | June, 1973 | In Charge of Industry Financing, Ministry of Commerce and Industry. |
| Gershon Lev (3) | 56 | May, 1975 | Regional Manager of Bank Leumi Le-Israel B.M., Tel Aviv Yafo Region. |
| Shlomo Magriso (2) | 44 | March, 1970 | Deputy General Manager, Israel Discount Bank Ltd.; General Manager, Mercantile Bank of Israel Limited. |
| Aryeh Manor (3) | 54 | July, 1964 | Assistant General Manager, Bank Leumi Le-Israel B.M. |
| Amos Mar-Chaim (1) | 37 | November, 1970 | Assistant Director General (Finances) Ministry of Commerce and Industry; Formerly Chief Economic Advisor to the Minister of Commerce & Industry; Economic Assistant to the Minister. |
| Dr. Avraham Neaman (1) | 68 | June, 1960 | Internal Auditor, Israel Corporation; (Formerly Managing Director of the Bank). |
| Yaacov Pachter (4) | 38 | February, 1975 | Managing Director, Investment Company of Bank Hapoalim B.M. |

- (1) Appointee of State of Israel
- (2) Appointee of Israel Discount Bank Ltd. and affiliates
- (3) Appointee of Bank Leumi Le-Israel B.M. and affiliates
- (4) Appointee of Bank Hapoalim B.M. and affiliates

| <u>Name</u> | <u>Age</u> | <u>Director Since</u> | <u>Business Experience During Past Five Years</u> |
|------------------------|------------|-----------------------|--|
| Eugen Propper | 64 | July, 1969 | Managing Director, Osem Ltd. |
| Baruch Rabinov (4) | 67 | February, 1975 | Banker. Joint Managing Director of Bank Hapoalim B.M. |
| Israel Rauch (3) | 50 | May, 1975 | Deputy General Manager of Bank Leumi Le-Israel B.M. |
| Daniel Recanati (2) | 54 | December, 1957 | Chairman and Managing Director, Israel Discount Bank Limited; Chairman, IDB Bank-holding Corp. |
| Joseph Rosh (3) | 54 | August, 1975 | Manager, Principal Branch, Tel Aviv, Bank Leumi Le-Israel B.M. (Formerly Manager, Northern Sector). |
| Amnon Sadeh (4) | 40 | February, 1975 | Managing Director, Investment Fund of Hevrat Haovdim Ltd. |
| Avraham Shaliv (1) | 56 | June, 1973 | Director (Formerly Assistant Director) of Center of Industrial Planning, Ministry of Commerce and Industry. |
| Yechiskiahu Sporn (1) | 59 | July, 1967 | Managing Director, Israel Industrial Development Co. Ltd. |
| Chaim Stoessel (1) | 46 | November, 1968 | Accountant General and Officer in charge of Financing and Capital Market, the Treasury, State of Israel. |
| Dan Tolkowsky (2) | 54 | June, 1964 | Managing Director, Discount Bank Investment Corp. Ltd. |
| Yehuda Weiler (3) | 45 | August, 1975 | General Manager's Assistant, Bank Leumi Le-Israel B.M. (Formerly Manager (Credits) Northern Regional Management). |
| Dr. George S. Wise (1) | 69 | February, 1963 | Chancellor, The Tel-Aviv University, (Formerly President); Director, G. S. Wise & Company; Chairman of the Board of Directors, American Israeli Paper Mills Ltd. |
| Abraham Zabarsky (4) | 78 | May, 1958 | Member Board of Directors, Bank Hapoalim B.M. (Formerly Chairman and Managing Director). |
| Shalom Zak (4) | 74 | July, 1961 | Member, Board of Directors, Bank Hapoalim B.M. |

- (1) Appointee of State of Israel
- (2) Appointee of Israel Discount Bank Ltd. and affiliates
- (3) Appointee of Bank Leumi Le-Israel B.M. and affiliates
- (4) Appointee of Bank Hapoalim B.M. and affiliates

The name, age and background of each Executive Officer of the Bank is as follows:

| <u>Name</u> | <u>Age</u> | <u>Office</u> | <u>Officer Since</u> | <u>Business Experience During Past Five Years</u> |
|----------------------|------------|---|----------------------|---|
| Dr. Zvi Dinstein | 49 | Chairman of the Board of Directors | November, 1971 | Government Advisor on Petroleum and Energy; Deputy Minister of Finance. |
| Yehuda Gill | 47 | Joint General Manager | March, 1975 | Managing Director, Investment Company of the Industrial Development Bank of Israel Limited. |
| Mordechai Rottenberg | 46 | Deputy General Manager and General Counsel | March, 1975 | Assistant General Manager and General Counsel of the Bank. |
| Josef Kestenbaum | 33 | General Secretary | January, 1976 | Assistant to the Chairman of the Board of Directors. |
| Elkana Bronholc | 47 | Assistant Manager (Economics & Statistics) | January, 1976 | Assistant Manager (Loans) |
| Anwar Elias | 55 | Assistant Manager (Disbursements) | January, 1976 | General Secretary |
| Shoshana Flomin | 38 | Assistant Manager (Administration and Computer) | January, 1976 | Assistant Manager (Accountancy); Chief Accounting Officer of the Bank. |
| Dov Heinsdorf | 56 | Internal Controller | December, 1973 | Deputy Director General, Israel State Controller's Office. |
| Eliezer Nemes | 54 | Assistant Manager (Finance) | March, 1972 | Head of Collection Department of the Bank. |
| Benjamin Tzwick | 51 | Assistant Manager (Engineering and Assessment) | January, 1975 | Head of Metals Division. Chief Engineer of the Bank. |
| Gidon Barhoom | 43 | Chief Accounting Officer | January, 1975 | Deputy Chief Accounting Officer of the Bank. |

The Executive Officers are appointed by the Board of Directors and hold office until removed by the Board.

The Chairman and Vice Chairmen, though being Directors or alternate Directors of the Bank, are entitled to such remuneration as may from time to time be determined by the Board of Directors. However, as at the date of this Prospectus, the only Directors who receive or are to receive remuneration from the Bank are the Chairman and the former Managing Director, who has retired from this office but is

receiving a pension. The Chairman and the former Managing Director, during the year ended March 31, 1976, received remuneration of IL.214,000, or approximately \$28,000 at the rate of exchange then prevailing of U.S. \$1.00=IL.7.52.

During the year ended March 31, 1976 and as of the date of this Prospectus, no Director or Officer of the Bank received a salary in excess of \$40,000 per year at the aforementioned rate of exchange. The aggregate remuneration received by the Bank's Executive Officers and Directors as a group (the 12 persons mentioned above) during said year amounted to IL.1,382,000, or approximately \$184,000 at the aforementioned rate of exchange. In addition, the Bank made provision for pension and retirement benefits for Officers and Directors, which, in that year, aggregated IL.204,000 (\$27,000). (See Note 19 to the Financial Statements on page 65.)

The Board of Directors of the Bank consists mainly of officials of the Government, executive officers of other banks in Israel, and executives of cooperatives and corporations. From time to time, the Bank makes loans to cooperatives and corporations in which such persons are interested. Directors also serve as directors and as officers, and certain of them are stockholders, of companies which are holders of the Bank's securities, and certain of them are officials of the Government of Israel. All such loans were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectibility or present other unfavorable features.

CONVERTIBILITY OF CURRENCY AND UNITED STATES AND ISRAEL TAXES

The Law for the Encouragement of Capital Investments, enacted by the Knesset and as presently in effect, contains, among other things, provisions relating to the transfer of currency to non-residents of Israel, including the transfer of United States Dollars to non-residents of the State of Israel, on account of investments in Israel.

Under the law, the Investment Center of Israel may designate as "Approved Loans" such loans by non-residents of Israel as are made with the approval of the Investment Center.

Under the law, certain tax benefits are granted on income derived from "Approved Loans in Foreign Currency". The Notes being offered hereby have been designated by the Investment Center as "Approved Loans in Foreign Currency". The Finance Committee of the Knesset has approved a tax exemption for any tax in excess of 25%, pursuant to The Encouragement of Savings Law, Tax Exemptions and Guarantees for Loans, 1956. Accordingly, as the law now stands, a Noteholder will be subject to Israel income tax at a rate not exceeding 25% of the interest payment, which will be deducted at the source in Israel. Under Section 47A of the Law for the Encouragement of Capital Investments a tax exemption is granted to a person who is not a resident of Israel with respect to the interest on notes or debentures held by him if he cannot obtain relief from double taxation on that interest from the country of his residence or by virtue of a convention is deemed by his country of residence to have paid the tax which he would have paid, but for the provisions of the Section. This exemption is subject to certain conditions set out in the Section with respect to the monies with which the notes or debentures were purchased. This exemption is not applicable to United States residents since, as indicated below, they generally can obtain relief from double taxation in this country.

An exemption has been granted under Section 55 of the Law for the Encouragement of Capital Investments from any Israel estate tax on the Notes. Under an agreement received from the Controller of Foreign Exchange each non-resident Noteholder is entitled to repatriate in United States Dollars the

interest payable on the Notes and the capital in the event of the redemption of the Notes or the dissolution of the Bank.

Organizations acting for public purposes within the meaning of Section 9(2) of the Israeli Income Tax Ordinance are exempt from Israel Income Tax. The Israeli Income Tax Authorities grant such exemption to charitable, religious, educational, and other institutions and employment benefit plans such as pension and profit-sharing trusts which are tax exempt under the Internal Revenue Code on the basis of a satisfactory photostatic copy of the confirmation in that respect issued by the United States Treasury or on the basis of the list of charitable institutions published by the United States Government. Institutions claiming such exemption will have to provide the required proof to the Tax Authorities in Israel directly or through the Bank or Underwriter. Only upon receipt of such exemption will the Bank not be required to withhold at source Israel Income Tax on interest payments to such institutions.

U.S. counsel to the Bank, Goldstein Shames Hyde Wirth Bezahler & Cahill have advised that under the provisions of the Internal Revenue Code, United States Noteholders (other than individuals electing the standard deduction and individuals electing to pay the optional tax applicable to individuals whose adjusted gross income is less than \$10,000) have the option of claiming the amount of any Israel income taxes withheld either as a deduction from their gross income for Federal income tax purposes or as a credit against their Federal income tax liability. The amount of the credit is subject to complex limitations, restrictions and rules set forth in Sections 901-906 inclusive of the Internal Revenue Code and is a matter to be determined on an individual basis by each Noteholder and his tax advisor. Individuals who do elect the standard deduction and individuals electing to pay the optional tax cannot obtain relief from the 25% interest withholding tax imposed by Israel.

The designation, by the Investment Center, of the Notes as an "Approved Loan in Foreign Currency" does not imply that the Investment Center recommends these Notes as an investment, nor does it imply that the Investment Center has passed upon the commercial merits of the Notes.

The Bank has received approval for the listing of the Notes offered hereunder on the Tel-Aviv Stock Exchange after the completion of this offering. The Stock Exchange has granted its approval to the Notes being listed in the special section of the Stock Exchange list of official quotations that is reserved for securities traded in foreign currency. Accordingly, under the present law, each non-resident Noteholder will, after such listing, be entitled to sell his Notes on the Stock Exchange, at then prevailing prices, and take out of Israel the counter-value thereof, in Dollars.

In addition to a company profits tax and income tax totalling 61%, the Bank was liable in fiscal 1975 for a service tax amounting to 7.5% (increased from 5% which was originally payable) of its taxable income, but this tax has not been re-imposed for fiscal year 1976. As of 1975 the capital profits tax is payable at income tax rates after certain adjustments have been made to partly neutralize purely inflationary price increases.

The Bank was also required to take a Savings Loan in 1975, at the rate of 4.75% of all salaries and pensions paid to its employees. The interest is 3% free of tax and the principal sum is linked to the Consumer Price Index and payable in the years 1979-1986. Recently a law was passed providing for the re-imposition of this loan in 1976. In addition, the Bank must pay an employers' tax at the rate of 4% of all salaries and pensions paid.

In February 1976 a new tax of 15% payable on the value of imported services was imposed, but all services relating to the raising and servicing of loans, including payment of interest and underwriting fees,

have been specifically excluded, so that it is not anticipated that this tax will increase the total tax liability of the Bank.

All matters relating to Israel law have been passed upon by S. Horowitz & Co. and Mordechai Rottenberg, the Bank's Israel Counsel.

CONDITIONS IN ISRAEL

Information with respect to the State of Israel is presented below in order to advise prospective purchasers of Notes of conditions in Israel that could directly or indirectly affect the Bank and its operations. The State of Israel, however, does not guarantee the obligations of the Bank with respect to the Notes.

The State of Israel is governed by a cabinet headed by a Prime Minister, which cabinet is subject to a vote of confidence by its Parliament, called the Knesset, and which is responsible to the Knesset. The President is the head of state and is elected by the Knesset. The members of the Knesset are elected in free multi-party elections. The present government is a coalition government supported by a majority of the Knesset. Under such a system of government, where the Knesset votes no confidence in the cabinet, the cabinet would resign and either a new cabinet would be formed or a new election is held.

Internal security and political stability have prevailed since the establishment of the State in 1948 and all public services have been functioning continuously and are being extended.

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is also a signatory to the General Agreement on Tariffs and Trade (GATT), which provides for reciprocal lowering of trade barriers among its members.

Israel has become associated with the European Economic Community by an agreement concluded in 1975 which confers certain advantages with respect to Israeli exports to most of the European countries and obliges Israel to lower its tariffs with respect to imports from those countries over a number of years.

Israel lies on the western edge of Asia bordering on the Mediterranean Sea. It is bounded on the north by Lebanon and Syria and on the east by Jordan and on the south by the United Arab Republic (Egypt), all of which are more or less linked in their hostility to Israel. In October 1956, this hostility resulted in armed conflict between the forces of Israel and Egypt. In June of 1967, armed conflict arose between the forces of certain of her Arab neighbors and the forces of Israel. A cease-fire was subsequently negotiated.

The most recent armed conflict occurred on October 6, 1973 and a cease-fire was instituted on October 23, 1973. This cease-fire has been followed by sporadic incidents. 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.

Government Finance. The State of Israel has never at any time defaulted in the payment of principal or interest on any debt.

National Income and Investments. The following tables indicate the national income, the gross national product and the gross and net investment of Israel for the calendar years 1973, 1974 and 1975. Except where indicated all figures contained in these tables are stated in prices current for the respective years. At the beginning of 1970, a new consumer price index (retail prices) was introduced, based on the yearly average for 1969, which was adjusted to 100. On this revised basis, the yearly average for calendar year 1973 was 160.9, for calendar year 1974 was 224.8, and for calendar year 1975 was 313.2, and on June 1, 1976 the index was 389.3. From January 1, 1976 through May 31, 1976 the index rose approximately 14.2%.

Inflation has been eliminated from the gross national product and investment figures at 1970 prices

NATIONAL INCOME
(at current prices)

| Year | Total (in IL. millions) | Per Capita |
|------|----------------------------|---------------|
| 1973 | 30,786 | 9,470 |
| 1974 | 43,873 | 13,105 |
| 1975 | 58,627 | 17,115 |

GROSS NATIONAL PRODUCT AND INVESTMENT
(in million IL.)

| Year | Gross National Product | | Gross Investment | | Net Investment | |
|------|------------------------|-------------------|----------------------|-------------------|----------------------|-------------------|
| | at Current Prices | at 1970 Prices | at Current Prices | at 1970 Prices | at Current Prices | at 1970 Prices |
| 1973 | 37,548 | 24,206 | 13,452 | 8,129 | 9,417 | 5,666 |
| 1974 | 54,235 | 25,853 | 19,567 | 8,397 | 13,369 | 5,661 |
| 1975 | 74,864 | 25,967 | 25,398 | 7,974 | 16,159 | 4,957 |

All other statistical data contained in this prospectus with respect to the State of Israel is presented at current prices.

The Government of Israel has recently adopted new policies and programs regarding indexing and linkage with the objective of reducing the rate of inflation. These policies were enunciated by the Minister of Finance in his 1976 budget presentation to the Knesset on February 24, 1976.

As far as the linkage of saving and investment is concerned, the Government intends to reduce somewhat the linkage promised for new savings, while increasing the participation of the borrowers and investors in the burden of linkage. It has been decided to gradually reduce linkage on new debentures to 70% of the increase in the consumer price index. As a first stage, new debentures are being issued with 90% linkage. Meanwhile, the interest on development loans will be linked to 50% of the annual increase in the index, up to a ceiling of 17% interest.

As far as indexing of wage payments is concerned, the cost of living allowance will continue to be the principal tool for compensating wage earners for inflation. An agreement was reached with the Histadrut (the General Labor Federation) to recalculate the cost of living allowance in April and October 1976. The additional allowance will amount to 70% of the increase in the consumer price index on the monthly wage up to IL. 4,000. Simultaneously, the amount of income which is not subject to tax (low income allowance) will be raised by the same percentage as the cost of living allowance, while the tax credits and allowances for children will be increased at the full rate of the price index increase.

An analysis of the Net Domestic Product by sectors is as follows:

**SECTORAL ORIGIN OF ISRAEL'S NET DOMESTIC PRODUCT
AT FACTOR COST,* 1971-75
(percentages at 1970 prices)**

| | 1975** | 1974 | 1973 | 1972 | 1971 |
|---|--------|-------|-------|-------|-------|
| Agriculture, forestry, fisheries | 6.7 | 6.4 | 6.0 | 6.4 | 6.5 |
| Industry, mining and quarrying | 24.5 | 24.6 | 24.5 | 24.6 | 24.1 |
| Construction, water and electricity | 11.7 | 12.2 | 12.5 | 13.1 | 12.4 |
| Transportation and communications | 9.1 | 9.3 | 9.3 | 9.5 | 9.3 |
| Finance, trade, and business and personal services | 20.3 | 20.3 | 20.9 | 21.8 | 22.3 |
| Public and community services | 19.9 | 19.9 | 19.7 | 17.6 | 18.4 |
| Ownership of dwellings | 7.8 | 7.3 | 7.1 | 7.0 | 7.0 |
| Net domestic product (at factor cost)* | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

* Before inventory and depreciation adjustments
** Provisional

Foreign Exchange. Effective November 10, 1974, the Israel pound was devalued from U.S. \$1.00=IL.4.20 to U.S. \$1.00=IL.6.00. The Government of Israel has devalued the Israel Pound several times since, so that the prevailing rate of exchange at July 30, 1976 was U.S. \$1.00=IL.8.12. (See "Emergency Economic Programs of the State of Israel" page 5). The exchange rate of U.S. \$1.00=IL.4.20 had been in effect since August 22, 1971. The exchange rate is applicable to all foreign exchange transactions.

The amounts of net foreign exchange reserves held in the Bank of Israel as of the calendar years 1972, 1973, 1974 and 1975 were as follows:

| | 1972 | 1973 | 1974 | 1975 | March 31, 1976 |
|---|---------|---------|---------|---------|----------------|
| Net Foreign Exchange Reserves of Bank of Israel (in \$ millions) | 1,069.6 | 1,697.1 | 1,070.6 | 1,039.5 | 1,004.0 |

Population and Employment. The population of Israel and the number of gainfully employed persons as of December 31, 1973, 1974 and 1975 are indicated below:

| Period Ending | Total Population | Gainfully Employed Persons |
|-------------------|------------------|----------------------------|
| December 31, 1973 | 3,338,000 | 1,088,200 |
| December 31, 1974 | 3,422,000 | 1,082,500 |
| December 31, 1975 | 3,494,000 | 1,098,800 |

The approximate percentage distribution of gainfully employed persons among the various branches of the economy as of December 31, 1973, 1974 and 1975 was as follows:

| Economic Sector | Year Ending December 31 | | |
|--|-------------------------|--------|--------|
| | 1973 | 1974 | 1975* |
| Industry | 24.8% | 25.1% | 24.4% |
| Agriculture | 7.5 | 6.5 | 6.4 |
| Services (public, business and personal) | 37.6 | 38.9 | 39.9 |
| Construction and Public Works | 8.8 | 8.0 | 8.0 |
| Transportation and Communications | 7.2 | 7.7 | 7.3 |
| Electricity and Water | 1.0 | 1.0 | 1.0 |
| Commerce, Restaurants, and Hotels | 12.8 | 12.1 | 12.3 |
| Other | 0.3 | 0.7 | 0.7 |
| | 100.0% | 100.0% | 100.0% |

* Provisional

The average number and percentage of unemployed persons in Israel in 1973, 1974 and 1975 were as follows:

| Year | Average Number of Unemployed Persons | Total Labor Force | Percentage of Average Number of Unemployed Persons in Total Labor Force |
|-------|--------------------------------------|-------------------|---|
| 1973 | 29,500 | 1,134,600 | 2.6% |
| 1974 | 33,700 | 1,123,300 | 3.0% |
| 1975* | 35,400 | 1,141,900 | 3.1% |

* Provisional

Foreign Trade. Like many young countries facing immigration and development tasks, Israel has an adverse trade balance. However, the Government is attempting to gradually reduce the import surplus by encouraging replacement of imports with domestic production and by increasing foreign currency earnings from exports.

The value of Israel's foreign trade in goods and services since 1973 is as follows:

| Year | Imports* (in \$ millions) | Exports (in \$ millions) | Deficit (in \$ millions) |
|------|------------------------------|-----------------------------|-----------------------------|
| 1973 | 5,421 | 2,779 | 2,642 |
| 1974 | 7,035 | 3,648 | 3,387 |
| 1975 | 7,864 | 3,827 | 4,037 |

*Defense imports in 1973 were 1,253, in 1974 were 1,224 and in 1975, 1,846 (in \$ millions).

ISRAEL'S BALANCE OF PAYMENTS (1972-September 1975) (In Millions of Dollars)

| Description | 1972 | | | | 1973 | | | | 1974 | | | | 1975 | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Global* | | U.S. | | Global | | U.S. | | Global* | | U.S.* | | Global** | |
| | Credit | Debit | Credit | Debit | Credit | Debit | Credit | Debit | Credit | Debit | Credit | Debit | Credit | Debit |
| A. Current Account | | | | | | | | | | | | | | |
| Merchandise (Exports and Imports, F.O.B.) | 1,212 | 2,293 | 218 | 324 | 1,557 | 4,015 | 265 | 474 | 2,005 | 5,090 | 303 | 828 | 2,180 | 5,657 |
| Insurance | 145 | 167 | 10 | 9 | 169 | 205 | 11 | 12 | 235 | 257 | 11 | 13 | 275 | 305 |
| Transportation | 330 | 271 | 75 | 85 | 378 | 352 | 86 | 96 | 594 | 508 | 105 | 140 | 558 | 567 |
| Travel | 215 | 73 | 105 | 20 | 234 | 109 | 110 | 32 | 199 | 146 | 92 | 43 | 234 | 160 |
| Investment Income | 127 | 246 | 70 | 130 | 240 | 384 | 150 | 196 | 354 | 585 | 215 | 330 | 321 | 709 |
| Government Offices | 27 | 55 | 21 | 435 | 19 | 95 | 12 | 1,190 | 26 | 102 | 18 | 1,016 | 24 | 102 |
| Other Services | 169 | 221 | 43 | 49 | 182 | 261 | 52 | 56 | 235 | 347 | 52 | 58 | 235 | 364 |
| Total Current Account | 2,225 | 3,326 | 542 | 1,052 | 2,779 | 5,421 | 686 | 2,056 | 3,648 | 7,035 | 796 | 2,428 | 3,827 | 7,864 |
| Deficit in Current Account | | 1,101 | | 510 | | 2,642 | | 1,370 | | 3,387 | | 1,632 | | 4,037 |
| B. Unilateral Transfers | | | | | | | | | | | | | | |
| Restitutions | 292 | — | — | — | 264 | — | — | — | 317 | — | — | — | 359 | — |
| Personal and Institutional Remittances | 692 | 4 | 532 | — | 1,107 | 4 | 145 | — | 718 | 6 | 440 | — | 724 | 4 |
| Transfers in kind | 18 | 3 | 7 | — | 20 | 4 | 6 | — | 15 | 4 | 4 | — | 12 | — |
| Government | 58 | — | 57 | — | 788 | — | 796 | — | 697 | — | 787 | — | 664 | — |
| Total Unilateral Transfers | 1,060 | 7 | 596 | — | 2,179 | 8 | 1,547 | — | 1,747 | 10 | 1,231 | — | 1,759 | 4 |
| Total Current Account and Unilateral Transfers | 3,285 | 3,333 | 1,138 | 1,052 | 4,958 | 5,429 | 2,233 | 2,056 | 5,395 | 7,045 | 2,027 | 2,428 | 5,586 | 7,868 |
| C. Net Capital Movements | | | | | | | | | | | | | | |
| Private Long-Term (including investments) | 312 | — | 171 | — | 360 | — | 165 | — | 167 | — | 81 | — | 134 | — |
| Private Short-Term Loans | — | 38 | 36 | — | 15 | — | — | 8 | 31 | — | — | 63 | 322 | — |
| Government Long-Term Obligations | 410 | — | 384 | — | 635 | — | 584 | — | 458 | — | 356 | — | 1,383 | — |
| Government Short-Term Obligations | — | 37 | — | 12 | 23 | — | — | 5 | 59 | — | — | — | — | — |
| Foreign Exchange Assets | — | 655 | — | 265 | — | 586 | — | 242 | 1,164 | — | 400 | — | 429 | — |
| Total Net Capital Movements | 722 | 730 | 591 | 277 | 1,033 | 586 | 749 | 255 | 1,879 | — | 1,058 | 63 | 2,268 | 76 |
| Net Errors and Omissions | 56 | — | — | 400 | 24 | — | — | 671 | — | 229 | — | 594 | 90 | — |
| GRAND TOTAL | 4,063 | 4,063 | 1,729 | 1,729 | 6,015 | 6,015 | 2,982 | 2,982 | 7,274 | 7,274 | 3,085 | 3,085 | 7,944 | 7,944 |

*Revised

**Provisional (Subject to Revision)

Agricultural Development. Israel's agriculture is the product of a planned transformation of land. In the years 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 75% of its food needs. The total area under cultivation in 1975 (agricultural year runs from October 1, 1974 to September 30, 1975) amounted to 4,350,000 dunams (just over one million acres) of which 42% was under irrigation.

Israel's gross agricultural output in agricultural years 1974 and 1975 was as follows:

| <u>Year Ending September 30,</u> | <u>Gross Agricultural Output (in IL. millions)</u> |
|--------------------------------------|--|
| 1974 | 4,151 |
| 1975 | 6,440 |

This gross agricultural output in agricultural years 1974 and 1975 was accounted for by the products indicated below:

| <u>Product</u> | <u>Year Ending September 30,</u> | |
|---|----------------------------------|---------------|
| | <u>1974</u> | <u>1975</u> |
| Citrus and other fruits | 28.4% | 28.8% |
| Vegetable crops | 9.2 | 9.7 |
| Field crops (including grains, fodder and industrial crops) | 16.9 | 14.4 |
| Meat | 21.4 | 20.2 |
| Milk | 11.1 | 12.5 |
| Eggs | 9.1 | 10.3 |
| Other | 3.9 | 4.1 |
| | <u>100.0%</u> | <u>100.0%</u> |

Israel's agricultural exports for calendar years 1973, 1974 and 1975, including citrus fruit exports, were as follows:

| <u>Period Ending</u> | <u>Agricultural Exports (in \$ millions)</u> | <u>Citrus Fruit Exports (in \$ millions)</u> |
|----------------------|--|--|
| December 31, 1973 | 172 | 109 |
| December 31, 1974 | 192 | 120 |
| December 31, 1975 | 278 | 176 |

Approximately 82,000 persons were engaged in agricultural pursuits at the end of September, 1975, as compared to 71,000 persons in December, 1974 and 83,000 persons in 1973.

Industrial Development. The gross product of Israel's industry in the years 1973, 1974 and 1975 is indicated below:

| <u>Year Ending December 31,</u> | <u>Gross product of Industry (in IL. millions)</u> |
|-------------------------------------|--|
| 1973 | 7,510 |
| 1974 | 11,700 |
| 1975 | 16,635 |

The approximate percentages of the gross product of industry in 1973, 1974 and 1975 accounted for by various industrial sectors were as follows:

| <u>Industrial Sector</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> |
|--|---------------|---------------|---------------|
| Food products | 17.3% | 17.2% | 13.0% |
| Textiles and leather products | 17.1 | 16.3 | 14.9 |
| Light industry (including timber, paper, and printing) | 9.0 | 8.8 | 8.1 |
| Diamonds | 5.5 | 4.7 | 4.6 |
| Non-ferrous metals and quarrying | 4.1 | 3.4 | 4.9 |
| Chemicals, rubber and plastic products | 11.9 | 11.0 | 14.8 |
| Metals, machinery and electronics | 24.9 | 26.1 | 26.3 |
| Other | 10.2 | 12.5 | 13.4 |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

Industrial exports and industrial imports for the calendar years 1973, 1974 and 1975 were as follows:

| <u>Period Ending</u> | <u>Industrial Exports (in \$ millions)</u> | <u>Industrial Imports (in \$ millions)</u> |
|----------------------|--|--|
| December 31, 1973 | 1,271.6 | 1,986 |
| December 31, 1974 | 1,521.7 | 3,138* |
| December 31, 1975 | 1,542.5 | 3,126* |

*Includes raw materials (diamonds, oil)

Polished diamonds accounted for approximately 37% of industrial exports during 1974 and for approximately 36% of industrial exports during 1975.

Approximately 272,000 persons were employed in industry at the end of 1975, as compared to 274,000 persons in 1974, and 258,000 persons in 1973.

Consumption of electricity in the calendar year 1975 totalled approximately 8,255.1 million kilowatt hours (provisional figure), of which approximately 2,850.3 million kilowatt hours were consumed by industry.

GOVERNMENT OF ISRAEL—PUBLIC DEBT
As of December 31, 1975*

A. INTERNAL DEBTS—Payable in Thousands of Israeli Pounds

| <u>Date of Issue</u> | <u>Date of Maturity</u> | <u>Description</u> | <u>Rate of Interest</u> | <u>Amount Authorized IL. 000</u> | <u>Amount Issued IL. 000</u> | <u>Amount Outstanding IL. 000</u> |
|----------------------|-------------------------|---------------------------------|------------------------------------|----------------------------------|------------------------------|-----------------------------------|
| 1948/51 | — | Treasury Bills (Bank of Israel) | 2.64-7.5% | 234,000 | 234,000 | 234,000 |
| 1949/55 | 1969/80 | Popular Loans | Lottery prizes in lieu of interest | 41,000 | 41,000 | 24,000 |
| 1970/71 | 1971/89 | Development Loan | Minimum of 5% linked to index | 5,568,000 | 5,568,000 | 5,568,000 |
| 1956/72 | 1971/82 | Defense Loan | Minimum of 5.75% linked to index | 5,485,370 | 5,485,370 | 3,421,000 |
| 1973/89 | | War Loan | Minimum of 3% linked to index | 3,938,000 | 3,938,000 | 3,938,000 |
| 1961/72 | 1967/84 | Absorption and Savings Loan | 4-5% | 3,920,983 | 3,731,744 | 3,545,000 |
| 1967/72 | | Advance from Bank of Israel | 5-7.5% | 7,658,000 | 7,658,000 | 7,658,000 |
| | | Short-Term Bills (3-18 months) | 8.75-9.25% | 155,000 | 155,000 | 155,000 |
| | | Emission of Private Banks | | 9,778,000 | 9,778,000 | 9,778,000 |
| | | Other | | | | 9,031,000 |
| TOTAL: | | | | | | 43,352,000 |

B. FOREIGN DEBTS—Payable in Thousands of Dollars

| <u>Date of Issue</u> | <u>Date of Maturity</u> | <u>Description</u> | <u>Rate of Interest</u> | <u>Amount Authorized \$ 000</u> | <u>Amount Issued \$ 000</u> | <u>Amount Outstanding \$ 000</u> |
|----------------------|-------------------------|--|-------------------------|---------------------------------|-----------------------------|----------------------------------|
| 1959 | 1969/74 | Development Bonds II | 4% | 300,000 | 293,621 | 36,864 |
| 1964 | 1976/79 | Development Bonds III | 4% | 400,000 | 392,630 | 216,099 |
| 1967 | 1979/82 | Development Bonds IV | 4% | 500,000 | 473,311 | 317,055 |
| 1971 | 1986/87 | Development Bonds V | 4% | 750,000 | 658,096 | 518,502 |
| 1966 | 1986/88 | Development Investment Bonds I | 4¾% | 100,000 | 72,300 | 7,734 |
| 1968 | 1988/91 | Development Investment Bonds II | 5½% | 200,000 | 151,023 | 93,047 |
| 1971 | 1991/93 | Development Investment Bonds III | 5½% | 250,000 | 223,658 | 118,007 |
| 1973 | 1993/94 | Development Investment Bonds IV | 5½% | 350,000 | 213,776 | 218,825 |
| 1974 | 1989/90 | Reconstruction and Development Bonds | 4% | 1,000,000 | 204,646 | 328,557 |
| 1949 | 1952/84 | EXIM—Government and Private | 5½-8% | 437,500 | 405,400 | 118,838 |
| 1962 | 1967/82 | Development Loan Fund | ¾% | 10,000 | 10,000 | 4,184 |
| 1962/67 | 1967/87 | Agency for International Development | ¾-3½% | 139,160 | 135,000 | 79,490 |
| 1966/74 | 1968/93 | P.L. 480 Dollars Credits | 2-2½% | 316,210 | 284,268 | 232,252 |
| 1961/74 | 1967/87 | I.B.R.D. (Govt. and Private with Govt. Credit) | 5¾-8½% | 284,500 | 189,300 | 111,379 |
| 1974/75 | — | International Monetary Fund | Various | 244,500 | 244,500 | 244,500 |
| | 1976/95 | Bank Loans | 6-8% | 1,376,469 | 1,376,469 | 1,376,469 |
| | 1976/2010 | Private Loans | 6-8% | 326,042 | 326,042 | 326,042 |
| | 1976/85 | Suppliers Loans | 5-8% | 250,326 | 250,326 | 250,326 |
| | 1976/90 | Loans from Foreign Accounts | 6-8% | 337,675 | 337,675 | 337,675 |
| | 1976/94 | Defense Loans | 3-9¾% | 2,369,873 | 2,358,407 | 1,831,524 |
| | | Loans from Germany | Various | 804,117 | 804,117 | 669,917 |
| | | Various Loans from Foreign Sources | 0-11% | 169,468 | 179,468 | 179,468 |
| TOTAL: | | | | | | 7,616,754 |

*Provisional (Subject to Revision)

GOVERNMENT OF ISRAEL—STATEMENT OF RECEIPTS
(In IL. '000)

| Current Receipts | Fiscal Year Ended | Fiscal Year Ended | Fiscal Year Ended | Nine Months Ended |
|--|-------------------|-------------------|-------------------|-------------------|
| | March 31, 1973* | March 31, 1974* | March 31, 1975* | Dec. 31, 1975** |
| Income Tax _____ | 3,583,429 | 4,637,683 | 6,981,446 | 8,595,048 |
| Property and Inheritance Taxes _____ | 315,376 | 277,467 | 585,275 | 389,293 |
| Customs, Excise, and Sales Taxes _____ | 4,687,715 | 7,248,003 | 10,456,983 | 9,568,348 |
| Revenue Stamps, Licenses, and Registration Fees _____ | 628,859 | 546,259 | 1,207,572 | 1,294,152 |
| Collections of Interest _____ | 634,098 | 927,797 | 1,509,928 | 1,873,795 |
| Miscellaneous Revenue _____ | 670,534 | 641,224 | 1,474,712 | 1,385,509 |
| Transfer of Receipts to/from Development Budget and Advances from Bank of Israel _____ | (+) 1,335,035 | — | 6,912,497 | 7,217,971 |
| Defense Loan (including saving) _____ | 1,237,483 | 1,824,472 | 3,284,135 | 1,605,351 |
| Total Ordinary Budget _____ | 13,092,529 | 16,102,905 | 32,412,548 | 31,929,467 |
| Receipts from Loans and Capital Accounts | | | | |
| Proceeds from Internal Loans _____ | 2,977,929 | 5,723,265 | 5,545,620 | 6,354,499 |
| Loan Repayments _____ | 457,471 | 1,030,749 | 766,680 | 591,740 |
| Proceeds from Foreign Loans (including State of Israel Bonds and U.S. Loans) _____ | 2,706,735 | 7,912,506 | 8,842,903 | 8,632,205 |
| U.S. Grants, and Agricultural Surplus _____ | 177,526 | 166,796 | — | — |
| Transfer of Receipts from/to Ordinary Budget _____ | (-) 1,335,035 | — | (-) 6,912,497 | (-) 7,217,971 |
| Special Receipts and Sundry Items _____ | 544,690 | 78,978 | 162,525 | 122,304 |
| Total Development Budget _____ | 5,529,316 | 14,912,294 | 8,405,231 | 8,482,777 |
| GRAND TOTAL _____ | 18,621,845 | 31,015,199 | 40,817,779 | 40,412,244 |

*Revised
**Provisional (Subject to Revision)

GOVERNMENT OF ISRAEL—STATEMENT OF EXPENDITURES
(In IL. '000)

| Current Expenditures | Fiscal Year Ended | Fiscal Year Ended | Fiscal Year Ended | Nine Months Ended |
|---|-------------------|-------------------|-------------------|-------------------|
| | March 31, 1973* | March 31, 1974* | March 31, 1975* | Dec. 31, 1975** |
| General Administration _____ | 1,314,638 | 1,893,233 | 1,703,084 | 1,289,945 |
| Public Order and Defense _____ | 5,963,997 | 15,339,993 | 16,481,727 | 16,429,691 |
| Social Services _____ | 2,019,968 | 3,032,865 | 5,243,301 | 4,887,089 |
| Economic Services _____ | 395,686 | 623,503 | 464,736 | 338,074 |
| Subsidies on Essential Commodities _____ | 509,138 | 1,102,459 | 1,179,556 | 1,406,229 |
| Export and Investment Promotion _____ | 856,983 | 1,164,368 | 2,072,090 | 1,610,569 |
| Interest Payments and Miscellaneous Expenditures _____ | 2,029,119 | 2,235,592 | 5,268,054 | 5,967,870 |
| Total Ordinary Budget _____ | 13,089,529 | 25,392,013 | 32,412,548 | 31,929,467 |
| Expenditures on Development and Capital Account | | | | |
| Construction _____ | 937,501 | 1,082,924 | 2,304,550 | 3,154,057 |
| Agriculture and Irrigation _____ | 145,201 | 181,977 | 259,253 | 271,688 |
| Industry and Mining (includes oil drilling) _____ | 417,157 | 397,061 | 499,691 | 685,699 |
| Transportation and Communication _____ | 541,594 | 588,287 | 798,610 | 681,089 |
| Debt Repayments _____ | 2,087,249 | 2,866,386 | 3,757,373 | 3,693,903 |
| Funds and Sundry Items _____ | 856,664 | 715,731 | 1,089,200 | 807,564 |
| (Education, Health, Welfare and Miscellaneous Expenditures) | | | | |
| Total Development Budget _____ | 4,985,366 | 5,832,366 | 8,708,677 | 9,294,000 |
| GRAND TOTAL _____ | 18,074,895 | 31,224,379 | 41,121,225 | 41,223,467 |

*Revised
**Provisional (Subject to Revision)

SUMMARY OF GOVERNMENT OF ISRAEL BUDGETS
Fiscal Years ending March 31, 1973-1976
(In IL. millions)

| | <u>Actual Outturn Year ended March 31, 1973</u> | <u>Actual Outturn Year ended March 31, 1974</u> | <u>Revised Budget Estimates Year ended March 31, 1975</u> | <u>Budget Estimates Year ending March 31, 1976</u> |
|--|---|---|---|--|
| 1. Current Expenditures | 13,153 | 25,392 | 31,923 | 44,725 |
| 2. Current Revenues | 11,574 | 16,103 | 25,985 | 34,220 |
| 3. Current Deficit (1-2) | 1,579 | 9,289 | 5,938 | 10,505 |
| 4. Capital Expenditures | 2,898 | 2,966 | 5,075 | 6,300 |
| 5. Income on Capital A/C | 965 | 1,110 | 1,646 | 1,125 |
| 6. Financing of Capital Expenditures (4-5) | 1,933 | 1,856 | 3,429 | 5,125 |
| 7. Debt Repayments | 2,087 | 2,866 | 3,651 | 5,180 |
| 8. Total Required Financing (3+6+7) | <u>5,599</u> | <u>14,011</u> | <u>13,018</u> | <u>20,810</u> |
| 9. Domestic Borrowing | 2,970 | 5,723 | 4,100 | 7,460 |
| 10. Foreign Loans and Grants | 3,100 | 8,079 | 8,918 | 13,350 |
| 11. Total Financing (9+10) | <u>6,070</u> | <u>13,802</u> | <u>13,018</u> | <u>20,810</u> |

**PROJECTED REPAYMENT SCHEDULE OF LONG AND
MEDIUM-TERM FOREIGN DEBTS* (as at July 31, 1976)**
(In \$ millions)

| | <u>1976</u> | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> |
|-----------------|----------------|----------------|----------------|----------------|----------------|
| Principal | \$ 640 | \$ 835 | \$ 890 | \$1,150 | \$1,300 |
| Interest | 430 | 540 | 650 | 730 | 700 |
| | <u>\$1,070</u> | <u>\$1,375</u> | <u>\$1,540</u> | <u>\$1,880</u> | <u>\$2,000</u> |

*Having maturities of more than one year.

UNDERWRITING

The Bank has entered into an agreement with Capital for Israel, Inc. (the "Underwriter") pursuant to which the Underwriter has agreed to use its best efforts to sell the Notes offered hereby. The agreement provides that the Underwriter shall receive a commission of 7½% of the sales price on all Notes sold.

The Underwriting Agreement provides, among other things, for reciprocal indemnification by the Bank and the Underwriter against certain losses that might arise from or be based upon actual or alleged misstatements or omissions in the Registration Statement.

Since this offering is on a best efforts basis, there is no assurance that any Notes will be sold. The Underwriter is authorized by the Underwriting Agreement to reallow to dealers selling the Notes such portion of the total commission as it shall determine. The foregoing summary of the Underwriting Agreement does not purport to be a complete statement of all of the terms and conditions of said agreement which has been filed as an exhibit to the Registration Statement and to which reference is hereby made, and the foregoing summary is qualified in its entirety by such reference.

LEGAL OPINIONS

The legality of the Notes being offered has been passed upon for the Bank by Messrs. Goldstein Shames Hyde Wirth Bezahler & Cahill, 655 Madison Avenue, New York, New York 10021, and by Messrs. S. Horowitz & Co. of 20 Yehuda Halevy Street, Tel-Aviv and Jerusalem, Israel, and by Mr. Mordechai Rottenberg, Counsel to the Bank. On matters of Israel laws, Messrs. Goldstein Shames Hyde Wirth Bezahler & Cahill have relied upon the opinions of Messrs. S. Horowitz & Co. and Mr. Rottenberg.

EXPERTS

The Financial Statements of the Bank, included in this Prospectus, have been examined by Somekh, Chaikin, Citron & Co., Certified Public Accountants (Israel) to the extent stated in its report, appearing elsewhere herein, and have been so included in reliance upon such report and on the authority of that firm as Experts in Accounting and Auditing.

ADDITIONAL INFORMATION REQUIRED UNDER ISRAEL LAW

Miscellaneous:

- (a) Except for the Underwriting Agreement, with respect to the Notes referred to herein, the Bank has not paid, nor has it undertaken to pay, any commission for agreements to subscribe or for undertakings to procure subscriptions of the Notes.
- (b) Within the past two years, the Bank has paid commissions in connection with the sale and subscription of its debentures and shares as follows:

| | |
|--|----------------------------|
| 7% \$3,000,000 Debenture Issue | IL.441,000 (\$62,113) |
| 6½% IL.7,500,000 Debenture Issue | IL.150,000 (\$21,127) |
| 6% IL.7,500,000 Debenture Issue | IL.150,000 (\$21,127) |
| 7% \$3,000,000 Debenture Issue | IL.441,000 (\$62,113) |
| 4% IL.15,000,000 Debenture Issue | IL.450,000 (\$63,380) |
| 7½% \$50,000,000 Note Issue | IL.7,401,162 (\$1,042,417) |

Under Israel law, this Prospectus may be used only for a period not exceeding seventeen months from the date of the last audited annual financial statements, i.e. May 31, 1977.

Material Contracts:

The following contracts made by the Bank in the last two years, or not made in the ordinary course of the Bank's business and which still bind the Bank, are or may be considered material contracts.

- (1) Agreements dated December 30, 1960, December 31, 1962, February 14, 1965, August 30, 1967 and September 28, 1969 between the State of Israel and the Bank relating to monies which the State has deposited with the Bank and to monies which the Bank deposited with the State's Treasury, and to the responsibility of the State for certain loans granted by the Bank.
- (2) The Bank's letter dated December 8, 1968 to the Government of Israel and the Government's letter to the Bank, dated January 24, 1969, with regard to loans carrying interest of a rate over 9% per annum and loans in foreign currency or linked loans which are granted with the approval of the Ministry of Finance.
- (3) Exchange of letters dated March 27, 1968 between the Bank and the Ministry of Finance and a letter to the Bank from the Ministry of Finance dated April 24, 1968, setting out the arrangements regarding the cancellation of linkage on the loans which were granted by the Bank and the insurance of its linked obligations.
- (4) An agreement dated September 30, 1969 between the State of Israel and Yuval Insurance Company for Israel Ltd. and the Bank with regard to the payment of the difference in exchange rates in respect of loans in foreign currency which the Bank has received, and an exchange of letters between the Ministry of Finance and the Bank relating to the application of the terms of the agreement to loans which the Bank received after the date of the said agreement.
- (5) Agreement between the Government of Israel and the Investment Company of Industrial Development Bank of Israel Ltd. and the Industrial Finance Corporation Ltd. dated March 10, 1972 with regard to the capital structure of the Industrial Finance Corporation Ltd. and the Investment Company.
- (6) Agreement dated February 8, 1960 between the Government and the Bank with regard to the redemption of Preference A Shares.
- (7) A letter dated June 21, 1970 from the Ministry of Finance to the Bank with regard to the profit ratio on linked loans.
- (8) Agreement dated July 8, 1971 between the Bank and the State of Israel with regard to monies which the Government deposits with the Bank from time to time, in consideration of which the Bank shall issue Capital Notes to the Government.
- (9) Agreements dated June 25, 1971 and November 23, 1972 between the Investment Company of Industrial Development Bank of Israel Ltd. and Dimona Fibers Ltd. and its shareholders, according to which the Investment Company acquired all the capital of "Dimona Fibers" out of which 25% was acquired on behalf of the Bank.
- (10) Agreement dated February 24, 1974, between the Jewish Agency for Israel and the Bank in connection with the management of a special fund of \$25,000,000.

- (11) Agreement dated May 15, 1974, between the Government of Israel and the Bank in connection with the setting up of a fund and the management thereof.
- (12) A Trust-Deed dated May 16, 1972 between the Bank and the Trust Company of Bank Leumi Le-Israel Ltd. and the Trust Company of Discount Bank Israel Ltd., in respect of the debentures of series No. 12.
- (13) A Trust-Deed dated August 7, 1972 between the Bank and the Trust Company of Bank Leumi Le-Israel Ltd. and the Trust Company of Discount Bank Israel Ltd. in respect of debentures of series No. 13.
- (14) Trust-Deed dated July 20, 1973 between the Bank and the Trust Company of Bank Leumi Le-Israel in respect of debentures of series No. 14.
- (15) Trust Deed dated February 25, 1974, between the Bank and the Trust Company of Bank Leumi Le-Israel Ltd. in respect of the Debentures of Series No. 15.
- (16) Trust Deed dated April 16, 1974 between the Bank and the Trust Company of Bank Hapoalim Ltd. in respect of Debentures of Series No. 16.
- (17) Trust Deed dated April 26, 1974 between the Bank and the Trust Company of Bank Leumi Le-Israel Ltd. and the Trust Bank of the Israel Discount Bank Ltd. in respect of the Debentures of Series No. 17.
- (18) Underwriting agreement dated August 7, 1972 between the Bank and the consortium of Israeli Bankers in respect of issue of Debentures of Series No. 13.
- (19) Underwriting agreement dated July 20, 1973 between the Bank and the consortium of Israeli Bankers in respect of the issue of Debentures of Series No. 14.
- (20) Underwriting agreement dated February 25, 1974 between the Bank and the consortium of Israeli Bankers in respect of the issue of Debentures of Series No. 15.
- (21) Underwriting Agreement dated June 30, 1974 between the Bank and a consortium of Israel banks in respect of issue of Debentures of Series No. 18.
- (22) Trust Deed dated June 30, 1974 between the Bank and the Trust Company of Bank Leumi Le-Israel Ltd. and the Trust Bank of the Israel Discount Bank Ltd. in respect of the Debentures of Series No. 18.
- (23) Indenture dated as of July 25, 1974 between the Bank and Manufacturers Hanover Trust Company, in respect of the issue of the Notes.
- (24) Underwriting Agreement dated as of July 22, 1974 between the Bank and Capital for Israel, Inc. with respect to the sale of the Notes.
- (25) Underwriting Agreement dated August 29, 1974 between the Bank and a consortium of Israeli Banks in respect of issue of Debentures of Series No. 19.
- (26) Trust Deed dated August 27, 1974 between the Bank and the Trust Company of Bank Leumi Le-Israel Ltd. and the Trust Company of Bank Hapoalim, Ltd. in respect of the Debentures of Series No. 19.
- (27) Agreement dated March 31, 1976 between the Government of Israel and the Bank relating to rates of interest payable to and by the Bank.

The following is an opinion by S. Horowitz & Co., Advocates, 20 Yehuda Halevy Street, Tel-Aviv and Jerusalem, Israel, Israeli Counsel for the Bank for this issue:

August 9, 1976

The Industrial Development Bank Ltd.
Tel-Aviv

In connection with an offer of 7½ % Registered Subordinated Capital Notes due 1998 in a total amount of \$50,000,000 (less the Notes sold prior to the 31st May, 1976) to be issued by you pursuant to a Prospectus which you are about to publish, we are giving you at your request our opinion as follows:

- (a) The rights attached to the Capital Notes offered have, in our opinion, been correctly described in the Prospectus;
- (b) In our opinion, you are entitled to issue the said Capital Notes as stated in the Prospectus;
- (c) In our opinion the directors of your Bank have been properly appointed and their names are properly inserted in the Prospectus.

We agree that you will include this Opinion in the Prospectus whereunder you will offer the Capital Notes to the public.

Yours faithfully,
B. GROSS
S. HOROWITZ & CO.

In this Prospectus no quotation or reference to the contents of any document or part thereof purports to be an exhaustive quotation or paraphrase, and the document itself should be referred to for the contents thereof.

All reports, Opinion of Counsel, Authorizations and all material contracts mentioned or referred to in this Prospectus may be inspected at the Bank's offices during working hours.

REPORT OF INDEPENDENT ACCOUNTANTS

Industrial Development Bank of Israel Limited,
Tel-Aviv.

We have examined the balance sheet of Industrial Development Bank of Israel Limited as of December 31, 1974 and 1975, the statement of income, statement of retained earnings and statement of capital reserves for the five years ended December 31, 1975 and the statement of changes in financial position for the three years ended December 31, 1975. Our examination was made in accordance with generally accepted auditing standards, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance)—1973, and accordingly we have applied such auditing procedures as we considered necessary in the circumstances.

In our opinion, the above referred to financial statements, expressed in Israeli pounds, present fairly the financial position of the Bank as of December 31, 1974 and 1975, the results of its operations for the years ended December 31, 1971, 1972, 1973, 1974 and 1975 and the changes in the financial position for the years ended December 31, 1973, 1974 and 1975 in conformity with generally accepted accounting principles applied on a consistent basis.

Pursuant to Regulation 62 of the Israel Securities Regulations (Details of Prospectus, its Structure and Form) 1969, we confirm that in our opinion the above financial statements are drawn up in conformity with the Israel Securities Regulations (Preparation of Financial Statements), 1969, and we consent to the inclusion of our opinion stated above in the amended Prospectus in connection with the public offering by the Bank of \$50,000,000 7½ % Registered Subordinated Capital Notes due 1998.

Somekh, Chaikin, Citron & Co.

Certified Public Accountants (Isr.)

Tel-Aviv, April 30, 1976

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED

BALANCE SHEET

ASSETS

| | December 31, 1974 | December 31, 1975 | December 31, 1975 <small>Translated to \$ 000*</small> |
|---|----------------------|----------------------|--|
| | <u>IL.000</u> | <u>IL.000</u> | <u>\$ 000*</u> |
| Cash and short term deposits with banks _____ | 16,638 | 23,197 | 3,267 |
| Security investments (Note 2) _____ | 61,046 | 63,835 | 8,991 |
| Loans and other assets— | | | |
| Long-term loans to industry (Note 3) _____ | 2,116,370 | 3,017,053 | 424,937 |
| Long-term receivable in connection with the sale of investment (Note 4) _____ | 3,370 | 2,808 | 395 |
| Income receivable and prepaid interest _____ | 30,048 | 40,311 | 5,678 |
| Other accounts _____ | 44,894 | 53,214 | 7,495 |
| | <u>2,194,682</u> | <u>3,113,386</u> | <u>438,505</u> |
| Long-term deposits with the Israel Treasury (in foreign currency) _____ | 110,609 | 53,680 | 7,561 |
| Amounts receivable in connection with exchange differ- ences and linkage increments on liabilities of the Bank (Note 5) _____ | 572,710 | 741,288 | 104,407 |
| Property and equipment (Note 6) _____ | — | — | — |
| Customers' liabilities (see contra) | | | |
| for long-term guarantees (Note 7) _____ | 80,353 | 74,944 | 10,555 |
| for documentary credits and other liabilities in connection with orders for industrial equipment | 48,786 | 176,113 | 24,805 |
| | <u>129,139</u> | <u>251,057</u> | <u>35,360</u> |
| | <u>3,084,824</u> | <u>4,246,443</u> | <u>598,091</u> |

*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 financial statements as at December 31, 1975 and for the year then ended have 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.

The notes to the financial statements form an integral part thereof.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
BALANCE SHEET
LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, 1974 | December 31, 1975 | December 31, 1975 |
|--|----------------------|----------------------|----------------------------------|
| | <u>IL.000</u> | <u>IL.000</u> | <u>Translated to \$ 000*</u> |
| Deposits, loans and other liabilities: | | | |
| Deposits and loans (Note 8) | 1,201,267 | 1,712,775 | 241,236 |
| Special deposits for the granting of loans (Note 9) | 194,839 | 470,758 | 66,304 |
| Short term loans | 33,735 | — | — |
| Other liabilities (Note 10) | 46,088 | 60,747 | 8,556 |
| Income received in advance and accrued expenses | 91,937 | 111,588 | 15,717 |
| Other accounts, including provision for taxes on income | 75,626 | 95,576 | 13,461 |
| Proposed final dividend, gross | 12,823 | 15,012 | 2,114 |
| | <u>1,656,315</u> | <u>2,466,456</u> | <u>347,388</u> |
| Debentures and loan bonds (Note 11) | 392,853 | 438,923 | 61,821 |
| Liabilities on account of customers (see contra): | | | |
| Long term guarantees (Note 7) | 80,353 | 74,944 | 10,555 |
| Documentary credits and other liabilities in connection with orders for industrial equipment | 48,786 | 176,113 | 24,805 |
| | <u>129,139</u> | <u>251,057</u> | <u>35,360</u> |
| Contingent liabilities (Note 12) | | | |
| Perpetual deposit (Note 13) | 375,010 | 476,010 | 67,044 |
| 7½ % Registered Subordinated Capital notes due 1998 (Note 14) | 32,508 | 97,369 | 13,714 |
| Shareholders' equity: | | | |
| Share capital paid up (Note 15) | 373,981 | 372,922 | 52,524 |
| Capital reserves: | | | |
| Share premium | 7,508 | 7,508 | 1,057 |
| Capital linkage funds— | | | |
| Linked share capital adjustment reserve (Note 16) | 26,272 | 25,899 | 3,648 |
| Capital linkage fund | 9,637 | 10,289 | 1,449 |
| Capital redemption reserve fund | 7,192 | 8,251 | 1,162 |
| Reserve for future capital redemption | 1,432 | 2,432 | 343 |
| | <u>52,041</u> | <u>54,379</u> | <u>7,659</u> |
| Retained earnings: | | | |
| General reserve | 41,000 | 49,500 | 6,972 |
| Special reserve (Note 17) | 31,000 | 39,000 | 5,493 |
| Unappropriated profits | 977 | 827 | 116 |
| | <u>72,977</u> | <u>89,327</u> | <u>12,581</u> |
| Total shareholders' equity | <u>498,999</u> | <u>516,628</u> | <u>72,764</u> |
| | <u>3,084,824</u> | <u>4,246,443</u> | <u>598,091</u> |

*See footnote on page 51.

The notes to the financial statements form an integral part thereof.

Dr. Z. Dinstein,
Chairman

M. B. Gitter,
Director

D. Friedman,
Joint General Manager

Y. Macht,
Director

Dr. M. Mandelbaum,
Director

Y. Gill,
Joint General Manager

M. Olenik,
Director

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
STATEMENT OF RETAINED EARNINGS

| | Year ended December 31, | | | | | |
|--|-------------------------|---------------|---------------|---------------|---------------|----------------------------------|
| | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> | <u>1975</u> |
| | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> | <u>Translated to \$ 000*</u> |
| Unappropriated profits: | | | | | | |
| Balance at beginning of year | 595 | 708 | 747 | 806 | 977 | 138 |
| Net earnings for the year applicable to the participating shares | <u>20,665</u> | <u>24,264</u> | <u>27,665</u> | <u>32,961</u> | <u>37,824</u> | <u>5,327</u> |
| | <u>21,260</u> | <u>24,972</u> | <u>28,412</u> | <u>33,767</u> | <u>38,801</u> | <u>5,465</u> |
| Deductions: | | | | | | |
| Dividends on participating shares, net of reduction in tax liability (Note 18) | 11,717 | 13,793 | 13,774 | 15,358 | 19,042 | 2,682 |
| Transfer to— | | | | | | |
| Reserve for future capital redemp- tion | 1,335 | 1,432 | 1,432 | 1,432 | 2,432 | 343 |
| General reserve | 3,500 | 4,000 | 6,000 | 6,000 | 8,500 | 1,197 |
| Special reserve | 4,000 | 5,000 | 6,400 | 10,000 | 8,000 | 1,127 |
| | <u>20,552</u> | <u>24,225</u> | <u>27,606</u> | <u>32,790</u> | <u>37,974</u> | <u>5,349</u> |
| Balance of unappropriated profits at end of year | <u>708</u> | <u>747</u> | <u>806</u> | <u>977</u> | <u>827</u> | <u>116</u> |
| General reserve: | | | | | | |
| Balance at beginning of year | 21,500 | 25,000 | 29,000 | 35,000 | 41,000 | 5,775 |
| Transferred from unappropriated profits | 3,500 | 4,000 | 6,000 | 6,000 | 8,500 | 1,197 |
| Balance at end of year | <u>25,000</u> | <u>29,000</u> | <u>35,000</u> | <u>41,000</u> | <u>49,500</u> | <u>6,972</u> |
| Special reserve: | | | | | | |
| Balance at beginning of year | 5,600 | 9,600 | 14,600 | 21,000 | 31,000 | 4,366 |
| Transferred from unappropriated profits | 4,000 | 5,000 | 6,400 | 10,000 | 8,000 | 1,127 |
| Balance at end of year | <u>9,600</u> | <u>14,600</u> | <u>21,000</u> | <u>31,000</u> | <u>39,000</u> | <u>5,493</u> |
| Total retained earnings | <u>35,308</u> | <u>44,347</u> | <u>56,806</u> | <u>72,977</u> | <u>89,327</u> | <u>12,581</u> |

*See footnote on page 51.

The notes to the financial statements form an integral part thereof.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
STATEMENT OF CAPITAL RESERVES

| | Year ended December 31, | | | | | |
|--|-------------------------|---------------|---------------|---------------|---------------|----------------------------------|
| | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> | <u>1975</u> |
| | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> | Translated to <u>\$ 000**</u> |
| Share premium | 7,508 | 7,508 | 7,508 | 7,508 | 7,508 | 1,057 |
| Capital linkage funds | | | | | | |
| Linked share capital adjustment reserve: | | | | | | |
| Balance at beginning of year | 27,725 | 27,391 | 27,018 | 26,645 | 26,272 | 3,701 |
| Transfer to capital linkage fund | 334 | 373 | 373 | 373 | 373 | 53 |
| Balance at end of year | <u>27,391</u> | <u>27,018</u> | <u>26,645</u> | <u>26,272</u> | <u>25,899</u> | <u>3,648</u> |
| Capital linkage fund | | | | | | |
| Balance at beginning of year | 4,171 | 4,548 | 5,052 | 7,175 | 9,637 | 1,357 |
| Amounts received | 8,606 | 20,947 | 20,451 | 39,541 | 124,664 | 17,558 |
| Amounts paid | 8,514 | 20,666 | 17,883 | 36,592 | 123,838 | 17,442 |
| Excess of receipts over payments | 92 | 281 | 2,568 | 2,949 | 826 | 116 |
| Provision for taxes on income | 49* | 150 | 818 | 860 | 547 | 77 |
| Net excess for the year | 43 | 131 | 1,750 | 2,089 | 279 | 39 |
| Transfer from linked share capital ad- justment reserve | 334 | 373 | 373 | 373 | 373 | 53 |
| Balance at end of year | <u>4,548</u> | <u>5,052</u> | <u>7,175</u> | <u>9,637</u> | <u>10,289</u> | <u>1,449</u> |
| Capital redemption reserve fund | | | | | | |
| Balance at beginning of year | 3,014 | 4,015 | 5,074 | 6,133 | 7,192 | 1,013 |
| Additions—Transfer from: | | | | | | |
| Reserve for future capital redemption | 1,001 | 1,059 | 1,059 | 1,059 | 1,059 | 149 |
| Balance at end of year | <u>4,015</u> | <u>5,074</u> | <u>6,133</u> | <u>7,192</u> | <u>8,251</u> | <u>1,162</u> |
| Reserve for future capital redemption | | | | | | |
| Balance at beginning of year | 1,432 | 1,432 | 1,432 | 1,432 | 1,432 | 202 |
| Additions—Transfer from: | | | | | | |
| Retained earnings | 1,335 | 1,432 | 1,432 | 1,432 | 2,432 | 343 |
| Balance at end of year | <u>2,767</u> | <u>2,864</u> | <u>2,864</u> | <u>2,864</u> | <u>3,864</u> | <u>545</u> |
| Deductions— | | | | | | |
| Transfer to capital redemption reserve fund to cover par value of share capital redeemed | 1,001 | 1,059 | 1,059 | 1,059 | 1,059 | 149 |
| Linkage increments on share capital redeemed | 334 | 373 | 373 | 373 | 373 | 53 |
| Balance at end of year | <u>1,335</u> | <u>1,432</u> | <u>1,432</u> | <u>1,432</u> | <u>1,432</u> | <u>202</u> |
| Balance at end of year | <u>1,432</u> | <u>1,432</u> | <u>1,432</u> | <u>1,432</u> | <u>2,432</u> | <u>343</u> |

*Includes deferred taxes of IL.32,000.

**See footnote on page 51.

The notes to the financial statements form an integral part thereof.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
STATEMENT OF CHANGES IN FINANCIAL POSITION

| | Year ended December 31, | | | |
|---|-------------------------|-----------------|------------------|---------------------------------|
| | 1973 | 1974 | 1975 | 1975 |
| | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> | Translated to <u>\$ 000*</u> |
| Resources provided: | | | | |
| Net earnings per statement of income | 36,319 | 41,383 | 47,226 | 6,652 |
| Less—Capital gains, net of related income taxes | 3,687 | 4,803 | 43 | 6 |
| Cancellation of provision for diminution in value of investments | — | 1,350 | — | — |
| | <u>32,632</u> | <u>35,230</u> | <u>47,183</u> | <u>6,646</u> |
| Add—Increase in linkage fund | 1,750 | 2,089 | 279 | 39 |
| Charges to profit which do not require use of funds: | | | | |
| Provision for diminution in value of investments | 100 | — | — | — |
| Allowance for possible loan losses | 4,872 | 1,514 | 6,629 | 934 |
| Write off of property and equipment | 234 | 301 | 416 | 58 |
| | <u>39,588</u> | <u>39,134</u> | <u>54,507</u> | <u>7,677</u> |
| Perpetual deposit | 125,875 | 93,885 | 101,000 | 14,225 |
| Issue of 7½% subordinated capital notes | — | 30,555 | 54,001 | 7,606 |
| Debenture issue | 20,000 | 54,780 | 600 | 84 |
| Loans and deposits received | 120,767 | 162,412 | 871,488 | 122,745 |
| Collection of long term loans | 178,393 | 242,005 | 276,271 | 38,911 |
| Collection of long term receivable in connection with the sale of investment | — | — | 562 | 79 |
| Repayments by the Israel Treasury of long-term deposits .. | 16,117 | 23,631 | 40,586 | 5,717 |
| Proceeds of sale of investments, property and equipment, net of related income taxes | 11,804 | 16,649 | 413 | 58 |
| Net increase in other liabilities | 24,791 | — | 348 | 49 |
| Decrease in liquid resources (see below) | 36,982 | 19,059 | — | — |
| Total resources provided | <u>574,317</u> | <u>682,110</u> | <u>1,399,776</u> | <u>197,151</u> |
| Resources applied: | | | | |
| Long-term loans to industry | 423,526 | 428,779 | 1,133,047 | 159,584 |
| Long-term receivable in connection with the sale of invest- ment | — | 3,370 | — | — |
| Long-term deposits with the Israel Treasury | 6,651 | 10,810 | 3,830 | 539 |
| Redemption of preference shares | 1,432 | 1,432 | 1,432 | 202 |
| Redemption of debentures and loan bonds | 7,548 | 11,075 | 17,311 | 2,438 |
| Repayment of loans and deposits | 93,998 | 136,845 | 174,202 | 24,535 |
| Deferred taxes paid | 4,435 | — | — | — |
| Investments in shares and State of Israel bonds | 14,065 | 15,248 | 800 | 113 |
| Additions to property and equipment | 233 | 301 | 416 | 59 |
| Dividends (net) including proposed dividend | 22,429 | 23,780 | 28,444 | 4,006 |
| Net decrease in other liabilities | — | 50,470 | — | — |
| Increase in liquid resources (see below) | — | — | 40,294 | 5,675 |
| Total resources applied | <u>574,317</u> | <u>682,110</u> | <u>1,399,776</u> | <u>197,151</u> |
| Changes in liquid resources: | | | | |
| Withdrawal of deposit at call with the Israel Treasury | (15,506) | — | — | — |
| Increase (decrease) in cash balances | (8,449) | 1,649 | 6,559 | 924 |
| Decrease (increase) in short-term loans | (13,027) | (20,708) | 33,735 | 4,751 |
| Total increase (decrease) in liquid resources | <u>(36,982)</u> | <u>(19,059)</u> | <u>40,294</u> | <u>5,675</u> |

*See footnote on page 51.

NOTE

The differences arising from adjustments of balances in foreign currency or linked thereto as well as those linked to the consumer price index, are not included in the above statement as source or use of funds because these differences are included in the statement of income or the statement of capital reserves upon their collection or payment.

The notes to the financial statements form an integral part thereof.

INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED
NOTES TO FINANCIAL STATEMENTS

(The amounts in these notes have been rounded off to thousands of Israel pounds)

NOTE 1—ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements are summarized as follows:—

(a) Linked and foreign currency accounts

Balances in foreign currency or linked thereto, other than linked investments and the linked share capital (see note 16), have been stated as follows:—

- (1) Those in foreign currency or linked thereto—at the official rates of exchange ruling on balance sheet date. In the year 1975 the Israel Government adopted a policy of periodical adjustments of the official rate of exchange of the Israel pound to the U.S. dollar. Accordingly, following a series of devaluations during the year, the official rate of exchange at December 31, 1975 was IL.7.10=\$1 (December 31, 1974—IL.6=\$1). The rates of exchange of the Israel pound to other foreign currencies have been adjusted accordingly.
- (2) Those linked to the consumer price index—on the basis of the index for November 1975 of 345.5 points (December 31, 1974—November 1974, 260.8 points).

The above adjustments as well as the adjustment of a part of the linked investments, as detailed in sub-section (b) hereunder, resulted in a surplus of IL.1,567,000 (December 31, 1974—a deficit of IL.301,000 resulting from the non-adjustment of all linked investments). The said surplus is included in the balance sheet under liabilities in "other accounts." Pursuant to the Bank's Articles of Association, exchange differences and linkage increments on principal sums of assets and liabilities are taken to capital linkage fund upon their collection or payment (see statement of capital reserves).

Pursuant to the Bank's Articles of Association exchange differences and linkage increments received or paid on interest, are transferred to a profits linking fund.

(b) The security investments are stated as follows:—

(1) Unquoted—

Shares—

50% owned company—Investment Company for Industrial Development in Israel Limited—at cost

Other companies—at the lower of cost or estimated value

State of Israel bonds, linked to the consumer price index—

Redeemable within five years—at cost plus accrued interest and linkage differences (December 31, 1974—at cost plus accrued interest)

Redeemable after five years—at cost plus accrued interest.

(2) Quoted—

Shares—at market value, which is lower than cost.

Accrued interest on the State of Israel bonds is included in the balance sheet in the item "income receivable and prepaid interest."

Accrued linkage differences on the State of Israel bonds redeemable within five years are included in the balance sheet in the item "Investments."

(c) Long term loans to industry.—

These are shown net of an allowance for possible loan losses made specifically in respect of loans undergoing legal proceedings or loans the collection of which is doubtful, taking into account the realizable value of the security held by the Bank.

In addition to the above allowance the Bank appropriates amounts out of ordinary income to a special contingency reserve (see "retained earnings" in the balance sheet). This reserve is computed as a percentage of the outstanding loans granted on the responsibility of the Bank.

(d) Property and equipment

Property and equipment are stated at nominal value of IL.1. New acquisitions are fully written off in the accounting year in which they are acquired.

NOTE 2—SECURITY INVESTMENTS

(a) These comprise the following—

| | <u>December 31, December 31,</u> | |
|---|----------------------------------|---------------|
| | <u>1974</u> | <u>1975</u> |
| | <u>IL.000</u> | <u>IL.000</u> |
| Unquoted— | | |
| Shares in 50% owned company | 15,073 | 15,073 |
| Shares in other companies | 2,925 | 2,904 |
| State of Israel bonds—linked to the consumer price index | 43,002 | 45,790* |
| Total unquoted investments | <u>61,000</u> | <u>63,767</u> |
| Quoted—(Tel-Aviv Stock Exchange) | | |
| Shares | 46 | 68 |
| Total investments | <u>61,046</u> | <u>63,835</u> |
| *Including linkage increments accrued on bonds redeemable within five years | — | 3,553 |
| Accrued interest on the above bonds which is included in the balance sheet in the item "income receivable and prepaid interest," totals ... | 2,649 | 4,353 |
| (b) Market value of quoted investments | 46 | 68 |
| (c) The adjusted value of the State of Israel bonds (represents cost plus linkage differences) | 66,000 | 85,178 |
| (d) Following is a statement showing the equity value of the investment in a 50% owned company as at December 31, 1974 and 1975— | | |
| Cost of investment | <u>IL.000</u> | <u>IL.000</u> |
| Difference between the cost of investment and its equity value at date of acquisition | <u>15,073</u> | <u>15,073</u> |
| Increase in equity value of investment from acquisition date to the beginning of the year— | | |
| Capital reserves— | | |
| Non-distributable in cash | 3,435 | 3,435 |
| Distributable in cash | 673 | 910 |
| Retained earnings | 807 | 1,536 |
| Increase in equity value of investment during the year— | <u>4,915</u> | <u>5,881</u> |
| Capital reserves—distributable in cash | 237 | 2,738 |
| Retained earnings | 729 | 1,164 |
| Equity value of investment | <u>966</u> | <u>3,902</u> |
| | <u>20,954</u> | <u>24,856</u> |

The above equity value does not include the bank's equity in the excess of market value of quoted securities held by the said subsidiary over their book value, amounting to IL.6,877,000 (December 31, 1974—IL.6,315,000).

NOTE 3—LONG TERM LOANS TO INDUSTRY

| | December 31, 1974 <u>IL.000</u> | December 31, 1975 <u>IL.000</u> |
|--|---------------------------------------|---------------------------------------|
| (a) These comprise— | | |
| Loans | 1,880,144 | 2,446,680 |
| Less: Allowance for possible losses | 16,100 | 22,500 |
| Net Loans | <u>1,864,044</u> | <u>2,424,180</u> |
| Advances pending signing of loan contracts | 72,009 | 140,208 |
| Other advances | 8,973 | 4,863 |
| | <u>1,945,026</u> | <u>2,569,251</u> |
| Loans granted out of special deposits of— | | |
| The Israel Treasury | 134,098 | 369,635 |
| Others | 37,246 | 78,167 |
| | <u>171,344</u> | <u>447,802</u> |
| | <u>2,116,370</u> | <u>3,017,053</u> |
| The allowance for possible losses is shown as a deduction from loans in accordance with Israel accounting practices and requirements of the Israel Securities Regulations. | | |
| (b) The above loans include— | | |
| Loans linked to the price of the U.S. dollar in the amount of | <u>107,179</u> | <u>131,331</u> |
| A loan linked to the consumer price index in the amount of | <u>6,189</u> | <u>12,839</u> |
| Loans in foreign currency amounting to | <u>76,742</u> | <u>117,370</u> |
| (c) Breakdown of loans by type of borrowers— | | |
| Manufacturing companies | 1,423,146 | 1,824,900 |
| Mining and quarries | 156,467 | 156,800 |
| Public utilities (Electricity, oil and gas, transportation, etc.) | 246,318 | 580,558 |
| Financial institutions (Mainly in respect of loans to manufacturing companies | 136,546 | 238,441 |
| Real estate companies (In respect of construction of industrial buildings) | 119,429 | 168,541 |
| Local authorities (In respect of providing facilities to industry) | 20,625 | 34,563 |
| Trading companies | 13,839 | 13,250 |
| Total | <u>2,116,370</u> | <u>3,017,053</u> |

NOTE 4—LONG TERM RECEIVABLE IN CONNECTION WITH THE SALE OF INVESTMENT

This represents the balance of proceeds receivable on the sale of investment in a subsidiary company, which under the agreement of sale is payable in five equal yearly instalments.

NOTE 5—AMOUNTS RECEIVABLE (NET) IN CONNECTION WITH EXCHANGE DIFFERENCES AND LINKAGE INCREMENTS ON LIABILITIES

These amounts represent the compensations receivable in respect of linkage increments and exchange differences which have arisen on principal sums of the Bank's liabilities, which the Israel Treasury has undertaken to reimburse the Bank in the context of the agreement for the cancellation of linkage terms on loans to industry.

As a result of the agreement between the Bank and the Israel Treasury, linkage increments on principal and interest are recovered by the Bank from the Treasury and therefore changes in rates of exchange or in the consumer price index can have no adverse effect on the financial condition or operations of the Bank.

NOTE 6—PROPERTY AND EQUIPMENT

| | <u>Cost at beginning of year</u> | <u>Additions</u> | <u>Deductions</u> | <u>Cost at end of year</u> |
|--|--|------------------|-------------------|--------------------------------|
| | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> |
| Year ended December 31, 1974 | | | | |
| Buildings | 4,592 | 190 | — | 4,782 |
| Equipment, furniture and motor cars .. | 1,403 | 111 | — | 1,514 |
| | <u>5,995</u> | <u>301</u> | <u>—</u> | <u>6,296</u> |
| Year ended December 31, 1975 | | | | |
| Buildings | 4,782 | 137 | 88 | 4,831 |
| Equipment, furniture and motor cars .. | 1,514 | 279 | 51 | 1,742 |
| | <u>6,296</u> | <u>416</u> | <u>139</u> | <u>6,573</u> |

As stated in Note 1 (d) above the cost of the property and equipment has been written off and appears on the books in the nominal value of IL.1. The aggregate amount written off exceeds the accumulated depreciation allowed for income tax purposes by about IL.4,000,000 at December 31, 1974 and 1975.

The buildings, which include also a share in jointly owned buildings, comprise—

| | <u>December 31, 1974</u> | <u>December 31, 1975</u> |
|---|------------------------------|------------------------------|
| | <u>IL.000</u> | <u>IL.000</u> |
| Freehold | 942 | 854 |
| Leasehold (lease expires in 2049) | 3,733 | 3,764 |
| Leasehold improvements | 107 | 213 |
| | <u>4,782</u> | <u>4,831</u> |

NOTE 7—CONTRA ACCOUNTS—LONG TERM GUARANTEES

In conformity with the general practice of banks in Israel, the outstanding contingent liability of the Bank on account of customers in respect of guarantees given is reflected in the Balance Sheet by way of contra accounts.

The long term guarantees as of December 31, 1974 and 1975, include a guarantee for an amount of U.S. \$13,193,000. As the customer in question is liable to pay the counter-value of the above amount at the rate of exchange of \$1=IL.4.20, viz. IL.55,411,000, the guarantee is stated at this amount whilst exchange differences incurred as a result of subsequent devaluations of the Israel pound are included in the balance sheet in the item "Long term liabilities—other" (see note 10).

NOTE 8—DEPOSITS AND LOANS

(a) Of the total amount of deposits and loans received, amounts of IL.475,520,000 at December 31, 1974 and IL.577,481,000 at December 31, 1975 are secured by floating charges on assets of the

Bank, and IL.4,970,000 at December 31, 1974 and IL.5,474,000 at December 31, 1975 is secured by a specific charge on the State of Israel bonds included in the item "Security Investments."

(b) The deposits and loans are classified as to linkage and other terms as follows:—

| | <u>December 31, 1974</u> | <u>December 31, 1975</u> |
|---|------------------------------|------------------------------|
| | <u>IL.000</u> | <u>IL.000</u> |
| In foreign currency or linked thereto | 1,059,396 | 1,337,001 |
| Linked to the consumer price index | 44,619 | 66,889 |
| Not linked | 97,252 | 308,885 |
| | <u>1,201,267</u> | <u>1,712,775</u> |

(c) The years of repayment of the deposits and loans are as follows:—

| | <u>December 31, 1974</u> | | <u>December 31, 1975</u> |
|-------------|--------------------------|-------------|--------------------------|
| | <u>IL.000</u> | | <u>IL.000</u> |
| 1975 | 253,581 | 1976 | 326,630 |
| 1976 | 197,039 | 1977 | 242,983 |
| 1977 | 153,398 | 1978 | 278,632 |
| 1978 | 145,826 | 1979 | 202,990 |
| 1979 | 94,351 | 1980 | 154,430 |
| 1980 - 1984 | 287,072 | 1981 - 1985 | 387,335 |
| 1985 - 1989 | 61,479 | 1986 - 1990 | 111,768 |
| 1990 - 1994 | 8,521 | 1991 - 1995 | 8,007 |
| | <u>1,201,267</u> | | <u>1,712,775</u> |

NOTE 9—SPECIAL DEPOSITS FOR THE GRANTING OF LOANS

The amount is composed as follows:—

| | <u>December 31, 1974</u> | <u>December 31, 1975</u> |
|---------------------------|------------------------------|------------------------------|
| | <u>IL.000</u> | <u>IL.000</u> |
| The Israel Treasury | 134,098 | 369,635 |
| Others | 60,741 | 101,123 |
| | <u>194,839</u> | <u>470,758</u> |

The other deposits include increments totalling IL.23,495,000 at December 31, 1974 and IL.22,956,000 at December 31, 1975 arising from linkage to foreign currency, the corresponding amounts of which are included under assets in the item "amounts receivable in connection with exchange differences and linkage increments on liabilities" (see Note 5).

All the above deposits are long term deposits and their due dates conform to the due dates of the loans granted therefrom.

NOTE 10—OTHER LIABILITIES

As a result of a series of devaluations of the Israel Pound, the Bank incurred a liability for the payment of exchange differences on guarantees granted by the Bank (see Notes 7 and 12).

This liability is covered by a counter undertaking of the Israel Treasury to compensate the Bank, which is included under Assets in the item "Amounts receivable in connection with exchange differences and linkage increments on the Bank's liabilities".

The due dates of the above liabilities correspond to the repayment dates of the loans in respect of which the said guarantees were granted.

NOTE 11—DEBENTURES AND LOAN BONDS

(a) The debentures are secured by floating charges on the assets of the Bank and comprise the following issues:

| Rate of interest | Period of redemption | Amount authorized by indenture '000 | Currency or linkage terms | Adjusted Outstanding Amounts | |
|--|----------------------|--|------------------------------------|------------------------------|----------------|
| | | | | Dec. 31, 1974 | Dec. 31, 1975 |
| | | | | IL.000 | IL.000 |
| 6% | 1966/75 | IL.5,000 | Linked to the consumer price index | 1,920 | — |
| 5.5% | 1975/86 | IL.21,000 | Linked to the consumer price index | 54,028 | 65,848 |
| 7% | 1975/84 | U.S. \$4,000 | In U.S. dollars | 24,000 | 25,560 |
| 7% | 1975/84 | U.S. \$6,000 | In U.S. dollars | 36,000 | 38,340 |
| 7% | 1972/84 | U.S. \$5,000 | In U.S. dollars | 22,800 | 24,140 |
| 6% | 1974/86 | Sfr. 20,000 | In Swiss francs | 43,252 | 45,311 |
| 5.5% | 1974/86 | Sfr. 20,000 | In Swiss francs | 43,252 | 45,311 |
| 6.5% | 1975/84 | IL.20,000 | Linked to the consumer price index | 32,057 | 38,221 |
| 7% | 1976/85 | U.S. \$3,000 | In U.S. dollars | 18,000 | 21,300 |
| 6.5% | 1983/94 | IL.7,500 | Linked to the consumer price index | 9,431 | 12,494 |
| 6% | 1980/91 | IL.7,500 | Linked to the consumer price index | 9,431 | 12,494 |
| 7% | 1976/85 | U.S. \$3,000 | In U.S. dollars | 17,400 | 21,300 |
| 4% | 1979/88 | IL.15,000 | Linked to the consumer price index | 15,582 | 20,444 |
| | | | | <u>327,153</u> | <u>370,763</u> |
| (b) Loan bonds, guaranteed by the State of Israel: | | | | 65,700 | 68,160 |
| 7% | 1972/82 | U.S. \$15,000 | In U.S. dollars | <u>392,853</u> | <u>438,923</u> |

(c) The debentures and loan bonds are repayable over the following periods:

| December 31, 1974 | | December 31, 1975 | |
|-------------------|----------------|-------------------|----------------|
| | IL.000 | | IL.000 |
| 1975 | 33,470 | 1976 | 42,388 |
| 1976 | 35,150 | 1977 | 42,388 |
| 1977 | 35,150 | 1978 | 42,388 |
| 1978 | 35,150 | 1979 | 44,433 |
| 1979 | 36,708 | 1980 | 45,433 |
| 1980 - 1984 | 171,722 | 1981 - 1985 | 188,295 |
| 1985 - 1989 | 39,466 | 1986 - 1990 | 27,851 |
| 1990 - 1994 | 6,036 | 1991 - 1995 | 5,747 |
| | <u>392,852</u> | | <u>438,923</u> |

(d) Expenses in connection with the issue of debentures and loan bonds incurred up to the end of 1970, have been fully written off by the Bank. For tax purposes the unamortized balance of these expenses totalled IL.1,181,000 at December 31, 1974 and IL.866,000 at December 31, 1975.

Expenses in connection with debentures, which were issued in 1971 and later years were wholly refunded to the Bank by the Israel Treasury.

NOTE 12—CONTINGENT LIABILITIES

The Bank has undertaken the payment of exchange differences on foreign currency loans granted to companies in Israel in the aggregate amount of IL.66,021,000 at December 31, 1974, and IL.57,540,000 at December 31, 1975.

The Israel Treasury has undertaken to reimburse the Bank for such payments. Exchange differences incurred in respect of these guarantees up to December 31, 1975, are included in the balance sheet in the item "Other Liabilities" (see Note 10).

NOTE 13—PERPETUAL DEPOSIT

This deposit by the State of Israel is not linked and is convertible at the depositor's request into "B" ordinary shares, at their par value.

Until March 31, 1975 the deposit bore interest at the rate of 5% per annum. As from that date the rate of interest was increased to 7.25% per annum.

The deposit is perpetual, but the State of Israel has the right to demand its redemption in the event of the State's voting power in the Bank falling below 20%. The redemption would thereupon be effected in twenty-five equal annual instalments, beginning ten years after the date of the demand for redemption. The Bank has agreed to issue to the State of Israel capital notes in place of the deposit with terms identical thereto.

NOTE 14—7½ % REGISTERED SUBORDINATED CAPITAL NOTES DUE 1998

The bank is issuing in the United States \$50,000,000 7½ % Registered Subordinated Capital Notes due on December 31, 1998. The Notes are secured by a floating charge on a part of the furniture of the bank.

Subject to the approval of the Ministry of Finance of the State of Israel, the notes may be redeemed at the option of the Bank in whole or in part on January 2, 1981 or at any date thereafter up to the original maturity date, at a redemption price equal to 105% of the principal amount thereof.

NOTE 15—SHARE CAPITAL PAID UP

The share capital of the Bank, which is composed of registered shares, traded on the Tel-Aviv Stock Exchange (unless otherwise indicated), comprises:

| | Authorized | December 31, 1974 Issued and Paid | December 31, 1975 Issued and Paid |
|---|----------------|--|--|
| | <u>IL.000</u> | <u>IL.000</u> | <u>IL.000</u> |
| 16,000 "A" ordinary shares of IL.1,000 each | 16,000 | 15,100 | 15,100 |
| 135,400 "B" ordinary shares of IL.1,000 each | 135,400* | 134,900 | 134,900 |
| 1,000,000 8% cumulative participating preferred ordinary shares of IL.10 each | 10,000 | 10,000 | 10,000 |
| 57,500 3½ % cumulative redeemable "A" preference shares of IL.1,000 each (redemption dates have been fixed for the period 1965-1998) | 57,500* | 50,000** | 49,500** |
| 6,000 7% cumulative redeemable "B" preference shares of IL.1,000 each linked to the price of the U.S. dollar at the rate of \$1=IL.1.80 (redemption dates have been fixed for the period 1970-1979) | 6,000 | 2,294*** | 1,735*** |
| 17,000,000 6% cumulative participating "C" preference shares of IL.1.80 each, linked to the price of the U.S. dollar at the rate of \$1=IL.1.80 | 30,600 | 30,600 | 30,600 |
| 1,000,000 6% cumulative participating "CC" preference shares of IL.30 each, linked to the price of the U.S. dollar at the rate of \$1=IL.3 | 30,000 | 30,000 | 30,000 |
| 1,740,000 6% cumulative participating "CC1" preference shares of IL.30 each, linked to the price of the U.S. dollar at the rate of \$1=IL.3 | 52,200 | 52,044 | 52,044 |
| 164,000 7½ % cumulative "D" preference shares of IL.300 each, linked to the price of the U.S. dollar at the rate of \$1=IL.3, redeemable at a premium of 5.5% (redemption dates will be determined by the Bank, subject to approval by the Israel Treasury) | 49,200 | 49,043 | 49,043 |
| 500,000 7½ % cumulative "DD" preference shares of IL.420 each, linked to the price of the U.S. dollar at the rate of \$1=IL.4.20, redeemable at a premium of 5.5% (redemption dates will be determined by the Bank, subject to approval by the Israel Treasury, but not before December 31, 1983) | 210,000 | — | — |
| 50,100 unclassified shares of IL.1,000 each | 50,100 | — | — |
| | <u>647,000</u> | <u>373,981</u> | <u>372,922</u> |

* not traded
 ** after redemption of IL.8,000,000 (1974—IL.7,500,000)
 *** after redemption of IL.3,851,000 (1974—IL.3,292,000)

NOTE 16—LINKED SHARE CAPITAL ADJUSTMENT RESERVE

This reserve is derived from the linkage fund and serves to complement the par value of the share capital linked to the price of the U.S. dollar, as follows:

Total amount required to adjust the linked share capital on the basis of the official rate of exchange of \$1=IL.6.00 at December 31, 1974 and \$1=IL.7.10 at December 31, 1975—

| | <u>December 31, 1974</u> | <u>December 31, 1975</u> |
|---|------------------------------|------------------------------|
| | <u>IL.000</u> | <u>IL.000</u> |
| in respect of redeemable shares _____ | 54,396 | 72,134 |
| in respect of non-redeemable shares _____ | <u>153,443</u> | <u>202,226</u> |
| | 207,839 | 274,360 |
| Less/—Portion thereof to be recouped from the Israel Treasury upon redemption of shares or in the event of liquidation, as part of the agreement for the cancellation of the linkage terms on loans to industry — | <u>181,567</u> | <u>248,461</u> |
| Balance (see statement of capital reserves) | <u><u>26,272</u></u> | <u><u>25,899</u></u> |

NOTE 17—SPECIAL RESERVE

This reserve constitutes retained earnings allocated for unforeseen loan losses (see statement of retained earnings).

NOTE 18—DIVIDENDS
Composition—

| | Year ended December 31, | | | | | | | | | |
|--|-------------------------|---------------|------|---------------|------|---------------|------|---------------|---------|---------------|
| | 1971 | | 1972 | | 1973 | | 1974 | | 1975 | |
| | % | IL.000 | % | IL.000 | % | IL.000 | % | IL.000 | % | IL.000 |
| Non-participating shares— | | | | | | | | | | |
| 3½% "A" preference shares | 3½ | 1,820 | 3½ | 1,802 | 3½ | 1,785 | 3½ | 1,767 | 3½ | 1,750 |
| 7% "B" preference shares, linked to the price of the U.S. dollar | 7 | 668 | 7 | 649 | 7 | 557 | 7 | 516 | 7 | 587 |
| 7½% "D" preference shares, linked to the price of the U.S. dollar | 7½ | 4,720 | 7½ | 5,149 | 7½ | 5,150 | 7½ | 5,701 | 7½ | 8,080 |
| 3% "B" ordinary shares | 3 | 4,047 | 3 | 4,047 | 3 | 4,047 | 3 | 4,047 | 3 | 4,047 |
| | | <u>11,255</u> | | <u>11,647</u> | | <u>11,539</u> | | <u>12,031</u> | | <u>14,464</u> |
| Less—reduction in tax liability | | 2,814 | | 2,911 | | 2,885 | | 3,609 | | 5,062 |
| Net dividends on non-participating shares | | <u>8,441</u> | | <u>8,736</u> | | <u>8,654</u> | | <u>8,422</u> | | <u>9,402</u> |
| Participating shares— | | | | | | | | | | |
| 6% participating "C" preference shares, linked to the price of the U.S. dollar | 7½ | 4,998 | 8¼ | 5,890 | 8¼ | 5,890 | 8¼ | 7,038 | 8¼ | 9,655 |
| 6% participating "CC" preference shares, linked to the price of the U.S. dollar | 7½ | 2,940 | 8¼ | 3,465 | 8¼ | 3,465 | 8¼ | 4,140 | 8¼ | 5,680 |
| 6% participating "CC1" preference shares, linked to the price of the U.S. dollar | 7½ | 5,100 | 8¼ | 6,011 | 8¼ | 6,011 | 8¼ | 7,182 | 8¼ | 9,853 |
| 8% participating preferred ordinary shares | 11½ | 1,150 | 13¼ | 1,325 | 13¼ | 1,325 | 15½ | 1,550 | 17.5875 | 1,759 |
| "A" ordinary shares | 9½ | 1,435 | 11¼ | 1,699 | 11¼ | 1,699 | 13½ | 2,039 | 15.5875 | 2,353 |
| | | <u>15,623</u> | | <u>18,390</u> | | <u>18,390</u> | | <u>21,949</u> | | <u>29,300</u> |
| Less—reduction in tax liability | | 3,906 | | 4,597 | | 4,616 | | 6,591 | | 10,258 |
| Net dividends on participating shares | | <u>11,717</u> | | <u>13,793</u> | | <u>13,774</u> | | <u>15,358</u> | | <u>19,042</u> |

The dividends on the linked shares are computed on the par value of such shares adjusted on the basis of the official rate of exchange of the U.S. dollar ruling on the date of payment of each dividend.

NOTE 19—PENSIONS AND SEVERANCE PAY

Pursuant to an agreement between the Bank, its employees' committee and a recognized central pension fund, the fund has undertaken to pay to the Bank's employees either pension, upon their retirement, or severance indemnity, in cases where they are not entitled to a pension.

The Bank's commitments for pension or severance pay, in respect of employees who are not covered by the above scheme, are fully covered by provisions or assurance policies.

The Bank's total commitment for the above mentioned pensions or severance pay at balance sheet dates and the amounts funded in respect thereof with the said pension fund (including accumulated profits) are as follows:—

| | December 31, 1974 | December 31, 1975 |
|---|----------------------|----------------------|
| Commitment for pension and severance pay | <u>IL.000</u> | <u>IL.000</u> |
| Amounts funded including profits thereon, approximately | <u>3,332</u> | <u>4,589</u> |
| | <u>2,434</u> | <u>3,663</u> |

A provision in respect of the excess commitment over amounts funded is included in the balance sheet under liabilities in the item "other accounts".

NOTE 20—SUBSIDIARY AND AFFILIATED COMPANIES

The financial statements include the following amounts in respect of subsidiary and affiliated companies which have not been shown separately therein—

| | December 31, 1974 | December 31, 1975 |
|---|----------------------|----------------------|
| Balance sheet: | <u>IL.000</u> | <u>IL.000</u> |
| Assets— | | |
| Loans | 16,815 | 23,795 |
| Liabilities | | |
| Special deposits for the granting of loans | 1,617 | 2,116 |
| Other accounts | 8,285 | 6,707 |
| Long term guarantees | 100 | 100 |
| Statement of income: | | |
| Income from interest | 1,197 | 1,905 |
| Income from dividends | 300 | 750 |
| Interest paid | 727 | 1,303 |
| Participation in the Bank's administrative and general expenses | 70 | 34 |

NOTE 21—"INTERESTED PARTIES" IN THE BANK

In conformity with section 45 of the Securities Regulations (Preparation of Financial Statements)—1969 the Securities Authority has granted the Bank an exemption from giving details of loans and guarantees granted to "interested parties" in the Bank, except for loans amounting to IL.74,000 given within the framework of loans to employees of the Bank.

The outstanding balance of these loans during the year 1975 did not exceed IL.75,000.

NOTE 22—POST BALANCE SHEET EVENT

Subsequent to the date of the balance sheet the Israel pound was devalued several times. As of July 30, 1976, the rate of exchange was U.S. \$1.00=IL.8.12.

**SIGNATURES OF THE BANK AND ITS DIRECTORS
INDUSTRIAL DEVELOPMENT BANK OF ISRAEL LIMITED**

| | |
|-------------------------|--------------------|
| RAPHAEL ALLON | DR. M. MANDELBAUM |
| MEIR AMIT | ARYEH MANOR |
| RICHARD ARMON | AMOS MAR-CHAIM |
| HAIM BEN-DAVID | MAURICE C. MAYER |
| AMOS BERGNER | HERMANN MERKIN |
| NAFTALI BLUMENTHAL | JOSEPH MEYERHOFF |
| VICTOR CARTER | DR. A. NEAMAN |
| RALPH COHEN | MOSHE OLENIK |
| REUBEN DAVID-RAVID | YAACOV PACTER |
| DR. ZVI DINSTEIN | EUGEN PROPPER |
| HAIM DUVSHANI | BARUCH RABINOV |
| ISAAC ELLMAN | ISRAEL RAUCH |
| ASHER FRIEDMAN | DANIEL RECANATI |
| ABRAHAM FRIEDMANN | RAPHAEL RECANATI |
| ISRAEL GALITZKY | JOSEPH ROSH |
| GIORA GAZIT | AMNON SADEH |
| ARIE GEVA | AVRAHAM SHALIV |
| M. B. GITTER | YECHISKIAHU SPORN |
| DR. ERWIN TZVI GOLDMANN | CHAIM STOESSEL |
| AVRAHAM GOLDWASSER | DAN TOLKOWSKY |
| MOSHE GOREN | YEHUDA WEILER |
| WILHELM HAUCK | DR. GEORGE S. WISE |
| DR. ALEXANDER KAGAN | ABRAHAM ZABARSKY |
| GERSHON LEV | MORDECHAI ZAGAGI |
| YAAQOV MACHT | SHALOM ZAK |
| SHLOMO MAGRISO | |

