

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

DISTRIBUTED BY CAPITAL FOR ISRAEL, INC.

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

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

6/6/78

PROSPECTUS

ISRAEL BANK OF AGRICULTURE LTD.

(A Limited Company Registered in Israel)

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

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

ALL PERMITS, APPROVALS AND LICENSES REQUIRED UNDER ISRAEL LAW FOR THE OFFER AND THE ISSUANCE OF THE NOTES OFFERED HEREBY AND FOR THE PUBLICATION OF THE PROSPECTUS HAVE BEEN GRANTED.

A COPY OF THIS PROSPECTUS HAS BEEN FILED FOR REGISTRATION WITH THE REGISTRAR OF COMPANIES IN ISRAEL.

NOTHING IN THE PERMIT OF THE SECURITIES AUTHORITY OF THE STATE OF ISRAEL SHALL BE CONSTRUED AS AUTHENTICATING THE MATTERS CONTAINED IN THIS PROSPECTUS OR AS AN APPROVAL OF THEIR RELIABILITY OR ADEQUACY OR AS AN EXPRESSION OF OPINION ON THE QUALITY OF THE SECURITIES HEREBY OFFERED.

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

- (1) The Notes are being offered only to non-residents of the State of Israel by Capital for Israel, Inc. (the "Underwriter") on a best efforts basis. It is anticipated that the offering will continue for a period of two years, subject to the requirement, under Israel law, for the filing of a new Prospectus (see "Additional Information Required Under Israel Law"). Regardless of the number of Notes sold by the Underwriter, no funds will be returned if all of the Notes are not sold.
- (2) In addition the Bank has agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933, as amended.
- (3) The State of Israel has agreed to reimburse the Bank for all underwriting discounts and commissions and all expenses approved by the Ministry of Finance (estimated at \$250,000) in connection with the issuance of the Notes.

The Bank was organized by the State of Israel which owns approximately 99% of its outstanding voting rights. All the Directors of the Bank are State Directors within the meaning of the Government Companies Law, 5735-1975. (See "State Regulation and Control" on page 4 hereof). The Bank's policies are coordinated with the agricultural development policies of the Government of Israel. (See "Important Factors To Be Considered—Relationship of the Bank to the Israel Government".) The Notes are subordinated to certain senior indebtedness, presently outstanding and which may be created in the future.

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

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

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

CAPITAL FOR ISRAEL, INC.

The date of this Prospectus is May 30, 1978

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

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REGISTRATION STATEMENT

Israel Bank of Agriculture Limited has filed with the Securities and Exchange Commission, Washington, D. C., a registration statement (herein together with all amendments thereto called the "Registration Statement") under the Securities Act of 1933, as amended, with respect to \$35,000,000 7½% Registered Subordinated Capital Notes ("Notes") being offered to the public. This Prospectus omits certain information contained in the Registration Statement. For further information, reference is made to the Registration Statement and to the exhibits thereof.

THE BANK

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

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

IMPORTANT FACTORS TO BE CONSIDERED

Summary of Program for Development of Israel Agriculture

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

Relationship of the Bank to the Israel Government

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

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

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Parent
guarantee
the amount
of interest*

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

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

State Regulation and Control

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

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

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

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

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

Appointment of State Directors in the Bank

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

*NO
GUARANTEE*

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

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

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

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

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

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

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

Investment

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

Dividends

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

Appointment of Auditors and Counsel

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

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

Enforcement of Liabilities

The Bank is an Israeli Corporation and none of its directors are residents of the United States. It will be difficult for investors to effect service within the United States upon its directors or officers who are non-residents of the United States or to realize against them in the United States on judgments of courts of the United States predicated upon civil liabilities under the Securities Act of 1933 or the Securities Exchange Act of 1934. Finley, Kumble, Wagner, Heine & Underberg, with an office address at 425 Park Avenue, New York, New York, has been designated as agent for service of process on the Bank. The Bank has been advised by E. Likhovski, its special Israel counsel, that there is doubt as to the enforceability in Israel, in original actions, of remedies predicated solely upon such Acts, but that the courts of Israel have jurisdiction to enforce valid final judgments whereby any sum of money is made payable if rendered by courts of competent jurisdiction in the United States and provided that such judgments are not contrary to Israel law or public policy and provided further that the courts in the United States would enforce similar Israeli judgments. Messrs. Finley, Kumble, Wagner, Heine & Underberg, special counsel to the Bank, have advised that, in their opinion, in the absence of a special ground for impeaching a foreign judgment, such as fraud or prejudice, United States courts will recognize and enforce judgments of the courts of foreign nations, including Israel. Under the provisions of the Securities Law of Israel, enacted in 1968, any person signing a prospectus and any expert giving an opinion or report therein may be liable thereunder, subject to certain limitations, for any misleading statement or the omission of a material statement in the prospectus or in the opinion or report, as the case may be, to a person who acquires securities from the offeror under the prospectus.

Development of Trading Market

The Bank will apply for listing of the Notes on the Tel-Aviv Stock Exchange after the completion of the offering and not earlier than two years from the date of this Prospectus, and has also received the approval of the Tel-Aviv Stock Exchange that, until such listing, the Notes will be traded in the hall of the said Stock Exchange only by foreign residents (except for the Government of Israel, the Bank and its subsidiary), and their quotation will be published in the Blue List, in pursuance of Section 18, Sub-Section 4 of the Tel-Aviv Stock Exchange regulations.

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

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

Economic Conditions in Israel

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

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

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

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

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

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

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

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

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

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

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

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

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

For more detailed information see "Conditions in Israel".

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

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

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

The Government of the State of Israel plays an active role in the economy of the country. Various economic programs for both industry and agriculture are sponsored by the Government and financed by the Government and by private sources. Since the birth of the country, the Government has been required to promote and develop industrial and agricultural pursuits and has done this through a variety of methods, including direct grants-in-aid, direct ownership in agricultural and industrial enterprises, tax abatements and tax incentives.

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

TERMS OF OFFERING

The Notes are being offered hereby only to non-residents of the State of Israel at the face value of \$1,000 per Note or in multiples thereof. No charge for accrued interest is made. Original issue Notes will bear interest from the first day of the calendar quarter in which they are subscribed and paid for; provided, however, that original issue Notes subscribed and paid for within 20 days following the date of this Prospectus shall bear interest from January 1, 1978. See "Outstanding Securities of the Bank—The Notes". The purchase price is payable either in United States dollars or in State of Israel Bonds (Second, Third, Fourth, Fifth, and Reconstruction and Development Issues, Development Investment Issue or Second, Third, Fourth, or Fifth Development Investment Issues), provided, in the case of the Development Issues, such bonds are at least five years old. The value of the bonds so tendered shall be their nominal values together with interest on coupon bonds and appreciation on savings bonds credited through the last day of the month preceding the month in which the bonds are delivered to the Underwriter. In the case of coupon bonds, the bonds must have attached thereto all interest coupons which mature after the date of delivery of the bonds to the Underwriter.

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

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

The Bank has agreed to re-purchase at face amount plus accrued interest in United States currency, Notes offered by the estate of the original holder thereof, if an individual, or from the estate of the last survivor, in the event of more than one individual owner, at any time but no such repurchase shall be made more than two years from the date of death, subject to certain discretionary exceptions.

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

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

APPLICATION OF PROCEEDS

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

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

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

CAPITALIZATION

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

TITLE OF CLASS

A. CAPITAL SHARES

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

B. DEBENTURES

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

C. SECURED LOANS

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

D. CAPITAL NOTES

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

E. PERPETUAL DEPOSIT

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

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

ISRAEL BANK OF AGRICULTURE LIMITED

STATEMENTS OF INCOME

The following statements of income presenting the results of operations of the Bank for the five years ended March 31, 1978, have been examined by Bawly Millner & Co., Certified Public Accountants (Israel), as stated in their report which appears elsewhere in this Prospectus. These statements and the notes thereto should be read in conjunction with the financial statements of the Bank and the related notes included elsewhere in this Prospectus.

The Bank is an Israeli corporation and its financial statements are expressed in Israel pounds. Solely for convenience of the reader, and as a matter of arithmetical computation only, the income statement for the year ended March 31, 1978 has been translated into U.S. dollars at the rate of U.S. \$1=IL. 16.42, which was the rate of exchange on March 31, 1978. Such translation does not constitute a part of the financial statements and should not be construed as a representation that the applicable amounts actually represent, or have been or could be converted into U.S. dollars. Furthermore, such translation does not give effect to any changes in currency exchange rates which occurred during the said year.

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

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

ISRAEL BANK OF AGRICULTURE LTD.
STATEMENTS OF INCOME

	Year ended March 31,					1978** Translated to \$000
	1974	1975	1976	1977	1978	
	IL.000	IL.000	IL.000	IL.000	IL.000	
OPERATING INCOME						
Interest on loans*	80,718	186,964	235,849	431,892	1,066,604	64,958
Interest on deposits with the Ministry of Finance*	21,080	31,424	24,667	43,474	73,157	4,455
Interest on deposits with the Bank of Israel and banking institutions	1,331	2,018	3,811	14,820	25,206	1,535
Income on bonds approved for investment*	4,842	10,851	8,437	14,914	25,347	1,544
Dividend from subsidiary company	60	—	—	—	—	—
Commissions and other income	1,232	3,549	3,604	4,069	5,836	355
	<u>109,263</u>	<u>234,806</u>	<u>276,368</u>	<u>509,169</u>	<u>1,196,150</u>	<u>72,847</u>
OPERATING EXPENSES						
Interest on deposits and loans*	58,259	157,357	194,278	378,725	999,257	60,856
Interest on debentures*	13,037	20,069	14,685	26,409	40,598	2,472
Provision for possible losses on loans (Note B)	1,931	2,400	3,300	4,500	6,000	366
Salaries and related expenses	4,312	7,623	8,461	7,971	15,257	929
Occupancy of bank premises	432	774	864	1,841	1,662	101
Depreciation of bank equipment (Note C)	158	92	858	139	429	26
Other expenses	1,440	2,186	3,520	4,681	6,825	416
	<u>79,569</u>	<u>190,501</u>	<u>225,966</u>	<u>424,266</u>	<u>1,070,028</u>	<u>65,166</u>
Operating earnings before income taxes	29,694	44,305	50,402	84,903	126,122	7,681
Provision for taxes on operating earnings (Note D)	15,000	27,000	34,000	57,000	85,000	5,177
Net operating earnings	14,694	17,305	16,402	27,903	41,122	2,504
Other items, net of related income taxes						
Capital gains	—	—	60	599	71	4
Capital increase expenses	—	(60)	(50)	(55)	(40)	(3)
Participation of the Ministry of Finance in linkage increments on dividends (Note E)	—	1,772	3,542	5,765	12,668	772
Equity in earnings of subsidiaries (Note F)	844	911	1,117	3,638	6,036	368
Total other items	844	2,623	4,669	9,947	18,735	1,141
NET INCOME	<u>15,538</u>	<u>19,928</u>	<u>21,071</u>	<u>37,850</u>	<u>59,857</u>	<u>3,645</u>
Deduct: Dividends on non-participating shares (Note 13 to financial statements)						
4% cumulative preference shares	12	12	12	12	12	1
7½% cumulative redeemable preference "C" shares	5,705	10,403	13,242	16,874	27,335	1,664
	5,717	10,415	13,254	16,886	27,347	1,665
Less: Reduction in tax liability (Note D)	1,429	3,124	4,639	5,910	9,571	583
Net dividends on non-participating shares	4,288	7,291	8,615	10,976	17,776	1,082
Net income applicable to participating shares	<u>11,250</u>	<u>12,637</u>	<u>12,456</u>	<u>26,874</u>	<u>42,081</u>	<u>2,563</u>
	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>	<u>\$</u>
EARNINGS PER SHARE (Note G)						
Ordinary shares of IL.1	<u>0.12</u>	<u>0.13</u>	<u>0.13</u>	<u>0.25</u>	<u>0.38</u>	<u>0.02</u>
8% cumulative and participating preference shares of IL.10	<u>1.88</u>	<u>2.05</u>	<u>2.02</u>	<u>3.24</u>	<u>4.52</u>	<u>0.28</u>
Ratio of Earnings to Fixed Charges (Note H)	<u>1.24</u>	<u>1.19</u>	<u>1.17</u>	<u>1.17</u>	<u>1.11</u>	<u>1.11</u>
Proforma (unaudited)—(Note H)	<u>1.17</u>	<u>1.11</u>	<u>1.11</u>	<u>1.11</u>	<u>1.11</u>	<u>1.11</u>

*including linkage increments on principal and interest
**see page 12.

ISRAEL BANK OF AGRICULTURE LIMITED
NOTES TO THE STATEMENT OF INCOME

Note A—The Bank applies generally accepted accounting principles which differ from those generally accepted in the United States only in that Bank Premises and Equipment are written off in the year they are acquired. However, the effect net of annual depreciation is not material (see Note C).

Note B—PROVISION FOR POSSIBLE LOSSES ON LOANS
 Possible losses on loans are provided for by an annual provision which is approximately 0.25% of loans outstanding (excluding loans to banking institutions) on balance sheet dates.

Note C—DEPRECIATION OF BANK PREMISES AND EQUIPMENT
 For depreciation policy in connection with the Bank's premises and equipment, see Note 6 to the financial statements. Had U.S. accounting practices been followed with respect to depreciation for each of the five years ended March 31, 1978, depreciation would have been as follows (in IL 000): 1974—86; 1975—86; 1976—122; 1977—191; 1978—221.

Note D—PROVISION FOR TAXES ON INCOME
 1. Following is a reconciliation of theoretical tax expenses, assuming all the Bank's income is taxed at the income tax rate applicable to income of banks in each year, and the income tax provisions created by the Bank—

	Year ended March 31,									
	1974		1975		1976		1977		1978	
	Amount IL 000	Percentage of pre-tax income %	Amount IL 000	Percentage of pre-tax income %	Amount IL 000	Percentage of pre-tax income %	Amount IL 000	Percentage of pre-tax income %	Amount IL 000	Percentage of pre-tax income %
Theoretical tax expenses	16,370	55.13	30,039	61.43	40,383	66.24	64,118	63.34	102,878	63.83
Tax effect of timing differences—in respect of debt issue expenses, depreciation and provision for severance and vacation pay	23	0.08	(23)	(0.05)	2,058	3.39	(1,129)	(1.11)	300	0.19
in respect of provision for possible losses on loans	1,064	3.58	1,474	3.00	2,186	3.58	2,850	2.82	3,830	2.37
Tax effect of permanent differences— non-deductible items	44	0.15	66	0.13	149	0.24	143	0.14	147	0.10
capital gains and income which are tax-ex- empt or partly tax-exempt	(2,600)	(8.76)	(6,467)	(13.19)	(5,601)	(9.19)	(9,777)	(9.66)	(16,519)	(10.25)
contingencies	99	0.34	4,733	9.68	1,785	2.93	10,755	10.62	16,719	10.37
Income tax provision	15,000	50.52	29,822	61.00	40,960	67.19	66,960	66.15	107,355	66.61
The above provision is reflected as follows in the income statement—										
provision for taxes on operating earnings	15,000		27,000		34,000		57,000		85,000	
participation of the Ministry of Finance in linkage increments on dividends			2,822		6,960		9,960		22,355	
	15,000		29,822		40,960		66,960		107,355	

The distribution of dividends by the Bank reduced its income tax liability to the extent of 25% of the dividends distributed up to March 31, 1974, 30% of the dividends distributed in the year ended March 31, 1975 and 35% of the dividends distributed thereafter. The dividends reflected in the statements of income and retained earnings are therefore, shown net of the said reduction in tax liability.

2. In the fiscal years 1973/74 through 1975/76 banks were subject to services tax levied at the rates of 3.5%, 5% and 7.5% respectively, on taxable income and employees' remuneration. The services tax was a deductible expense for income tax purposes.

3. The provision for taxes on income includes the services tax on taxable income in the following amounts:

	<u>IL.000</u>
Year ended March 31, 1974	960
1975	2,051
1976	4,164

4. As from the fiscal year beginning April 1, 1976 and within the framework of the Value Added Tax Law, banks are subject to a 6% profit-tax levied on taxable income and a 6% wages-tax levied on employees' remuneration. These rates increased to 9% on November 1, 1977. The profit tax included in the provision for taxes on income amounted to IL. 5,241,302 for the year ended March 31, 1977 and IL. 9,735,717 for the year ended March 31, 1978. The wages-tax and employers' tax included in the item "other expenses" amounts to IL. 702,920 and IL. 1,496,885, respectively.

All these taxes are deductible expenses for income tax purposes.

Note E—PARTICIPATION OF THE MINISTRY OF FINANCE IN LINKAGE INCREMENTS ON DIVIDENDS

According to the agreement with the Ministry of Finance of the State of Israel, pursuant to the issue of 250,000 7½% Cumulative Redeemable Preference "C" Shares linked to the U.S. Dollar at the rate of \$1=IL. 4.20, linkage increments on dividends payable on such shares resulting from changes in the rate of exchange are refundable to the Bank by the Ministry of Finance.

The amounts of the participation of the Ministry of Finance in linkage increments on dividends are shown net of taxes thereon.

	<u>Amount of taxes</u> <u>IL.000</u>
Year ended March 31, 1975	2,822
1976	6,960
1977	9,960
1978	22,355

Note F—EQUITY IN EARNINGS OF SUBSIDIARIES

The Bank's equity in earnings of subsidiaries is included in the statements of income—see Note 1 (b) (2) to the financial statements.

Note G—EARNINGS PER SHARE

Earnings per share have been computed on net income after dividends on non-participating shares less the reduction in the tax liability resulting from distributing cash dividends (Note D), on the basis of the weighted average number of shares outstanding during the year. In computing earnings per share the provision of taxation was reduced by the tax saving resulting from distribution of cash dividends.

Note H—RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges has been computed by dividing operating earnings (exclusive of excess of equity in earnings of subsidiaries) plus income taxes and fixed charges, by fixed charges. Fixed charges consist of interest paid on deposits, loans, debentures and other accounts as well as dividends on non-participating shares net of linkage increments thereon refunded by the Ministry of Finance of the State of Israel.

The unaudited proforma ratio of earnings to fixed charges for the year ended March 31, 1977 and 1978 are identical to the actual ratios, as the Bank will deposit the proceeds of the Notes with the Ministry of Finance of the State of Israel on terms identical to the terms of issuance of the said Notes.

Note I—COMPENSATION FOR LINKAGE INCREMENTS AND EXCHANGE DIFFERENCES

Compensation by the Ministry of Finance for linkage increments and exchange differences accruing on part of the bank's liabilities and on part of the loans, see Note 4 (b) to the financial statements are included in the item "Interest on Loans" in the income statements.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE STATEMENT OF INCOME

A. YEAR ENDED MARCH 31, 1977 AS COMPARED WITH YEAR ENDED MARCH 31, 1976

For the year ended March 31, 1977 the Bank showed net earnings after taxes of approximately IL. 37.8 million as compared with approximately IL. 21 million for the year ended March 31, 1976, or an increase of approximately IL. 16.8 million.

Operating income rose by approximately IL. 233 million, of which, IL. 196 million was a result of an increase in interest received by the Bank on account of loans, IL. 19 million increase in interest on deposits with the Ministry of Finance, IL. 11 million increase in interest on deposits with banking institutions and IL. 7 million increase in income on Government bonds.

The increase in income from interest on loans resulted from—

- (1) increase of linkage increments and exchange rate differences, i.e. the compensation payable by the Ministry of Finance (see Note 4(b) to the financial statements)
- (2) an increase of approximately IL. 478 million in the loan portfolio
- (3) increase in interest rates over those charged in 1975/76 on advances on account of loans and arrears.

The increase in interest income from deposits with the Ministry of Finance resulted from—

- (i) increase of approximately IL. 50 million in the deposits (including linkage increments accrued)
- (ii) increase in linkage increments income during 1976/77 as compared with 1975/76 due to the higher percentage increase in the consumer price index during 1976/77 as compared with 1975/76.

The increase in income on Government bonds was due mainly to the higher increase in the consumer price index during 1976/77.

Operating expenses increased by approximately IL. 198 million, of which approximately IL. 184 million arose as a result of interest paid on deposits and loans and approximately IL. 12 million on

debentures, caused by the increase of linkage increments expenses, due to the rise of the consumer price index.

As a result of these factors (net of the relating tax effect) the Bank's net income after taxes including other items increased by approximately IL. 17 million.

B. YEAR ENDED MARCH 31, 1978 AS COMPARED WITH YEAR ENDED MARCH 31, 1977

For the year ended March 31, 1978 the Bank showed net earnings, after taxes, of approximately IL. 59.8 million as compared with approximately IL. 37.8 million for the year ended March 31, 1977, or an increase of approximately IL. 22 million.

Operating income rose by approximately IL. 687 million, of which IL. 635 million resulted from an increase in interest received by the Bank on account of loans, IL. 30 million from an increase in interest on deposits with the Ministry of Finance, IL. 10 million from an increase in interest in deposits with banking institutions and IL. 10 million from an increase in income on Government Bonds.

The increase in income from interest on loans resulted from—

- (1) Increase in the amount of linkage increments and exchange rate differences, mostly covered by the Ministry of Finance (see Note 4(b) to the Financial Statements).
- (2) An increase of approximately IL. 569 million of the loan portfolio.
- (3) Increase in interest rates charged on new loans, current accounts and arrears.

The increase in interest from income on deposits with the Ministry of Finance resulted from—

- (i) increase of over 100% in the amount of deposits (including linkage increments).
- (ii) increase in the amount of linkage increments of approximately IL. 10 million as compared with the previous year.

The increase in income on Government bonds was mainly derived from the higher increase in the consumer price index in 1977/78.

Operating expenses increased by approximately IL. 646 million, of which approximately IL. 620 million arose as a result of interest paid on deposits and loans and IL. 14 million on interest on debentures due to the rise in the consumer price index.

Salaries and related expenses increased by approximately IL. 7 million reflecting the cost of new wage agreements and cost of living allowances.

As a result of these factors (net of the relating tax effect) the net income of the Bank after taxes, including other items, increased by approximately IL. 22 million.

BUSINESS OF THE BANK

General

The bulk of the Bank's financial resources other than the shareholders' equity, comes from the Government, the Bank of Israel and other Banking institutions. The Government of Israel has guaranteed the liability of the Bank in connection with World Bank Loans (See "World Bank Loans") and has provided linkage insurance for most of the linked deposits. The Bank, on the other hand, acts on Government recommendations in granting loans to its borrowers. The terms and conditions of the loans are based on the Government's recommendations. The Bank, however, generally exercises the sole determination with respect to the type of security required for each loan.

Nature of Loans

The Bank is engaged in the business of granting loans to encourage and assist agricultural development in the State of Israel.

During the year ended March 31, 1978 the Bank granted loans aggregating approximately IL. 1,249,000,000 (\$76,066,000) as compared to the granting of loans aggregating approximately IL. 857,000,000 for the year ended March 31, 1977.

The following table indicates the distribution of the loans granted during the periods indicated:

Purpose of Loan	Year Ended March 31,		
	1978	1977	
	(in Millions)	(in Millions)	
Agricultural Development	IL. 363	\$22.1	IL.303
Agricultural equipment, industrial and regional investments by farmers	218	13.3	170
Working capital for field, crops and green fodder	162	9.9	138
Revolving loans through joint funds	489	29.8	225
Other purposes	17	1.0	21
	IL.1,249	\$76.1	IL.857

The Bank normally grants loans only to the extent of up to 80% of the cost of any particular project. The borrower is expected to provide the balance of funds necessary from his own resources. Where the borrower cannot meet his share of the financing of such project, the borrower normally applies to the financial institution with which he is affiliated for the balance of the required loan. See "Loans Granted from Other Sources."

Source of Funds for Granting of Loans

Loans are made by the Bank from: (i) The Bank's own resources, (ii) Government deposits with the Bank, (iii) Deposits from the Bank of Israel and other Banking Institutions, and (iv) Other deposits. Included under the caption "Other Deposits" are joint funds with financial institutions of agricultural organizations and deposits made by the Jewish Agency. Generally, the Bank makes loans from deposits of the Government, the Bank of Israel, other banking institutions and other organizations upon the same repayment terms as, and at agreed interest rates in excess of, the repayment terms and interest rates the Bank is required to pay on the deposits involved. This interest rate differential varies from $\frac{3}{4}$ % up to 2% depending upon the nature and extent of the responsibilities undertaken by the Bank in negotiating and structuring a particular loan, and is designed primarily to ensure that the Bank will profit by the deposit/loan arrangement without incurring the risks resulting from fluctuating interest rates normally inherent in banking operations. As a result of the foregoing arrangements, which account for a substantial majority of the Bank's loans, the Bank's profits have remained relatively constant in relation to the size of its loan portfolio. In view of such factors, and because the Bank's loan loss experience has been relatively insignificant (see "Information Relating to Loans Generally—Non-performing Loans"), the Bank considers it unnecessary to supply detailed analysis of its loan portfolio in terms of relative profitability and loan loss experience.

Except for loans made on the responsibility of the partners of the Bank in joint funds (see "Other Loans"), all loans are made on the responsibility of the Bank.

The following table indicates the division of outstanding loans as at March 31, 1977, and March 31, 1978.

	March 31, 1977	March 31, 1978	
	(in Millions)	(in Millions)	
	IL.	IL.	\$
Bank's own resources	368.6	439.1	26.7
Government deposits	523.4	780.0	47.5
Deposits and loans from Bank of Israel and other banking institutions	879.1	1,079.5	65.7
Other deposits	196.1	237.2	14.5
TOTAL	IL.1,967.2	IL.2,535.8	\$154.4

As a general rule, loans made from the Bank's own resources, the Bank of Israel, and joint fund loans are short-term (up to one year) or long term (up to five years) while loans made from Government deposits and other banking institutions generally are for periods ranging from three to fifteen years. All loans are generally made in conformity with Government of Israel policy for the development of agricultural pursuits. Loans generally are made upon Government recommendation and in accordance with Government policy. The Ministry of Agriculture recommends the particular borrowers and the objectives and terms of the loans.

Loans granted from Bank's Resources

As previously shown, approximately 17% of the value of loans outstanding on March 31, 1978 were made from the Bank's own resources, i.e., from shareholders' equity and perpetual deposit. These loans were for periods of up to five years, bearing interest between 24% and 31% per annum, based upon the particular loan involved.

Loan applications are made to the Bank and processed by the Bank's staff. The Board of Directors does not need to approve short-term loans but is notified of all such loans by the management of the Bank, which is authorized to approve the short-term loans. The Board of Directors approves the long-term loans.

Loans granted from Government deposits

Approximately 31% of the loans outstanding on March 31, 1978 were granted from Government deposits. These loans are long-term, ranging from five to fifteen years. Since July 18, 1977 substantially all the loans have been granted at interest rates of 19% per annum, which rate will prevail for so long as the consumer price index rises more than 20% per annum. Interest shall be 14% if the consumer price index rises between 10% and 20% per annum and 9% if the consumer price index rises by less than 10% per annum. The recipients of these loans are recommended to the Bank by the Ministry of Agriculture. The aforesaid relates generally to development loans. There are, however, loans made from Government deposits which fall, respectively, into different categories. With respect to such loans, interest rates are specified in the terms of the deposit instrument whereby the Government deposits are created. The deposit instrument also fixes the Bank's profit margin on such transactions up to 2%.

Loan applications are processed by the Ministry of Agriculture and then submitted to the Bank. Final approval of each loan is made by the Board of Directors of the Bank.

The relationship between the Government and the Bank with respect to loans granted from Government deposits are, in the majority of cases, regulated under an agreement of general conditions between the parties dated March 30, 1978 (hereinafter "The General Conditions"). Under the General Conditions the Government has the right to instruct the Bank to transfer at any time to its account outstanding

balances of loans granted out of its deposits up to the balance of its abovementioned deposits. The Government has the right to set off any sums due to it against amounts due the Bank.

Loans granted from Bank of Israel and other banking institutions

Approximately 43.0% of the total value of loans outstanding on March 31, 1978 was granted from deposits of the Bank of Israel and other banking institutions. These include deposits from other development and similar type banks, deposits by commercial banks and deposits by the World Bank.

(a) Bank of Israel

The Bank makes loans partly from its funds and partly from funds supplied by the Bank of Israel to persons designated by the Bank of Israel with the approval of the Ministry of Agriculture. These loans are generally short-term and bear interest at rates determined by the Bank of Israel. Interest is set at rates sufficient to yield the Bank a fixed return, set from time to time (at present 26.5%) p.a., on its portion of the funds used for these loans. All such loans are processed and secured in a manner similar to other loans of the Bank. As at March 31, 1978 loans under this category amounted to IL. 196,188,000 (\$11,948,112).

(b) Other Banking Institutions

(1) The Bank, in coordination with the Government, borrowed from other banking institutions, on a linked basis. Generally until 1974, where the Bank received such deposits from other sources on a linked basis, the Bank deposited these sums with the Government on terms substantially the same as the Bank was required to repay. The Bank received an equivalent, unlinked amount from the Government for use by the Bank for purposes agreed with the Government, at interest rates sufficient to permit the Bank to earn a 2% gross profit margin, after taking into account interest charged by the Bank to its borrowers. The monies were loaned to recipients who were recommended to the Bank by the Ministry of Agriculture, substantially on the terms and according to the procedures of loans granted from Government deposits, (see "Loans Granted from Government Deposits"). As at March 31, 1978 the Bank had deposited with the Government IL. 9,900,000, which together with linkage increments aggregated IL. 68,707,000 (\$4,184,354), pursuant to this method. Since 1974 the Government insured the Bank against linkage increments, with respect to such loans from Banking Institutions, all as more fully described in the section on Methods of Linkage.

(2) In this subcategory loans are recommended by depositing banking institutions. These loans are processed by the depositing banks and all of the basic terms are fixed by such banks. The loans are then submitted to the Board of Directors for its approval. After such approval, funds are received by the Bank from the depositing banks involved and the loans are completed.

These loans are generally for a term longer than one year and interest rates are determined by the depositing banks, taking into consideration a margin of profit for the Bank, generally ranging from 0.75% to 2%. The loans are secured in a manner consistent with the Bank's policies.

Such arrangements with other lending institutions are entered into in large measure because the Bank not only specializes in granting loans to the agricultural community but also has the means of getting the best security from agricultural enterprises, and it is, therefore, more convenient for other banks, when lending moneys for industrial plant or regional investment by farmers or for agricultural equipment destined for agricultural settlements, to have the loans processed through the Bank.

World Bank Loans

In October 1970 the Bank signed its first Loan Agreement with the World Bank. Pursuant to this agreement, the Bank received a total of \$20,000,000, in various currencies which was designed for

financing part of the Israel Agricultural Development Program. The loan bears interest at the rate of 7¼ % per annum and is repayable in semi-annual installments ending on June 15, 1987. Repayment is made in the currency in which the loan was received.

A second Loan Agreement was signed by the Bank in April 1974, pursuant to which the Bank borrowed an additional \$35,000,000 in various currencies. Interest is at the rate of 7¼ % per annum and is repayable in semi-annual installments beginning November 1, 1977 and ending May 1, 1989. Repayment is made in the currency in which the loan was received.

As security for the payment of the loan, the Bank created a floating charge on all of its assets (including its goodwill), past and future, excepting Treasury Deposits relating to certain prior outstanding Debenture Issues of the Bank.

Under the second Loan Agreement, the Bank is given the right to create additional floating charges on the assets of the Bank, ranking *pari passu* with the charge given to the World Bank, for (i) additional debentures to be issued by the Bank and (ii) additional loans to the Bank, provided that the total amount of such obligations does not exceed four times the aggregate amount of the paid-up Share Capital of the Bank, together with its reserve funds. For purposes of this provision, the capital of the Bank includes deposits made by the State of Israel, on terms and conditions satisfactory to the World Bank, provided that such deposits are permanent and fully subordinated. The borrowing limitation does not apply to liens created on property if the lien relates to the payment of the purchase price of such property or the lien arises in the ordinary course of banking transactions and secures a debt maturing not later than one year from its date. The nominal floating charge created to secure the Notes will rank junior to and not *pari passu* with the charge given to the world bank and accordingly the Notes are not considered to be additional indebtedness for purposes of these limitations.

As at March 31, 1978 the Bank would have been permitted to issue additional debentures, aggregating IL. 258,000,000 (\$15,700,000) under these limitations.

Since the World Bank loan is repayable in foreign currency and since loans granted are made to borrowers with no linkage provisions to foreign currency, the Government has agreed to compensate the Bank for any losses arising from a change in the parity between the Israel currency and the foreign currency in which the loan to the World Bank is repayable, both as to principal and as to interest. (See "Linking of Loans"). The State of Israel has guaranteed both loans.

The Agriculture Development Program, for which the proceeds of the World Bank Loan are to be utilized, is designed primarily to assist in increasing Israeli agricultural exports and consists of a program of sub-loans to be made by three financial institutions. These institutions are the Bank, YAAD Agricultural Development Bank Ltd. ("YAAD") and NIR Ltd. ("NIR"). The latter two banks operate as agricultural banks in the State of Israel. YAAD and NIR are competitors of the Bank and are in no way affiliated with the State of Israel. The Bank, YAAD, and NIR charge interest rates exceeding 9%, but in cases of rates over 9%, the excess interest over 9% is transmitted to the Ministry of Finance and is held by it as a premium on account of the linkage insurance.

Other Loans

The Bank maintains joint funds with financial institutions of agricultural organizations. As at March 31, 1978, 88 of such funds aggregating IL. 239,546,000 (\$14,588,672) were in existence, and loans from these funds represented approximately 9.4% of the outstanding loans of the Bank. These funds are comprised of (1) long-term deposits from which revolving loans for working capital purposes are granted and (2) short-term deposits which are repaid by the Bank within one year and from which short-

term loans are granted. Approval of the joint committee is additionally required for the granting of the working capital loans, while only Bank approval is required for loans granted on a one-time basis. In connection with loans issued from these joint funds, the organizations have recently guaranteed the repayment of all such loans. Prior thereto, guarantees were usually limited to the extent of the deposits made by said organizations.

Other Lending Activities of the Bank

The Bank arranges for the issuance by other banks of documentary credits with respect to the importation of foreign agricultural equipment. Upon arrival of this equipment in Israel, loans are made by the Bank in the ordinary course.

In addition, the Bank issues to third parties guarantees on behalf of customers of the Bank. For this the Bank receives a commission equal to a percentage of the outstanding balances. Security is given in the same manner as security given for loans and the issuance of the guarantees is normally determined by the management of the Bank.

The Bank arranges for planned and supervised credit operations, under which the Bank undertakes to provide investment and operational capital, on an agreed annual basis, to a borrower. These planned and supervised credit operations are generally financed by the Bank and the Ministry of Agriculture within the framework of general Government plans to rehabilitate the finances of individual agricultural developments.

In addition borrowers who transact the entire financing of their crops through the Bank are given the privilege of making overdrafts at the Bank, which are, in effect, part of the working capital loans which are agreed upon annually among the Bank, the Ministry of Agriculture, and the Bank of Israel. Since these are short-term loans, the Management of the Bank approves them and reports to the Board of Directors with respect thereto.

Information Relating To Loans Generally

Nature of Security

Security for the Bank is created by means of mortgages on real estate and liens and specific or floating charges on plant or equipment. Where mortgages cannot be registered, the Bank receives an undertaking to create a mortgage when registration becomes possible. A floating charge is a charge on property which does not relate to any definitive property. A floating charge is contrasted with a fixed charge in that a floating charge does not prevent the owner from disposing of the property without the consent of the creditor, whereas, in a fixed charge, the consent of the holder of the lien would be required to approve any transaction involving property against which the lien exists. In most instances, the Bank also insists upon guarantees of such secured loans by the marketing organization of agricultural produce or by a third party.

Provision for Possible Losses on Loans

As at March 31, 1978 the provision for possible losses on loans amounted to IL. 33,000,000 (\$2,010,000). During the year ended March 31, 1978, the Bank did not write off, as finally uncollectible, any loans since the Bank deems all outstanding loans to be collectible. (See Note 10 of Notes to Financial Statements)

Inasmuch as the Bank's loan delinquencies to date have been relatively insignificant, the Bank has not established delinquent loan policies.

Non-performing Loans

Loans in the amount of approximately IL. 26,000,000 (\$1,583,000) granted out of deposits made by the Government of Israel have been deferred as to payment of principal and interest in accordance with the Government's instructions. A similar arrangement has been made with respect to the terms of the deposit made by the Government. The effective interest differential for the year ended March 31, 1978 was reduced by approximately IL. 260,000 (\$16,000) as a result of these arrangements.

The following table sets forth the period from which such loans have been deferred:

Period	Amount Deferred (in Millions)	
	IL	\$
Prior to 1973	8,534	520
Since 1974	6,142	374
Since 1975	6,744	411
Since 1976	4,466	273
Since 1977	78	5

As at March 31, 1978 legal procedures had been instituted by the Bank with respect to unpaid loans aggregating IL. 3,833,000 (\$233,434). Litigation had been commenced on loans aggregating IL. 678,000 (\$41,291). In addition, approximately IL. 2,399,000 (\$146,102) was owed to the Bank for more than three months past the due date of installments on loans. The portion of such loans made from the Bank's own resources was negligible and no material interest has been lost by the Bank as a result of such delinquencies.

Linking of Loans

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.

Method of Linkage

Arrangements were made with the Government to protect the Bank against fluctuations in the rate of exchange and for the rise in the consumer price index.

These relate primarily to certain linked loans received by the Bank from banking institutions since 1971 in coordination with the Government (see "Loans granted from Bank of Israel and other banking institutions—Other Banking Institutions"). The Government agreed to pay to the Bank amounts required to meet linkage obligations and also to permit the Bank to earn a gross profit margin of up to 2%, where the Bank, on recommendation of the Ministry of Agriculture, had loaned funds on an unlinked basis but the sources of the funds were linked obligations of the Bank. Under certain circumstances the Bank is required to pay an insurance premium to the Government for this protection. In those instances where the Bank actually collects in excess of a 2% differential on such deposits, the Bank is required to pay

said excess to the Government. An accounting between the Bank and the Government is made on each date of payment. As at March 31, 1978 deposits with the Bank aggregating IL. 1,443,215,000 (\$87,894,000), including IL. 1,001,919,037 (\$61,018,000) in linking increments, were subject to this arrangement.

Additionally, the Bank may be required by the Government to make specific loans from its own resources on an unlinked basis. An agreement has been made pursuant to which the Bank receives from the Government, under such circumstances, the linkage increments that it would have received from the borrowers had the loans been linked and had interest been computed at annual rates of 7.5%-9%. The Government charges the Bank an insurance premium on the outstanding balance of the loans at an annual rate which is the difference between the rates charged to the borrowers and the rates upon which linkage increments are computed. Such unlinked loans granted to borrowers bear annual interest ranging between 11%-21.5%.

At March 31, 1978 the balance of such unlinked loans amounted to IL. 13,293,000 (\$809,562) and linkage increments due from the Government thereupon as above mentioned amounted to IL. 5,503,000 (\$335,000).

Linking arrangements also have been made by the Bank with respect to linked dividends required to be paid by the Bank on its 7½% Cumulative Redeemable Preference "C" Shares and the principal payments thereof upon redemption or winding up of the Bank.

Government Deposits with the Bank

As previously stated, the Government has advanced to the Bank substantial sums by way of deposits. These deposits are made within the framework of agreements between the Bank and the Ministry of Finance, in accordance with the General conditions dated March 30, 1978.

As at March 31, 1978, these deposits totalled IL. 947,806,171, (\$57,723,000) in addition to a perpetual deposit in the amount of IL. 184,000,000 (\$11,206,000).

On March 30, 1978 the Bank concluded an agreement with the Government with regard to the perpetual deposit. The Bank will pay the Government, effective as of April 1, 1977, interest as follows:—

On the amount of IL. 148,000,000 — 10% per annum

On the balance of IL. 36,000,000 — 12% per annum

Funds deposited as perpetual deposits will be used for granting loans on the terms of the General Conditions.

The deposit is perpetual and will be redeemed only at the winding up of the Bank, except in the event that the Bank ceases to be a Government Company within the meaning of the Government Companies Law—5735-1975. In this event the deposit will be returned within three years and the interest thereon will be charged as stated in the Agreement with the Ministry of Finance (see "E. Perpetual Deposit," page 11).

The deposits are repayable by the Bank under the following terms:—

Period	Amount		Percent of Deposit Repayable
	IL.000	\$000	
Through March 31, 1980	251,013	15,287	26.5
From April 1, 1980 to March 31, 1983	221,196	13,471	23.3
From April 1, 1983 to March 31, 1988	260,951	15,892	27.5
From April 1, 1988 to March 31, 1993	95,470	5,814	10.1
April 1, 1993	92,576	5,639	9.8
Unfixed terms	26,600	1,620	2.8
TOTAL	IL.947,806	\$57,723	100.0%

Miscellaneous Information

The Bank has approximately 2,500 customers. The Bank maintains a follow-up department to plan and discuss with recipients of loans, periodically, their activities. The Bank also receives, in certain instances, reports from borrowers and, in other instances, periodic financial information.

The Bank has no fixed policy on declaring loans delinquent and the Bank's determination is based upon the facts of each individual loan.

Analysis of Loans by Borrowers

The following table sets forth information relating to outstanding loans of the Bank as at March 31, 1977 and March 31, 1978:

Size of Loan per Borrower (In IL.)	March 31, 1977		March 31, 1978		
	Number of Borrowers	Aggregate amount of Loans (in Million)	Number of Borrowers	Aggregate amount of Loans (in Million)	
		IL.		IL.	\$
Up to IL. 50,000	1,569	20	1,491	20	1
From IL. 50,001 to IL. 100,000	129	9	221	16	1
" IL. 100,001 to IL. 200,000	142	20	120	17	1
" IL. 200,001 to IL. 300,000	84	21	94	23	1
" IL. 300,001 to IL. 500,000	88	34	81	34	2
" IL. 500,001 to IL. 1,000,000	152	105	138	99	6
" IL. 1,000,001 to IL. 5,000,000	260	653	257	609	37
" IL. 5,000,001 to IL. 10,000,000	85	593	114	818	50
Over IL. 10,000,001	22	463	46	833	51
	2,531	1,918	2,562	2,469	150
Accrued Interest		49		67	4
		<u>IL.1,967</u>		<u>IL.2,536</u>	<u>154</u>

Nature of Borrowers

The following table sets forth the aggregate number of loans which the Bank had outstanding to various classes of borrowers as of March 31, 1978, the approximate aggregate amount thereof, and the portion thereof represented by loans made from the Bank's own resources (not including the Bank's participation in loans from other sources) and loans out of perpetual deposit:

	Number of Borrowers	Aggregate March 31, 1978 (in Millions)		Bank's Resources March 31, 1978 (in Millions)	
		IL.	\$	IL.	\$
		Kibbutzim	248	812	49.5
Moshavim	395	795	48.4	15	0.9
Cooperatives and Companies	522	899	54.7	166	10.1
Individuals	1,397	30	1.8	1	.1
	2,562	2,536	154.4	216	13.2

Maturities of Loans

The following table shows the maturities of loans as at March 31, 1978:

	IL.000	\$000
Up to March 31, 1979	974,119	59,325
From April 1, 1979 up to March 31, 1983	942,425	57,395
From April 1, 1983	566,329	34,490
Non-performing loans	25,932	1,579
Linkage increments	27,039	1,647
	<u>2,535,844</u>	<u>154,436</u>

Interest Sensitivity of Loans

The following table shows the interest sensitivity of loans as at:

	March 31, 1977	March 31, 1978	
	IL.000	IL.000	\$000
Fixed rate	1,474,789	1,737,026	105,787
Variable rate*	492,465	798,818	48,645
	<u>1,967,254</u>	<u>2,535,844</u>	<u>154,432</u>
*Includes linked to consumer price index	<u>41,921</u>	<u>70,902</u>	<u>4,318</u>

Subsidiaries of the Bank

The Bank has three subsidiaries of which one is wholly owned and the other two are 50%-owned as described below. Shares of subsidiary corporations are included in the balance sheet of the Bank on the equity method of accounting basis.

In 1952 the Bank organized a wholly owned subsidiary, Agricultural Investment Co. Limited for the purpose of implementing commercial and other operations connected with the loans granted by the Bank from funds arising from the Government Development Budget deposited with the Bank, but which fall outside of the banking activities. The paid-up capital of the Investment Company is IL. 1,200,000 which is wholly-owned by the Bank (except for six Shares of IL. 1 each). The investment of the Bank in the share capital at March 31, 1978 was IL. 399,997 (\$24,360) and the Bank had received 799,997 Bonus Shares of IL. 1 each by way of capitalization of current profits.

During the years ended March 31, 1977 and 1978 the Bank collected from the Investment Company interest in an amount of IL. 675,920 and IL. 628,715 (\$38,290), respectively.

For the year ended March 31, 1977 the Investment Company showed a profit before taxes of IL. 1,431,179 and an after tax profit of IL. 581,179 and for the year ended March 31, 1978, a profit before taxes of IL. 3,209,832 (\$195,483) and after taxes of IL. 1,299,832 (\$79,162) not prepared on the equity basis. Had the financial statements been prepared on the equity basis, the profits after taxes would have increased by IL. 1,875,340 for the year ended March 31, 1977 and increased by IL. 2,556,040 (\$155,666) for the year ended March 31, 1978. As at March 31, 1977 and March 31, 1978 the Investment Company owed the Bank IL. 3,001,307 and IL. 3,890,339 (\$236,927), respectively. The debt consists of an overdraft from the Bank which at the date of this prospectus carries interest at the rate of 30% per annum.

The Bank owns 50% of the outstanding Capital Stock of the Palestine Agricultural Settlement Association Limited, which is engaged in the business of financing investments in public projects in agricultural settlements. The other 50% is effectively owned by Keren Hayesod. The Jewish Agency for Israel, which indirectly controls the investments of Keren Hayesod, owns the casting-vote share, but the casting-vote may only be exercised by the Chairman of the Jewish Agency.

The Bank owns 50% of the outstanding capitalized stock of the Mortgage and Investment Bank of Moshavim Ltd. which was organized in 1962 for financing housing projects of individual settlers in agricultural cooperative settlements, as well as in public projects in such settlements. The other 50 percent is owned by institutions affiliated with the Moshavim Movement.

Competition

The Bank is the largest financial institution in the agricultural field in the State of Israel and represents approximately 60% of the total long-term and medium term financing in agricultural projects in

the State of Israel. There are, however, other banks and financial institutions in Israel, some with considerably greater financial resources than the Bank, which institutions, among other things, grant loans for agricultural programs.

Property

The Bank owns its facilities located at 83 HaHashmonaim Street, Tel-Aviv, which consists of a four-story building on approximately ½ acre of land.

Employees

The Bank employs 132 persons, including the managing director and two deputy general managers.

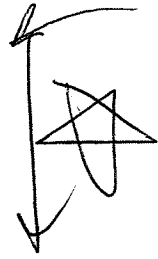
OUTSTANDING SECURITIES OF THE BANK

The Notes

Pursuant to an exemption contained in the Trust Indenture Act of 1939 for notes issued by instrumentalities of foreign governments, this offering of the Notes is exempt from the provisions of said Act. The Notes are issued under an indenture (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 will be direct unsecured obligations of the Bank. However, in order to be qualified as debentures under the Israeli Companies law, the Notes must be secured by a charge on assets of the Bank and therefore a floating charge will be created on certain furniture contained in the Bank's offices. The Notes will mature on December 31, 2003 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; provided, however, that original issue Notes subscribed and paid for within 20 days following the date of this Prospectus shall bear interest from January 1, 1978. 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, commencing June 30, 1978, 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 will be 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, 1986, upon not less than 30 nor more than 60 days' notice at a redemption price equal to 105% of the principal amount thereof. 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 Notes on any exchange on which they are registered or traded, or by private purchase at such prices as shall be determined by the Bank.

Subordination Provisions

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

- (i) subordinate 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 with all other unsecured indebtedness or obligations of the Bank, present and future, except indebtedness which by its terms shall be subordinate to the indebtedness evidenced by the Notes.

Accordingly, 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, senior indebtedness 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 remote possibility of realizing nominal amounts in respect of the charge, of limited value, created by the floating charge on certain furniture of the Bank.

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 subordinate to the floating charge created by the Indenture to secure the repayment of any sums, debentures, capital notes, indebtedness, obligations, deposits, borrowings or book debts or any other liability of the Bank heretofore or hereafter borrowed, raised or undertaken in whatever currency without any limitation whatsoever.

Defaults and Waiver Thereof

Under the provisions of the Notes, 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 Notes; (iv) certain events in insolvency. In case an Event of Default shall have occurred and be continuing 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 Notes.

Modifications of the Notes

The Notes provide 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 thereof 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.

Trustee

The Trustee for the Notes is Manufacturers Hanover Trust Company, 40 Wall Street, New York, New York 10015.

Debentures and Charges

As of March 31, 1978, the Bank had outstanding various Debenture Issues aggregating IL. 103,885,000 (\$6,327,000) all of which were linked to the Consumer Price Index. (See "Capitalization".) All outstanding Debenture Issues are secured by floating charges on the assets of the Bank.

In addition to the floating charge Series 6 Debentures provide that upon removal of the floating charge created by earlier Series, it will be secured by a specific charge on the Bank's Deposit with the Treasury, known as Treasury Deposit No. 6 (IL. 3,000,000 together with interest and linkage increments thereon). Series 7 Debentures provide that upon removal of the floating charge created by the earlier Series, it will be secured by a specific charge on the Bank's Deposit with the Treasury, known as Treasury Deposit No. 7 (IL. 5,500,000 together with interest and linkage increments thereon). Series 8 to 10 and the World Bank Loans are secured by floating charges on all of the Bank's assets except Treasury Deposit No. 6 and Treasury Deposit No. 7.

The floating charges created to secure the outstanding issues of Debentures also contain certain limitations on the power of the Bank to charge its assets. These limitations provide that so long as the floating charges remain in existence, the Bank is not entitled to charge its assets in whole or in part in priority to said charges except for a specific charge to permit the Bank to secure credit in the ordinary course of its business either from the Ministry of Finance or from any other financial institution and further provide that such specific charge is created for a loan relating specifically to assets which were so mortgaged or charged. The Bank can at any time create a charge *pari passu* with the floating charge established by the Debentures to secure the repayment of any Debentures to be issued. The Bank, however, is not permitted to create any additional charge on the Deposits arising from the sale of Debenture Series 6 and 7.

All floating charges *pari passu*, except the floating charge created under the Indenture for securing the Notes.

The following represents deposits and loans made with and to the Bank:

	Currency or linkage terms*	Repayable in the years**	Rate of Interest	Amount of loan or deposit	Amount Utilized by	Balance	
				(In Million)	March 31, 1978 (In Million)	March 31, 1978 (including Linkage Increments) (In Millions)	
				IL.	IL.	IL.	\$
The Israel Treasury	Israel Pounds	1978-2006	0	42.8	42.8	42.4	2.58
			1-10	342.2	342.2	269.3	16.40
			11-20	538.8	538.8	526.5	32.06
			21-28	86.0	86.0	64.6	3.93
The Israel Treasury	Israel Pounds	Unfixed	0- 7	26.6	26.6	26.6	1.62
			8-10	62.8	61.9	40.7	2.48
Industrial Development Bank of Israel Limited	Israel Pounds	1978-1991	11-20	122.7	111.4	74.0	4.51
			21-26.2	58.1	57.8	48.8	2.97
Industrial Development Bank of Israel Limited	Israel Pounds	1978-1991	***	35.0	32.2	24.3	1.48
			20.25-23.25	29.6	29.6	26.4	1.61
Israel Discount Bank Limited	Israel Pounds	1978-1982	6.4-9	70.3	70.3	196.9	11.99
Israel Discount Bank Limited	Consumer Price Index	1978-1982	21.0	3.8	3.8	2.5	0.15
United Mizrahi Bank Ltd.	Israel Pounds	1978-1982	7-7.16	14.6	14.6	28.0	1.71
United Mizrahi Bank Ltd.	Consumer Price Index	1978-1992	***	3.8	3.8	2.5	0.15
United Mizrahi Bank Ltd.	Israel Pounds	1978-1982	***	3.8	3.8	2.5	0.15
Industrial Bank Limited	Israel Pounds	1978-1988	6.5-10.0	53.0	53.0	34.9	2.13
			11-21.5	81.9	77.2	71.8	4.37
Bank Hapoalim B.M.	Israel Pounds	1978-1992	10.9-21	6.6	6.6	4.2	0.26
Bank Hapoalim B.M.	Consumer Price Index	1978-1995	7-9	146.1	146.1	322.0	19.61
Bank Hapoalim B.M.	Israel Pounds	1978-1981	***	3.3	3.3	2.4	0.15
Bank Leumi	Israel Pounds	1978-1980	24.0	1.0	1.0	0.8	0.05
Lelsrael B.M.	Israel Pounds	1978-1982	***	7.4	7.4	5.1	0.31
Bank Leumi	Israel Pounds	1978-1982	***	7.4	7.4	5.1	0.31
Lelsrael B.M.	Israel Pounds	1978-1982	***	7.4	7.4	5.1	0.31
Otsar La'taasiya Ltd.	Israel Pounds	1978-1985	5.5-21.65	26.7	26.7	19.8	1.21
The First International Bank of Israel Limited	Israel Pounds	1978-1982	20.625-23.875	4.6	4.6	3.6	0.22
The First International Bank of Israel Limited	Consumer Price Index	1978-1979	9.0	6.0	6.0	10.7	0.65
The First International Bank of Israel Limited	Israel Pounds	1978-1982	***	9.4	9.4	8.3	0.51
The First International Bank of Israel Limited	Israel Pounds	1978-1982	20.75-23.75	22.0	22.0	16.1	0.98
The Maritime Bank of Israel Limited	Israel Pounds	1978-1983	***	28.3	28.3	22.6	1.38
The Maritime Bank of Israel Limited	Israel Pounds	1978-1982	19.75	8.0	8.0	7.6	0.46
Yaad Agricultural Development Bank Limited	Israel Pounds	1978-1982	19.75	8.0	8.0	7.6	0.46
World Bank	Various foreign**** currencies	1978-1989	7.25	\$ 55.0	\$ 55.0	990.1	60.30
Tefachot Israel Mortgage Bank Limited	Consumer Price Index	1978-1988	8.4	1.2	1.2	4.6	0.28
The Jewish Agency	Israel Pounds	1978-2013	0-17	57.7	57.7	55.1	3.36
The Jewish Agency	Israel Pounds	Unfixed	2-11.6	2.9	2.9	2.9	0.17
Bank of Israel	Israel Pounds	1978-1980	9.25-12.25	9.0	9.0	3.0	0.18
Bank of Israel	Consumer Price Index	1978-1980	3-5	0.6	0.6	0.6	0.04
Bank of Israel	Israel Pounds	1978-1979	Variable	164.0	164.0	138.3	8.42
Various	Israel Pounds	1978-1983	4.5-30.0	180.9	180.9	85.4	5.20
Various	Israel Pounds	Unfixed	5.5-28.0	92.8	92.8	92.8	5.65
						3,276.2	199.53
Interest Accrued						72.9	4.44
Total						<u>IL.3,349.1</u>	<u>\$203.97</u>

*Liabilities in foreign currency are stated at the rates of exchange in force on balance sheet date. The rate of exchange of the Israel Pound to the U.S. Dollar was U.S. \$1.00 = IL. 16.42 on March 31, 1978. Liabilities linked to the consumer price index are stated on the basis of the index for February 1978 on March 31, 1978.

**Repayment requirements are as follows: (In Millions)

	<u>IL.</u>	<u>\$</u>
To March 31, 1980	797.2	48.6
From April 1, 1980 to March 31, 1983	551.0	33.6
From April 1, 1983 to March 31, 1988	535.5	32.6
From April 1, 1988 to March 31, 1993	171.0	10.4
From April 1, 1993	112.7	6.9
Unfixed term	119.4	7.2
Linking increments	<u>1,062.3</u>	<u>64.7</u>
	<u>3,349.1</u>	<u>204.0</u>

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

****As of March 31, 1978 the loans from the World Bank were repayable in the foreign currencies and amounts indicated below

U.S. Dollars	20,347,542
German Marks	31,870,496
Japanese Yens	1,653,807,044
Swiss Francs	20,050,955
French Francs	2,297,667
Dutch Guilders	5,627,083
Danish Kronors	6,176,959
Iranian Rials	94,904,378
Brazilian Cruseros	6,845,575

Preference Shares

The Bank has outstanding four classes of Preference Shares: (i) 750,000 8% Cumulative and Participating A Shares, par value IL. 10 per share (Preference "A" Shares); (ii) 750,000 8% Cumulative and Participating B Shares, par value IL. 10 per share (Preference "B" Shares); (iii) 300,000 4% Cumulative Preference Shares, par value IL. 1 per share (4% Preference Shares); and (iv) 250,000 7½% Cumulative Redeemable Preference "C" Shares linked to the dollar, par value IL. 420 per share (Preference "C" Shares).

Unlike the Preference "C" Shares, the Preference "A" and "B" Shares have no linking provision but they rank pari passu with the Preference "C" Shares as to dividends and on liquidation. The Preference "A" and "C" Shares are listed on the Tel Aviv Stock Exchange, and all of the Preference "B" Shares are owned by the Government of Israel. The 4% Preference Shares are held by various sectors of the public in Israel and are subordinated to the Preference "A" and "B" Shares. Each Preference Share, other than the Preference "C" Shares, is entitled to one vote per share for all purposes including the election of directors.

Ordinary Shares

As of March 31, 1978 the Bank also had outstanding 104,000,019 Ordinary Shares with a par value of IL. 1 per Share. Substantially all of these Shares are owned by the Government of Israel and all are fully paid and nonassessable. Each of these shares is entitled to one vote per share for all purposes including the election of directors. The Government of Israel has a right to utilize 25 percent of the proceeds of certain loans for the purchase of the Banks ordinary shares (but see "Government Regulation and Control—Investments").

MANAGEMENT AND CONTROL

All directors are State directors appointed by the Government of Israel, which owns approximately 99% of all the outstanding voting shares of the Bank. (See "Important Factors to be Considered—Relationship of the Bank to the Israel Government.") All outstanding shares, with the exception of the 7½% Cumulative Redeemable Preference "C" Shares, are entitled to one vote per share for all matters including the election of directors, except that under the terms of the Government Companies Law, the Government of Israel appoints all the State directors of the Bank. (See "Important Factors to be Considered—State Regulation and Control").

There are no family relationships between any director or executive officer and any other director or executive officer.

The name, age, and background of each director and executive officer of the Bank is as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Since</u>	<u>Business Experience During Past Five Years</u>
Abraham Brum	67	Chairman of the Board of Directors	July, 1966	Secretary-General, Federation of Kibbutz Movements; formerly Director-General, Ministry of Agriculture.
Nuri Bar-Hava	47	Director	Sept., 1973	Chairman of Board of Directors, Yahav; formerly Assistant Accountant General, Ministry of Finance.
Mihael Cahana	40	Director	April, 1978	Assistant in Charge of Capital Markets, Insurance and Saving. Ministry of Finance.
David Calderon	63	Managing Director	Oct., 1968	Managing Director of the Bank.
Avinoam Finkelman	39	Director	June, 1972	Chairman of the Board of Directors, TAAL; formerly Director, Economic Department, Ihud Hakvutzot Ve-Hakibutzim.
Benjamin Feuchtwanger	49	Director	Dec., 1976	Member of the Executive, Farmers' Federation in Israel.
Menahem Freeman	48	Director	April, 1978	Director of the guided Credit Department—Moshavim, Ministry of Agriculture.
Jacob Gadish	43	Director	July, 1976	Chairman, Economic Department, Hakibutz Hadati.
Isack Gross	63	Director	July, 1951	Director, Settlement Department of Poale Agudath Israel in Israel.
Abraham Knaani	72	Director	April, 1951	Agriculturist; formerly Member, Secretariat of the Agricultural Centre.
Dov Miron	61	Director	Nov., 1968	Member of Economic Committee of the Federation of Kibbutz Movements and Settlement Department of the Agricultural Centre.
Haim Nedivi	54	Director	Nov., 1968	Chairman of the Board of Hapoel Hamizrahi Moshavim Settlements Organization; formerly Manager Hapoel Hamizrahi Farmers' Wholesale Purchasing Society.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Since</u>	<u>Business Experience During Past Five Years</u>
Yair Orgler	39	Director	Nov., 1976	Prof. of Business Administration, Tel-Aviv University.
Arieh Pataki	57	Director	April, 1978	Director of the Guided Credit Department—Kibutzim, Ministry of Agriculture.
Hanoch Prissman	61	Director	July, 1976	Ministry of Finance. Development Budget Coordinator.
Moshe Salamon	32	Director	April, 1978	Assistant Director of Guided Credit Department, Ministry of Agriculture.
Asher Zalel	77	Director	July, 1955	Member of the Board of Directors of the Bank; formerly Deputy Managing Director of the Bank.
*Yehoshua Kenner	54	Deputy General Manager	Oct., 1968	Deputy General Manager of the Bank and Secretary General (from November 1953).
*Moshe Streissfeld	52	Deputy General Manager	Aug., 1977	Deputy General Manager of the Bank; formerly Manager Palestine Agricultural Settlement Assoc. Ltd.

*Not members of the Board of Directors.

During the year ended March 31, 1978 and as at the date of this prospectus, no officer or director of the Bank received remuneration in excess of \$40,000 per year. The aggregate remuneration received by the managing director and deputy general managers as a group amounted to IL. 896,400 (\$54,590) for said year. In addition, the Bank makes annual provision on behalf of the managing director and deputy general managers for retirement benefits, which, in the year ended March 31, 1978 aggregated IL. 87,100 (\$5,305).

CONVERTIBILITY OF CURRENCY AND UNITED STATES AND ISRAEL TAXES

This Section relates to Foreign Residents only, for whom this offering is exclusively made.

Israeli residents who may purchase these Notes (debentures) from the original purchasers or on the Tel-Aviv Stock Exchange should be aware that the information below on taxation is applicable only to such non-residents.

The Notes have been designated by the Investment Center as an approved loan in foreign currency under the Law for the Encouragement of Capital Investment—1959. This designation does not imply that the Investment Center recommends the Notes as an investment, nor does it imply that the Investment Center has passed upon the commercial merits of the Notes.

The Controller of Foreign Exchange has furthermore confirmed to the Bank that Foreign Resident holders of the Notes will be permitted to repatriate from Israel all sums in foreign currency which will be paid them with respect to interest, capital and premiums in case of redemption of the Notes. The Minister of Finance has determined that the interest payable on the Notes will be exempt from Israel taxes imposed on income, except for the withholding tax which the Bank is required to deduct, which is 25 percent as to a Foreign Resident and 35 percent as to an Israeli resident. Sales of the Notes in Israel will also be exempt from capital gains tax since the Notes will be traded on the Israel Stock Exchange. The income tax authorities have remarked to the bank that there is no express provision in the law regarding the premiums and consequently they might be treated as interest. Section 47A of the Law for the

Encouragement of Capital Investment—1959 exempts from the payment of Israel tax a Foreign Resident who receives income from interest on the Notes, provided the Notes are traded through the Tel Aviv Stock Exchange and provided further, that he does not obtain, therefor, in his own country of residence relief from double taxation. Therefore, persons who do not obtain from their countries of residence relief from double taxation will not have any tax deducted at the source. This exemption does not generally apply to residents of the United States.

The Bank has been advised by the Israel Income Tax Commissioner that pursuant to said Section 47A, he will grant an exemption from the payment of tax to institutions which are charities, religious or educational institutions or other similar institutions which are exempt from the payment of tax pursuant to the provisions of the tax laws of their country of residence. In order to receive this exemption the institutions must submit to the Israel tax authorities, directly or through the Bank or Underwriter, proof relating to the tax exemption in their own country. Only upon receipt by the Bank of this proof will the Bank not be required to withhold the tax.

Furthermore, the exemption from Israeli taxes on the interest will also apply in respect of a resident in a country where pursuant to a convention for the avoidance of double taxation on the same income with Israel he is considered there as if he has paid the tax which he would have been required to pay but for the provisions of section 47A.

Estates of foreign residents will be exempt from estate duty on the Notes.

The Bank is obliged to pay a company's profit tax and income tax totalling 61 percent. The Bank is also liable for the payment of capital gains tax. In calculating the tax, certain adjustments are made to partially neutralize purely inflationary profits. In any event, capital gains tax does not exceed 50 percent of the capital gain. In addition, the Bank is liable to purchase a compulsory Savings Loan at the rate of 4.75 percent for all salaries paid to employees in the year 1978. The income interest on the compulsory loan of 3 percent is tax free. The principal is 90 percent linked to the Consumer Price Index and the loan is repayable in the years 1982-1990.

In addition, the Bank pays an employers tax at the rate of 4 percent of all salaries paid to its employees. The Bank is also required to pay a 9 percent salaries and profit tax under the value added tax law of 1976. The employers tax and the value added taxes are deductible expenses for income tax purposes. The Bank is relying upon the advice received by it from the Israel income tax authorities who have advised the Bank that, in their opinion, the material herein contained properly states the relevant provisions of the income tax laws of Israel.

U.S. counsel to the Bank, Finley, Kumble, Wagner, Heine & Underberg, have advised that under the provisions of the Internal Revenue Code, United States Noteholders (persons 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 claim the amount of the Israel income taxes withheld either as a deduction from their gross income or as a credit against their Federal income tax liability.

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 a parliamentary democracy whose head, the President, is elected for a five-year term (and who may be re-elected for one further term) by the country's parliament, the Knesset.

Members of the Knesset are elected in free, universal, secret-ballot, multi-party elections, such elections being held at least once every four years. The Prime Minister, normally the leader of the largest party, heads a cabinet, subject to a vote of confidence by the Knesset.

Members of the judiciary are appointed for life by the President, on the advice of the Judges Nomination Committee.

Internal security and political stability have prevailed since the establishment of the State in 1948, with the continuous and orderly functioning of public services.

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.

On May 11, 1975, an agreement was signed between Israel and the European Economic Community (EEC) concerning questions of trade and economic cooperation. Additional protocols, dealing with questions of development, trade promotion, science and technology and financial issues were signed on February 8, 1977. Under these agreements, Israel's industrial exports to the EEC have enjoyed complete customs franchise since July 1, 1977. Israel has undertaken to reduce her import tariffs gradually to zero by January 1, 1985.

Government Finance. The State of Israel has always paid interest on outstanding loans promptly, and has never delayed or defaulted on the repayment of principal of any debt.

National Income and Investment. The following table indicates the national income, gross national product and investment of Israel for the calendar years 1973-1977, in prices current for the respective years and in constant prices.

NATIONAL INCOME (at current prices)			GROSS NATIONAL PRODUCT AND INVESTMENT (in million IL.)					
Year	Total (in IL. millions)	Per Capita	Gross National Product		Gross Investment		Net Investment	
			Current Prices	1970 Prices	Current Prices	1970 Prices	Current Prices	1970 Prices
1973	30,832	9,404	37,621	24,208	13,499	8,157	9,441	5,713
1974	43,927	13,006	54,272	25,809	19,613	8,376	13,403	5,640
1975	59,273	17,145	75,329	26,350	25,765	8,225	16,356	5,209
1976	73,285	20,743	96,080	26,582	27,386	7,043	14,731	3,754
1977	103,160	28,560	134,161	26,721	34,393	6,293	17,721	3,242

All other statistical data contained in this prospectus with respect to the State of Israel is, if not stated otherwise, presented in current prices.

The index of consumer prices in Israel has risen as follows (annual average figures, 1972=100.0):

1973 _____	120.0	1975 _____	233.5	1977 _____	412.7
1974 _____	167.6	1976 _____	306.6		

The Government of Israel has been pursuing policies and programs regarding indexing and linkage with the objective of counteracting the effects of inflation. Most savings programs are fully linked to the consumer price index (CPI); issues of new debentures have an 80% linkage to the CPI. Interest on development loans is linked to 50% of the annual increase in the CPI, with a maximum interest ceiling of 22%.

The cost-of-living allowance is the principal tool for compensating wage-earners for inflation. As of December 31, 1977 this compensation was equal to 70% of the increase in the CPI, up to a wage ceiling of IL. 7,000 per month. Low income allowances have been raised by the same percentage, while tax credits and children's allowances increase at the full rate of the increase in the CPI.

Net Domestic Product by sectors is as follows:

**SECTORAL ORIGIN OF ISRAEL'S NET DOMESTIC PRODUCT
AT FACTOR COST 1973-1977**

	(percentages at 1970 prices)			(percentages at 1975 prices)	
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977*</u>
Agriculture, Forestry, Fisheries	6.1	6.4	6.9	6.2	6.6
Industry, Mining and Quarrying	24.9	25.0	25.0	25.9	26.5
Construction, Water and Electricity	12.6	12.6	12.1	8.3	6.8
Transportation and Communications	9.5	9.5	9.2	6.8	6.9
Finance, Trade and Business and Personal Services	21.2	20.6	20.5	18.1	18.1
Public and Community Services	20.0	20.2	20.3	25.6	25.7
Ownership of Dwellings	<u>5.7</u>	<u>5.7</u>	<u>6.0</u>	<u>9.1</u>	<u>9.4</u>
Net Domestic Product (at factor cost)	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

*Provisional (subject to revision)

Foreign Exchange. An exchange rate of U.S. \$1.00=IL. 4.20 was in effect from August 22, 1971 to November 10, 1974. 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 since devalued the Israel Pound at frequent intervals in a series of crawling devaluations averaging 2% a month, so that the prevailing rate of exchange on October 28, 1977 was U.S. \$1.00=IL. 10.38. On that day the Government instituted a new economic program, which, among other things, established a floating exchange rate. As of April 25, 1978, the representative rate for the Israel pound quoted by the commercial banks was U.S. \$1.00=IL. 16.68. (See "Important Factors to be Considered—Economic Conditions in Israel").

The amounts of net foreign exchange reserves held in the Bank of Israel as of the end of calendar years 1973, 1974, 1975, 1976 and 1977 were as follows:

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Net Foreign Exchange Reserves of Bank of Israel (in \$ millions)	1,697.1	1,070.6	1,039.5	1,156.3	1,359

Population and Employment. The population of Israel and the number of gainfully employed persons in the calendar years 1974-1977 are indicated below:

<u>Year</u>	<u>Total Population (As of Year-End)</u>	<u>Gainfully Employed Persons (Annual Average)</u>
1974	3,421,600	1,096,700
1975	3,493,200	1,112,600
1976	3,575,000	1,120,700
1977	3,650,000	1,145,000

The approximate percentage distribution of gainfully employed persons (Israeli) among the various branches of the economy for the calendar years 1974, 1975, 1976 and for January-September of 1977 was as follows:

<u>Economic Sector</u>	<u>Annual Average</u>			<u>9 Month Average</u>
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>Jan.-Sep. 1977*</u>
Industry	25.4%	24.7%	24.3%	24.1%
Agriculture	6.5	6.4	6.4	6.2
Services (public, business and personal)	38.8	39.8	40.6	41.2
Construction and Public Works	8.1	8.1	7.7	7.4
Transportation and Communications	7.6	7.2	7.0	7.0
Electricity and Water	.9	1.0	1.0	1.2
Commerce, Restaurants, and Hotels	12.0	12.2	12.4	12.2
Other	0.7	0.6	0.6	0.7
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Provisional (subject to revision)

The average number and percentage of unemployed persons in Israel in 1974-1977 were as follows:

<u>Year</u>	<u>Average Number of Unemployed Persons</u>	<u>Total Labor Force</u>	<u>Percentage of Average Number of Unemployed Persons in Total Labor Force</u>
1974	34,300	1,131,000	3.0%
1975	35,100	1,147,700	3.1%
1976	42,600	1,169,000	3.6%
Jan.-Sep. 1977	46,000	1,191,000	3.9%

Foreign Trade. As with 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 exports.

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

<u>Year</u>	<u>Imports* (in \$ millions)</u>	<u>Exports (in \$ millions)</u>	<u>Deficit (in \$ millions)</u>
1973	5,537	2,896	2,642
1974	7,217	3,830	3,387
1975	8,022	3,980	4,050
1976	7,868	4,601	3,267
1977	8,370	5,675	2,695

*Defense imports in 1973 were 1,253; in 1974 were 1,224; in 1975 were 1,846, in 1976 were 1,603 and during the period January to September 1977 were 804 (in \$ millions). The principal categories of imports of commodities other than defense were as follows:

ISRAEL'S IMPORTS OF GOODS 1973-1977
(CIF Values in \$ Millions)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>Jan.-Sept.</u> <u>1977</u>
Consumer Goods					
Durable	111	149	107	{ 317*	{ 325*
Non-Durable	176	209	216		
Raw Materials					
Rough Diamonds	488	443	469	616	900
Fuel	211	596	638	681	755
Other	1,344	2,108	2,081	1,844	2,090
Investment Goods					
Ship & Aircraft	255	151	43	53	95
Other	457	554	610	566	535

*Includes both durable and non-durable consumer goods.

Imports of services are broken down in the Balance of Payments tabulation which follows.

ISRAEL'S BALANCE OF PAYMENTS (1974-September 1977)
(In Millions of Dollars)

Description	1974		1975***		1976***		Jan.-Sept. 1976***		Jan.-Sept. 1977***			
	Global* Credit	U.S.** Debit	Global* Credit	U.S.** Debit	Global* Credit	U.S.** Debit	Global** Credit	U.S.** Debit	Global** Credit	U.S.** Debit		
A. Current Account												
Merchandise (Exports and Imports, F.O.B.)	2,005	5,090	303	828	2,180	5,657	2,680	5,421	1,906	3,881	2,414	4,073
Insurance	235	257	11	13	275	305	256	290	187	213	205	236
Transportation	594	508	105	140	558	567	632	610	471	468	568	540
Travel	199	146	92	43	234	160	293	154	201	133	314	154
Investment Income	354	585	215	330	321	709	303	690	215	480	259	502
Government Offices	26	102	18	1,016	24	102	24	125	19	97	18	70
Other Services	235	347	52	58	235	364	235	398	175	298	207	316
Total Current Account	3,648	7,035	796	2,428	3,827	7,864	4,423	7,688	3,174	5,570	3,985	5,891
Deficit on Current Account		3,387		1,632		4,037		3,265		2,396		1,906
B. Unilateral Transfers												
Restitutions	317	—	—	—	359	—	314	—	233	—	251	—
Personal Remittances	338	6	440	—	247	4	252	—	164	5	200	—
Institutional Remittances	380	—	—	—	477	—	538	—	396	—	330	—
Transfers in kind	15	4	4	—	12	—	—	—	13	—	—	—
Government	697	—	787	—	664	—	1,135	—	875	—	691	—
Total Unilateral Transfers	1,747	10	1,231	—	1,759	4	2,239	—	1,681	5	1,472	—
Total Current Account and Unilateral Transfers	5,395	7,045	2,027	2,428	5,586	7,868	6,662	7,688	4,855	5,575	5,457	5,891
C. Net Capital Movements												
Private Long-Term (including investments)	167	—	81	—	134	—	157	—	71	—	32	—
Private Short-Term Loans	31	—	—	63	322	—	47	—	45	—	—	91
Government Issues Abroad	165	—	—	—	118	—	—	—	—	—	—	—
Other Govt. Long Term Obligations	293	—	356	—	1,265	—	892	—	522	—	449	—
Government Short-Term Obligations	59	—	221	—	—	76	69	—	85	—	17	—
Foreign Exchange Assets	1,164	—	400	—	429	—	—	229	—	188	—	322
Total Net Capital Movements	1,879	—	1,058	63	2,268	76	1,165	229	723	188	498	413
Net Errors and Omissions	—	229	—	594	90	—	90	—	185	—	349	—
GRAND TOTAL	7,274	7,274	3,085	3,085	7,944	7,944	7,917	7,917	5,763	5,763	6,304	6,304

*Revised

**Provisional (Subject to Revision)

***Since 1975 the Central Bureau of Statistics of the Government of Israel has ceased preparing regional balance of payment statistics in accordance with the practice of the members of the International Monetary Fund. The following data are available concerning the U.S. share of some of the major elements in Israel's global balance of payments:

A. Current Account

Merchandise: the U.S. was the source of 23% of Israel's non-defense imports in 1975, 21% in 1976 and 20% in 1977; the U.S. was the destination of 18% of Israel's exports in 1975 and 1976, and 19% in 1977.

Travel: of the tourists visiting Israel in 1975, approximately 27% were Americans; in 1976 approximately 28% were Americans; and in 1977 approximately 27% were Americans.

B. Unilateral Transfers:

Institutional Remittances: approximately 70% thereof were of U.S. origin in 1975, 1976 and 1977.
Government: all of the 664 in 1975, 1,135 in 1976, and 691 in Jan.-Sept. 1977 represent U.S. Government grant assistance.

C. Net Capital Movements:

Government Issues Abroad: approximately 80% thereof were from the U.S. in 1975, 1976 and 1977.

Agricultural Development. 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 1977 (agricultural year runs from October 1, 1976 to September 30, 1977) amounted to 4,310,000 dunams (just over one million acres) of which 43% was under irrigation.

Israel's gross agricultural output in agricultural years 1974-1977 was as follows:

<u>Year Ended September 30,</u>	<u>Gross Agricultural Output (in IL. millions)</u>
1974	4,151
1975	6,464
1976	9,238
1977	12,546

Israel's gross agricultural output was accounted for by the products indicated below:

<u>Product</u>	<u>Year Ended September 30,</u>			
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Citrus and other fruits	28.4%	28.8%	28.4%	27.9%
Vegetable crops	9.2	9.7	8.9	10.0
Field crops (including grains, fodder and industrial crops)	16.9	14.4	15.5	16.9
Meat	21.4	20.2	20.7	20.9
Milk	11.1	12.5	13.0	12.4
Eggs	9.1	10.3	9.4	8.7
Other	3.9	4.1	4.1	3.2
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Israel's agricultural exports for calendar years 1974-1977, including citrus fruit exports, were as follows:

<u>Calendar Year</u>	<u>Agricultural Exports (in \$ millions)</u>	<u>Citrus Fruit Exports (in \$ millions)</u>
1974	192	120
1975	278	176
1976	324	172
1977	370	185

Approximately 72,500 persons were engaged in agricultural pursuits in the first half of calendar year 1977, as compared to 72,200 persons in 1976, 72,000 persons in 1975, and 71,500 persons in 1974.

Industrial Development. The net product of Israel's industry in the years 1974, 1975, 1976 and 1977 (estimate) is indicated below:

<u>Year Ending December 31,</u>	<u>Net Product of Industry (in IL. millions)</u>
1974	12,159
1975	17,485
1976	23,255
1977 (estimate)	24,417

The approximate percentages of the net product of industry in 1974-1977 accounted for by various industry branches were as follows:

Branches of Industry	1974	1975	1976	1977*
Food products	13.2%	12.8%	13.3%	13.8%
Textiles and leather products	16.1	15.6	14.3	14.7
Light industry (including wood, paper, printing)	8.8	8.1	8.0	8.1
Diamonds	4.7	4.6	5.2	5.4
Non-metallic mineral products and quarrying	7.8	8.3	7.3	7.3
Chemicals, rubber and plastic products	15.6	14.6	15.1	15.1
Metal products, machinery, electrical and electronic equipment	24.8	26.3	24.8	24.8
Other	13.7	9.7	11.4	10.8
*Provisional (subject to revision)	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Industrial exports (including all production imports apart from capital goods) were as follows for the years 1974-1977:

Calendar Year	Net Industrial Exports (in \$ millions)
1974	1,555
1975	1,571
1976	2,003
1977	2,567

Polished diamonds accounted for approximately 41% of industrial exports in 1974, for approximately 40% in 1975, for approximately 37% in 1976 and for approximately 40% in 1977.

Approximately 283,000 persons were employed in industry at the end of 1977 as compared to 272,000 persons at the end of 1976.

Production of electricity in the calendar year 1977 totalled approximately 11,106 million kilowatt-hours (provisional figure) of which approximately 3,031 million kilowatt-hours (provisional figure) were consumed by industry.

GOVERNMENT OF ISRAEL—INTERNAL PUBLIC DEBT*

(as of December 31, 1977)**

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)	2-7.5%	234,400	234,400	234,400
1950	1980	Popular Loans	Lottery prizes in lieu of interest	41,000	41,000	19,700
1960/77	1961/91	Development Loans	Minimum of 5% linked to index	7,500,000	7,500,000	7,500,000
1968/73	1978/90	Defense Loans	Minimum of 5% linked to index	5,600,000	5,600,000	5,500,000
1973/75	1989/91	War Loan	Minimum of 3% linked to index	3,100,000	3,100,000	3,050,000
1962/75	1968/86	Absorption and Savings Loan	4-5%	4,830,744	4,830,744	4,450,000
1967/77	1971/2001	Advances from Bank of Israel	5-7.5%	14,348,795	14,348,795	16,000,000
		Short-Term Bills (3-18 months)	8.75-12.5%	14,048,795	14,048,795	140,000
		Emissions of Private Banks				23,000,000
		Other				14,650,000
						74,721,400

*Original figures not adjusted for linkage. Accumulation of the linkage and interest as at December 31, 1977 was approximately 110.0 billion Israeli pounds.

**Estimated Figures—Unreasonable effort would be involved in obtaining later information.

ISRAEL'S FOREIGN EXCHANGE DEBT

(as of December 31, 1977)*

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>
1959/64	1969/74	Development Bonds II	4%	300,000	293,621	19,901
1964/67	1976/79	Development Bonds III	4%	400,000	392,630	234,949
1967/71	1979/83	Development Bonds IV	4%	500,000	475,311	366,512
1971/75	1986/90	Development Bonds V	4%	750,000	658,104	514,771
1966/68	1986/88	Development Investment Bonds I	4¾%	100,000	72,300	7,090
1968/70	1988/90	Development Investment Bonds II	5½%	200,000	151,023	81,007
1971/72	1991/92	Development Investment Bonds III	5½%	250,000	223,658	93,164
1973/76	1993/96	Development Investment Bonds IV	5½%	350,000	358,000	261,590
1977/	1996/	Development Investment Bonds V	5½%	350,000	37,706	36,104
1974/76	1989/91	Reconstruction and Development Bonds	4%	1,000,000	688,733	609,836
1962/76	1976/85	EXIM—Government and Private	5¾-8¼%	588,105	460,964	147,451
1962/67	1967/82	Development Loan Fund	¾%	10,000	10,000	2,892
1962/67	1967/87	Agency for International Development	¾-3½%	139,160	135,000	62,269
1966/77	1968/95	PL 480 Dollar Credits	2-3%	316,210	284,268	215,127
1966/75	1967/87	I.B.R.D. (Govt. and Private with Govt. Guarantee)	5¾-8½%	284,500	210,000	104,312
1974/76	—	International Monetary Fund	6.875%	346,190	346,190	346,190
	1976/95	Bank Loans	Euro-Euro +1¾%			2,094,333
	1976/2010	Private Loans	0-8%			491,565
	1976/85	Suppliers Loans	2-8%	256,152	256,152	256,152
	1976/90	Loans from Foreign Accounts	Euro-Euro +1¾%			295,961
	1976/94	Defense Loans	3-9¾%	3,357,662	3,357,662	3,255,975
		Loans from Germany	2½-4½%	940,000	940,000	859,034
		Various Loans from Foreign Sources	Various			359,026
						10,715,211

*Estimated Figures—Unreasonable effort would be involved in obtaining later information.

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

	Fiscal Year Ended March 31, 1975*	Fiscal Year Ended March 31, 1976*	Fiscal Year Ended March 31, 1977*	Revised Budget Fiscal Year Ended March 31, 1978
Current Receipts				
Income Tax	6,981,446	12,341,635	17,554,962	28,575,000
Property, Inheritance Tax and Others	585,275	2,034,114	2,295,362	2,795,000
Customs, Excise & Sales Taxes	10,456,983	14,416,069	21,505,334	29,605,000
Revenue Stamps, License and Registration Fees	1,207,572	1,041,963	1,645,647	2,470,000
Receipts Transferred to Local Governments	731,062	1,074,217	1,469,246	2,090,000
Collections of Interest	1,509,928	2,375,895	3,360,261	2,494,000
Miscellaneous Revenue	744,242	662,419	881,262	1,322,000
Defense Loans (including savings)	3,284,135	1,418,036	1,431,411	2,035,000
Transfer of Receipts from Development Budget	6,912,497	14,354,818	19,256,280	37,784,000
Total Ordinary Budget	32,413,140	49,719,166	69,399,765	108,900,000
Receipts from Loans and Capital Accounts				
Proceeds from Internal Loans	5,545,620	5,762,918	9,618,938	18,400,000
Loan Repayments	766,680	981,085	1,123,874	1,250,000
Proceeds from Foreign Loans and Grants (including State of Israel Bonds and U.S. Loans and Grants)	8,842,903	14,760,548	22,971,053	37,480,000
U.S. Agricultural Surpluses	49,493	104,616	—	120,000
Special Receipts and Sundry Items	113,033	146,806	195,767	274,000
Advances from Bank of Israel	—	5,650,000	2,700,000	12,560,000
Transfer of Receipts to Ordinary Budget	6,912,497	14,354,818	19,256,280	37,784,000
Total Development Budget	8,405,232	13,051,155	17,553,252	32,300,000
GRAND TOTAL	40,818,372	62,770,321	86,753,117	141,200,000

*Revised

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

	Fiscal Year Ended March 31, 1975*	Fiscal Year Ended March 31, 1976*	Fiscal Year Ended March 31, 1977*	Revised Budget Fiscal Year Ended March 31, 1978
Current Expenditures				
General Administration	1,703,084	2,205,865	3,010,466	4,181,076
Local Governments	1,198,844	2,333,510	3,082,865	4,234,300
Defense	16,481,727	25,623,344	35,287,799	48,277,800
Social Services	5,243,301	8,426,727	11,182,561	17,253,470
Economic Services	725,800	787,777	1,325,484	1,679,539
Subsidies on Essential Commodities	1,179,556	2,501,103	2,348,071	3,784,000
Export Promotion	2,072,090	2,631,443	4,017,614	4,340,000
Interest Payments	3,808,739	5,209,397	9,144,905	18,300,000
Total Ordinary Budget	32,413,140	49,719,166	69,399,765	108,900,000
Expenditures on Development and Capital Account				
Housing	2,266,656	3,390,974	3,506,481	4,415,000
Agriculture and Irrigation	259,253	375,292	256,457	1,880,050
Industry and Mining (including oil drilling)	478,019	853,850	1,433,414	2,404,500
Transportation and Communications	798,610	872,632	997,405	907,500
Funds and Sundry Items**	1,148,766	2,034,248	1,979,217	2,992,950
Debt Repayment	3,757,373	5,482,063	9,158,705	19,700,000
Total Development Budget	8,708,677	13,009,059	17,331,679	32,300,000
GRAND TOTAL	41,121,817	62,728,225	86,731,444	141,200,000

*Revised

**Including Education, Health, Welfare and General Government Buildings and Miscellaneous Investments

***Reserves

SUMMARY OF GOVERNMENT OF ISRAEL BUDGETS

Fiscal Years ending March 31, 1975-1978

(In IL. millions)

	Fiscal Year Ended March 31, 1975*	Fiscal Year Ended March 31, 1976*	Fiscal Year Ended March 31, 1977*	Revised Budget Fiscal Year Ended March 31, 1978
1. Current Expenditures	32,413	49,719	69,400	108,900
2. Current Revenues	22,216	33,946	48,713	69,081
3. Current Deficit (1-2)	10,197	15,773	20,687	39,819
4. Capital Expenditures	4,951	7,527	8,173	12,600
5. Income on Capital A/C	880	1,128	1,320	1,524
6. Financing of Capital Expenditures (4-5)	4,071	6,399	6,853	11,076
7. Debt Repayments	3,757	5,482	9,159	19,700
8. Total Required Financing (3+6+7)	<u>18,025</u>	<u>27,654</u>	<u>36,699</u>	<u>70,595</u>
9. Domestic Borrowing	8,830	12,831	13,728	32,995
10. Foreign Loans and Grants	8,892	14,865	22,971	37,600
11. Total Financing (9+10)	<u>17,722</u>	<u>27,696</u>	<u>36,699</u>	<u>70,595</u>

*Revised

REPAYMENT SCHEDULE OF LONG AND MEDIUM-TERM FOREIGN EXCHANGE DEBTS*

As of March 31, 1978

(In \$ millions)

	1978	1979	1980	1981	1982-1986	1987-1991	1992-2006
Principal	\$ 825	\$ 950	\$ 825	\$ 900	\$1,610	\$1,875	\$1,500
Interest	490	500	420	385	1,200	710	720

*Having maturities of more than one year.

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

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 reallocate 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 and the form in which they are being offered have been passed upon for the Bank by Messrs. Finley, Kumble, Wagner, Heine & Underberg, Nathaniel L. Goldstein, Special Counsel, 425 Park Avenue, New York, New York 10022, and from the point of view of Israeli Law, except matters of Israel taxation, by Mr. E. Likhovski, 3 Dubnow Street, Jerusalem, Israel, special legal adviser to the Bank. On matters of Israel law, Messrs. Finley, Kumble, Wagner, Heine & Underberg have relied upon the opinion of Mr. Likhovski. On U.S. law, Mr. E. Likhovski relied on the opinion of Messrs. Finley, Kumble, Wagner, Heine & Underberg.

EXPERTS

The Financial Statements of the Bank, included in this Prospectus, have been examined by Bawly, Millner & 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 no commissions in connection with the sale and subscription of its debentures and shares.
- (c) Under a prospectus issued by the Bank in 1964, the Board of Directors stated that it proposed to recommend an annual distribution of not less than 60 per cent of its current profits, either in cash or in bonus shares. The Bank in fact distributed such profits until the year 1976, for which year the Board decided to recommend to the annual general meeting that a dividend for that year be declared at the same rate as the previous year. The amount of such dividend, however, for that year, was less than 60 per cent of the profits, as stated above. Section 33(c) of the Government Companies Law provides that the Decision of the Directors in respect of dis-

tribution of profits, is subject to the approval of the Government Companies Authority and, in case of disagreement between the Board and the Authority, the dispute is brought for the determination of the Ministers. Accordingly, the directors can no longer make a necessarily effective recommendation as to dividends.

- (d) Under Israel Law, a prospectus may be used only for a period not exceeding 17 months from the last audited financial statement, but in no case for more than one year from the publication of this prospectus.

Material Contracts

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

- (a) A letter dated October 18, 1971, from the Ministry of Finance to the Bank, setting out the arrangements referred to on pages 17 and 18 of the Bank's prospectus dated June 29, 1972.
- (b) A letter dated July 9, 1973, from the Ministry of Finance to the Bank, setting out the arrangements, referred to on page 17 and 18 of the Bank's Prospectus dated August 14, 1973.
- (c) A general agreement signed on March 30, 1978 between the Bank and the Ministry of Finance of the Government of Israel (hereinafter "the Ministry of Finance") with respect to the General Conditions of placing Government deposits with the Bank and making loans by the Bank therefrom.
- (d) A letter of undertaking by the Ministry of Finance, dated March 30, 1978, relating to the terms and conditions of the perpetual deposit referred to on page 11 of this Prospectus.
- (e) Two agreements between the Bank and the World Bank dated 21 October 1970 and 3 April 1974, respectively, referred to on pages 20 and 21 of this Prospectus.
- (f) A letter from the Ministry of Finance dated December 14, 1975, and an exchange of letters between the Bank and the Ministry of Finance applying the said letter to various transactions, dated April 23, 1978 and May 1, 1978.
- (g) A letter of undertaking of the Ministry of Finance relating to various undertakings of the Government of Israel and the Bank, respectively, in connection with the issuance of the Notes, dated April 20, 1978.
- (h) An agreement dated May 23, 1978 made between Capital for Israel and the Bank, setting out the terms on which Capital for Israel, Inc. will act as Underwriter for the Notes offered herein.
- (i) An Indenture between the Bank and the Manufacturers Hanover Trust Company, as Trustee, in connection with the issuance of the Notes mentioned herein, dated May 18, 1978.
- (j) A Paying Agency agreement made between the Bank and the Manufacturers Hanover Trust Company, relating to payments of capital and interest on the Notes, dated May 18, 1978.
- (k) An exchange of letters between the Bank and the Agricultural Investments Company Ltd., under which the said company undertakes to repurchase certain Notes offered herein.

- (1) Minutes of meetings held at the Ministry of Finance on July 11, 1961 and June 4, 1964, respectively, in connection with collection by the Bank of certain debts of agricultural settlers owed to the Jewish Agency and assigned by the latter to the Government of Israel, and the application of part of the proceeds by the Bank as part payment on account of shares to be issued to the Government in the Capital of the Bank.

The following is an opinion by Mr. E. Likhovski, 3 Dubnow Street, Jerusalem, Israel, Bank Special Counsel for this issue:

May 26, 1978

Israel Bank of Agriculture Ltd.,
Tel-Aviv.

Dear Sirs,

In connection with an offer of 7½% Registered Subordinated Capital Notes due 2003 in a total amount of \$35,000,000 (the "Notes") to be issued by you pursuant to a prospectus which you are about to publish, I am giving you at your request my opinion as follows:

- (a) Relying on the advice of U.S. counsel regarding the legality of the Notes under New York and U.S. law, it is my opinion that the main rights attached to the Notes offered have been correctly described in the prospectus.
- (b) In my opinion, you are entitled to issue the said Notes as stated in the prospectus;
- (c) In my opinion, all the directors of the Bank are State Directors and all of them have been duly appointed and their names are properly inserted in the prospectus.

I agree that you will include this opinion in the prospectus whereunder you will offer the Notes to the public.

Yours faithfully,
E. LIKHOVSKI, Advocate

REPORT OF INDEPENDENT ACCOUNTANTS

Israel Bank of Agriculture Limited,
Tel-Aviv, Israel.

We have examined the balance sheet of Israel Bank of Agriculture Limited as at March 31, 1977 and 1978, the statements of income and of earned surplus for the five years ended March 31, 1978 and the statements of changes in financial position for the three years ended March 31, 1978. Our examination was made in accordance with generally accepted auditing standards, which include those prescribed in the Auditors (Modes of Operation) Regulations, 5733-1973, and accordingly we have applied such auditing procedures as we considered necessary in the circumstances.

In our opinion, the abovementioned financial statements expressed in Israeli pounds present fairly in conformity with accounting principles generally accepted in the United States of America applied on a consistent basis (except for the write-off of bank premises and equipment at time of acquisition—see Note 6—and the presentation of the provision for possible losses on loans—see Note 10) the financial position of the Bank as at March 31, 1977 and 1978 and the results of its operations and the changes in financial position for the five and three year periods, respectively ended March 31, 1978.

In our opinion, the abovementioned financial statements have been drawn up in conformity with the Securities (Preparation of Financial Statements) Regulations, 5729-1969, insofar as these regulations apply to the financial statements of the Bank.

We consent to the inclusion of this opinion in the prospectus concerning the public offering by the Bank of \$35,000,000 7½% Registered Subordinated Capital Notes due 2003.

Bawly Millner & Co.
Certified Public Accountants (Israel)

Tel Aviv, Israel
May 3, 1978

ISRAEL BANK OF AGRICULTURE LIMITED

Balance Sheet

	March 31,		1978 Translated to \$000*
	1977	1978	
	IL.000	IL.000	
ASSETS			
CASH IN HAND AND BALANCES WITH BANK OF ISRAEL AND BANKING INSTITUTIONS	102,812	125,984	7,673
SECURITIES			
Government bonds (Note 2)	55,979	78,659	4,791
Shares in subsidiary companies (Note 3)	13,635	19,671	1,198
	<u>69,614</u>	<u>98,330</u>	<u>5,989</u>
LOANS AND OTHER ACCOUNTS (Note 4)			
Loans	1,967,254	2,535,844	154,436
Other accounts	397,138	1,043,299	63,539
	<u>2,364,392</u>	<u>3,579,143</u>	<u>217,975</u>
LOANS TO THE GOVERNMENT OF THE STATE OF ISRAEL—DEPOSITS WITH THE MINISTRY OF FINANCE (Note 5)	165,568	345,089	21,016
BANK PREMISES AND EQUIPMENT (Note 6)	—	—	—
LIABILITIES OF CUSTOMERS (see contra)			
Documentary Credits	99,625	119,871	7,300
Guarantees	60,531	99,396	6,052
	<u>160,156</u>	<u>219,267</u>	<u>13,352</u>
	<u>2,862,542</u>	<u>4,367,813</u>	<u>266,005</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 March 31, 1978 and for the year then ended have been translated into U.S. Dollars at the rate of U.S. \$1=IL. 16.42 which was the representative rate of exchange published by the Bank of Israel on March 31, 1978. Such translation does not constitute a part of the financial statements and should not be construed as a representation that the applicable amounts actually represent, or have been or could be converted into, U.S. Dollars. Furthermore such translation does not give effect to any changes in currency exchange rates which occurred during the said year.

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

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

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

ISRAEL BANK OF AGRICULTURE LIMITED

Balance Sheet

	<u>March 31,</u>		
	<u>1977</u>	<u>1978</u>	<u>1978</u>
	<u>IL.000</u>	<u>IL.000</u>	<u>Translated to</u>
			<u>\$000*</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
DEPOSITS FOR THE GRANTING OF LOANS			
Deposits from the Government of Israel (Note 7)	554,267	947,806	57,723
Deposits and loans from Bank of Israel and banking institutions (Note 8)	1,308,047	2,164,156	131,800
Deposits and loans from others	196,129	237,177	14,444
	<u>2,058,443</u>	<u>3,349,139</u>	<u>203,967</u>
DEPOSITS AND OTHER ACCOUNTS			
Demand deposits	37,390	47,248	2,877
Other accounts, including proposed dividend	56,957	93,295	5,682
	<u>94,347</u>	<u>140,543</u>	<u>8,559</u>
DEBENTURES (Note 9)	79,464	103,885	6,327
PROVISION FOR POSSIBLE LOSSES ON LOANS (Note 10)	27,000	33,000	2,010
LIABILITIES ON ACCOUNT OF CUSTOMERS (see contra)			
Documentary credits	99,625	119,871	7,300
Guarantees	60,531	99,396	6,053
	<u>160,156</u>	<u>219,267</u>	<u>13,353</u>
	<u>2,419,410</u>	<u>3,845,834</u>	<u>234,216</u>
PERPETUAL DEPOSIT (Note 11)	148,000	184,000	11,206
SHAREHOLDERS' EQUITY			
SHARE CAPITAL PAID UP (Note 12)	220,300	224,300	13,660
RECEIPTS ON ACCOUNT OF ORDINARY SHARES ..	778	4,310	262
EARNED SURPLUS			
General reserve	60,000	85,000	5,177
Equity in undistributed profits of subsidiary companies	9,380	15,416	939
Unappropriated profit	4,674	8,953	545
	<u>74,054</u>	<u>109,369</u>	<u>6,661</u>
	<u>295,132</u>	<u>337,979</u>	<u>20,583</u>
	<u>2,862,542</u>	<u>4,367,813</u>	<u>266,005</u>

*See footnote on page 49.

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

A. Brum
Chairman

D. Calderon
Managing Director

H. Nedivi
Director

ISRAEL BANK OF AGRICULTURE LIMITED

Statements of Earned Surplus

	Year ended March 31,					
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1978</u> Translated to \$000*
	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	<u>IL.000</u>	
UNAPPROPRIATED PROFIT						
Balance at beginning of year	926	1,282	1,989	2,496	4,674	284
Net income for the year (period) applicable to participating shares	<u>11,250</u>	<u>12,637</u>	<u>12,456</u>	<u>26,874</u>	<u>42,081</u>	<u>2,563</u>
	<u>12,176</u>	<u>13,919</u>	<u>14,445</u>	<u>29,370</u>	<u>46,755</u>	<u>2,847</u>
Deductions						
Dividends on participating shares, net of reduction in tax liability (Note 13)	5,250	5,019	4,832	5,058	6,766	412
Transfer to—						
General reserve	4,800	6,000	6,000	16,000	25,000	1,522
Equity in undistributed profits of subsidiary companies	<u>844</u>	<u>911</u>	<u>1,117</u>	<u>3,638</u>	<u>6,036</u>	<u>368</u>
	<u>10,894</u>	<u>11,930</u>	<u>11,949</u>	<u>24,696</u>	<u>37,802</u>	<u>2,302</u>
Balance at end of year	<u>1,282</u>	<u>1,989</u>	<u>2,496</u>	<u>4,674</u>	<u>8,953</u>	<u>545</u>
GENERAL RESERVE						
Balance at beginning of year	27,200	32,000	38,000	44,000	60,000	3,654
Transferred from unappropriated profits	<u>4,800</u>	<u>6,000</u>	<u>6,000</u>	<u>16,000</u>	<u>25,000</u>	<u>1,523</u>
Balance at end of year	<u>32,000</u>	<u>38,000</u>	<u>44,000</u>	<u>60,000</u>	<u>85,000</u>	<u>5,177</u>
EQUITY IN UNDISTRIBUTED PROFITS OF SUBSIDIARY COMPANIES						
Balance at beginning of year	2,870	3,714	4,625	5,742	9,380	571
Equity in undistributed profit for current year	<u>844</u>	<u>911</u>	<u>1,117</u>	<u>3,638</u>	<u>6,036</u>	<u>368</u>
Balance at end of year	<u>3,714</u>	<u>4,625</u>	<u>5,742</u>	<u>9,380</u>	<u>15,416</u>	<u>939</u>
TOTAL EARNED SURPLUS	<u><u>36,996</u></u>	<u><u>44,614</u></u>	<u><u>52,238</u></u>	<u><u>74,054</u></u>	<u><u>109,369</u></u>	<u><u>6,661</u></u>

*See footnote on page 49.

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

ISRAEL BANK OF AGRICULTURE LIMITED

Statement of Changes in Financial Position

	Year ended March 31,			1978 Translated to \$000*
	1976 <u>IL.000</u>	1977 <u>IL.000</u>	1978 <u>IL.000</u>	
SOURCES OF FUNDS				
From operations				
Net earnings, per statement of income	21,071	37,850	59,857	3,645
Excess of equity in earnings of subsidiaries	(1,117)	(3,638)	(6,036)	(368)
Items not constituting current flow of funds:				
Provision for possible losses on loans	3,300	4,500	6,000	366
Depreciation	858	139	429	26
Profit from sale of shares	—	(599)	—	—
Profit from sale of equipment	(60)	—	(71)	(4)
Total from operations	<u>24,052</u>	<u>38,252</u>	<u>60,179</u>	<u>3,665</u>
Capital Funds				
Proceeds from issue of ordinary shares and receipts on account of ordinary shares	4,794	6,222	7,532	459
Proceeds from sale of assets				
Shares	—	888	—	—
Equipment	60	—	71	4
	<u>60</u>	<u>888</u>	<u>71</u>	<u>4</u>
Other Funds				
Increase in perpetual deposit	—	36,000	36,000	2,192
Increase in deposits and other accounts	539,369	697,468	1,336,892	81,419
Increase in linkage increments on debentures	11,309	22,154	35,249	2,147
	<u>550,678</u>	<u>755,622</u>	<u>1,408,141</u>	<u>85,758</u>
TOTAL SOURCES OF FUNDS	<u>579,584</u>	<u>800,984</u>	<u>1,475,923</u>	<u>89,886</u>
APPLICATION OF FUNDS				
Increase in assets				
Cash	23,485	51,274	23,172	1,412
Government bonds	6,689	13,772	22,680	1,381
Loans, net	418,084	477,566	568,590	34,628
Other accounts	87,501	187,567	646,161	39,352
Deposits with the Ministry of Finance	26,796	49,239	179,521	10,933
	<u>562,555</u>	<u>779,418</u>	<u>1,440,124</u>	<u>87,706</u>
Purchase of equipment	858	139	429	26
Redemption of debentures	2,724	5,393	10,828	659
Dividends—net	13,447	16,034	24,542	1,495
TOTAL APPLICATION OF FUNDS	<u>579,584</u>	<u>800,984</u>	<u>1,475,923</u>	<u>89,886</u>

*See footnote on page 49.

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

ISRAEL BANK OF AGRICULTURE LIMITED

Notes to Financial Statements

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES

(a) Linked accounts and accounts in foreign currency

Liabilities in foreign currency are stated at the official rates of exchange in force on March 31, 1977 and at the representative rates of exchange as published by the Bank of Israel on March 31, 1978. The rate of exchange of the Israel Pound to the U.S. Dollar was \$1=IL. 9.31 on March 31, 1977 and \$1=IL. 16.42 on March 31, 1978.

Assets (other than securities—see Note 1(b)) and liabilities linked to the consumer price index are stated on the basis of the index for February 1977 on March 31, 1977 and on the index for February 1978 on March 31, 1978.

Exchange differences and linkage increments are included in the Income Statement.

(b) Securities:

Securities are stated as follows:

- (1) Government bonds approved for investment are stated at cost with the addition of linkage increments and interest accrued.

The bonds were acquired for investment purposes and not for trading; they will be redeemed at their nominal amount with the addition of linkage increments and interest. Fluctuations in the market value of these bonds do not affect the results of operations of the Bank, as the method of accrual of linkage increments and of interest during the period in which these bonds are held ensures that their value upon redemption will be equal to their book value at that date.

- (2) The shares in subsidiary companies are stated at cost with the addition of the equity in undistributed profits since acquisition of the shares, in accordance with the last audited financial statements of these companies which were drawn up principally as at December 31, 1977. No provision was made for taxation of the Bank's share in such undistributed profits, as the subsidiaries do not usually distribute these profits in cash and the Bank has no intention of selling the shares.

(c) Bank Premises and Equipment

These assets are written off in the year of acquisition.

(d) Severance Pay and Provident Fund

The Bank's liability for severance pay to its employees is fully covered by its deposits with a provident fund in favour of the employees. The Bank contributes monthly 8.33% of the current monthly salaries to this Fund and the fund belongs to the employees.

In addition, the Bank and the employees contribute in equal parts approximately 10% of current salaries to provide a retirement fund for the Bank employees. Profits on the deposits in these funds accrue to the benefit of the Bank's employees.

(e) Accounting principles generally accepted in the United States

The Bank's accounting principles are those generally accepted in the United States except for the immediate write-off of Bank Premises and Equipment (see note 1(c) above) and for the presentation of Provision for possible losses on loans—see Note 10.

Had generally accepted accounting principles in the United States been followed, the effect on the financial statements (other than those detailed in Note (C) to the Statement of Income) would have been as follows:

(A) The balance of unappropriated profit would have been increased as follows:

	<u>IL.</u>
As at March 31, 1976	1,694,347
1977	1,642,229
1978	1,837,079

(B) Net additions to Bank Premises and Equipment

As at March 31, 1976	1,694,347
1977	1,642,229
1978	1,837,079

NOTE 2—GOVERNMENT BONDS

	<u>March 31,</u> <u>1977</u> <u>IL.000</u>	<u>March 31,</u> <u>1978</u> <u>IL.000</u>
Bonds approved for investment:		
Unquoted, non-transferable	46,808	65,699
Quoted (*)	<u>9,171</u>	<u>12,960</u>
Total (**)	<u>55,979</u>	<u>78,659</u>
(*) Market value of quoted bonds	<u>9,685</u>	<u>13,497</u>
(**) Including linkage increments and interest accrued in the amount of	<u>37,038</u>	<u>59,771</u>

The following table shows the relative maturities and yields of Government Bonds:

	<u>March 31,</u> <u>1977</u> <u>IL.000</u>	<u>March 31,</u> <u>1978</u> <u>IL.000</u>
Maturing within one year	2,824	6,088
Maturing after one year but within five years	8,482	8,990
Maturing after five years but within ten years	12,109	15,944
Maturing after ten years	<u>32,564</u>	<u>47,637</u>
	<u>55,979</u>	<u>78,659</u>
Weighted Average Yield (Tax exempted) —See Note 14	3% -6% interest plus linkage increments	3% -6% interest plus linkage increments

NOTE 3—SUBSIDIARY COMPANIES

- (a) The Bank's share in the share capital and voting rights of subsidiary companies as at March 31, 1977 and 1978 was as follows:

Mortgage and Investment Bank of Moshavim Ltd.	50%
Palestine Agricultural Settlement Association Ltd.	50%
Agricultural Investment Company Ltd.*	100%

*Consolidated financial statements of the Bank and of the wholly owned Subsidiary Company have not been prepared because such statements would not differ materially from the financial statements of the Bank.

- (b) The following are details of accounts of subsidiaries included in the balance sheet:

	<u>March 31,</u> <u>1977</u> <u>IL.000</u>	<u>March 31,</u> <u>1978</u> <u>IL.000</u>
Assets		
Loans and other accounts	54,213	84,390
Guarantees	5,389	5,270
Liabilities		
Demand deposits	1,256	2,795

- (c) During the year ended March 31, 1977 and 1978 the Bank received from subsidiaries payments for services
- | | | |
|--|----|-----|
| | 51 | 116 |
|--|----|-----|

NOTE 4—LOANS AND OTHER ACCOUNTS

- (a) The loans include IL. 1,746,607,000 at March 31, 1977 and IL. 2,096,740,000 at March 31, 1978 granted out of deposits for the granting of loans.
- (b) The Ministry of Finance has undertaken under various arrangements, including linking insurance, to compensate the Bank for linkage increments and exchange differences which accrue on part of the Bank's liabilities and on part of the loans. The resulting liability of the Ministry of Finance, amounting to IL. 382,223,000 at March 31, 1977 and IL. 1,007,000 at March 31, 1978, is included in "Other Accounts."

NOTE 5—LOANS TO THE GOVERNMENT OF THE STATE OF ISRAEL—Deposits with the Ministry of Finance

The deposits include IL. 84,694,000 at March 31, 1977 and IL. 248,776,000 at March 31, 1978 granted out of deposits for the granting of loans.

NOTE 6—BANK PREMISES AND EQUIPMENT

The cost of premises and equipment is IL. 2,827,700 at March 31, 1977 and IL. 3,217,852 at March 31, 1978 (including IL. 212,571 cost of land).

As stated in Note 1(c) above, the cost of premises and equipment has been written off and appears in the books in a nominal amount of IL. 1. Accumulated depreciation allowed for income tax purposes

is IL. 1,185,471 at March 31, 1977 and IL. 1,380,773 at March 31, 1978. See Note "C" to the Statement of Income.

NOTE 7—DEPOSITS FROM THE GOVERNMENT OF THE STATE OF ISRAEL

<u>March 31,</u> <u>1977</u>	<u>March 31,</u> <u>1978</u>
<u>IL.000</u>	<u>IL.000</u>
<u>554,267</u>	<u>947,806</u>

The Government has the right to instruct the Bank to transfer at any time to its account outstanding balances of loans granted out of its deposits up to the balance of its abovementioned deposits.

The Government has the right to set off any sums due to it against amounts due to the Bank.

NOTE 8—COLLATERAL SECURITY

- (a) The Bank has registered a floating charge on its assets to secure loans from the World Bank in the amount of \$55 million. The balance of these loans at March 31, 1977 is IL. 511,947,000, and at March 31, 1978 IL 990,132,000.
- (b) As to debentures—See Note 9.
- (c) As to loans from the Bank of Israel of IL. 85,296,000 at March 31, 1977 and IL. 141,248,000 at March 31, 1978, the Bank delivered promissory notes of customers in accordance with terms fixed by the Bank of Israel.

NOTE 9—DEBENTURES

Debentures issued by the Bank are linked to the consumer price index and are secured by floating charges on the assets of the Bank. With respect to original issue amounts, these amounts have no significance in this case because all the debentures issued were linked to the cost of living index and the rate of inflation in Israel is such that current balances are considerably higher than original amounts. The debentures bear interest—at 5½% -6%.

The debentures are repayable over the following periods:

	<u>Year ending March 31,</u>	
	<u>1977</u>	<u>1978</u>
	<u>IL.000</u>	<u>IL.000</u>
1978	9,671	14,100
1979	8,747	12,863
1980	8,747	8,967
1981	6,097	8,967
1982	6,097	8,967
1983-1988	40,105	50,021
	<u>79,464</u>	<u>103,885</u>

NOTE 10—PROVISION FOR POSSIBLE LOSSES ON LOANS*

Analysis of the provision—

Year ended March 31,	Balance	Additions	Deductions	Balance at
	at begin- ning of year	Charged to expenses	loans written off	end of year
	IL.000	IL.000	IL.000	IL.000
1974	14,870	1,931	1	16,800
1975	16,800	2,400	None	19,200
1976	19,200	3,300	None	22,500
1977	22,500	4,500	None	27,000
1978	27,000	6,000	None	33,000

See Note (B) to the Statement of Income.

*Had generally accepted accounting principles in the United States been followed the provision would have been deducted from loans receivable on the Balance Sheet instead of appearing as a separate item on the liabilities side of the Balance Sheet.

NOTE 11—PERPETUAL DEPOSIT

This deposit from the Finance Ministry of the State of Israel is not linked and bears interest of 10% p.a. on the amount of IL. 148 million and of 12% p.a. on the amount of IL. 36 million. The deposit is perpetual and will be redeemed only upon the winding up of the Bank except in the event that the Bank ceases to be a Government Company within the meaning of the Government Companies Law, 1975. In this event the deposit will be returned within three years and the interest rate thereon will be changed as stated in the agreement with the Ministry of Finance.

NOTE 12—SHARE CAPITAL

(a) Details of Share Capital:

	Authorized IL.000	March 31, 1977	March 31, 1978
		Issued and Paid	
	IL.000	IL.000	IL.000
Ordinary Shares of IL.1	134,700	100,000	104,000
8% Cumulative and Participating Preference "A" Shares of IL.10*	7,500	7,500	7,500
8% Cumulative and Participating Preference "B" Shares of IL.10	7,500	7,500	7,500
4% Cumulative Preference Shares of IL.1	300	300	300
7½% Cumulative Redeemable Preference "C" Shares of IL.420 linked to the U.S. Dollar*	105,000	105,000	105,000
	<u>255,000</u>	<u>220,300</u>	<u>224,300</u>

*Quoted on the Tel-Aviv Stock Exchange.

(b) 250,000 7½% Cumulative Redeemable Preference "C" Shares linked to the U.S. Dollar were issued at the rate of \$1=IL. 4.20. Due to increase in the rate of exchange of the Israel Pound, to \$1=IL. 9.31 on March 31, 1977 and to \$1=IL. 16.42 on March 31, 1978, the nominal amount which

will become due on date of redemption increased by IL. 127,750,000 on March 31, 1977 and by IL. 305,500,000 on March 31, 1978 (not including the addition of a premium of $5\frac{1}{8}\%$ over par value).

The Ministry of Finance of the State of Israel has undertaken to cover any additional obligation that has arisen, or may arise, regarding the rights attached to the abovementioned shares as a result of changes in the rate of exchange of the Israel Pound. The shares are redeemable at a premium of $5\frac{1}{8}\%$ over par value with the addition of accumulated dividends at $7\frac{1}{2}\%$ per annum to the date of redemption. Redemption dates will be set by the Bank subject to the approval of the Ministry of Finance of the State of Israel, but not prior to 1983. The bank is not obligated, however, to redeem the shares at any time.

(c) Since April 1, 1976 the issued and paid-up share capital increased as follows:

	<u>IL.000</u>
Balance on April 1, 1976	214,800
Sale of Ordinary Shares	5,500
Balance on March 31, 1977	<u>220,300</u>
Sale of Ordinary Shares	4,000
Balance on March 31, 1978	<u>224,300</u> =====

NOTE 13—DIVIDENDS

	Year ended March 31,									
	1974		1975		1976		1977**		1978**	
	%	IL.000	%	IL.000	%	IL.000	%	IL.000	%	IL.000
Non-participating shares—										
4% cumulative preference shares.....	4	12	4	12	4	12	4	12	4	12
7½% cumulative redeemable preference "C" shares	7½	<u>5,705</u>	7½	<u>10,403</u>	7½	<u>13,242</u>	7½	<u>16,874</u>	7½	<u>27,335</u>
		5,717		10,415		13,254		16,886		27,347
Less: reduction in tax liability (see Note "D" to the statements of income)		<u>1,429</u>		<u>3,124</u>		<u>4,639</u>		<u>5,910</u>		<u>9,571</u>
Net dividends on non-participating shares		<u><u>4,288</u></u>		<u><u>7,291</u></u>		<u><u>8,615</u></u>		<u><u>10,976</u></u>		<u><u>17,776</u></u>
Participating shares—										
8% cumulative and participating preference "A" shares	13	975	13	975	13	975	13	975	15	1,125
8% cumulative and participating preference "B" shares	13	975	13	975	13	975	13	975	15	1,125
Ordinary Shares*	6	<u>5,050</u>	6	<u>5,220</u>	6	<u>5,484</u>	6	<u>5,832</u>	8	<u>8,160</u>
		7,000		7,170		7,434		7,782		10,410
Less: reduction in tax liability (see Note "D" to the statements of income)		<u>1,750</u>		<u>2,151</u>		<u>2,602</u>		<u>2,724</u>		<u>3,644</u>
Net dividends on participating shares		<u><u>5,250</u></u>		<u><u>5,019</u></u>		<u><u>4,832</u></u>		<u><u>5,058</u></u>		<u><u>6,766</u></u>

*Pro rata temporis

**In the Prospectus issued by the Bank in 1964, the directors stated as their intention to distribute not less than 60% of the annual profits by way of dividends. The dividends respecting the years ended March 31, 1978 and March 31, 1977 were less than the aforesated.

Note 14—The income tax authorities issued final income tax assessments to the Bank for the period up to March 31, 1972. With respect to the period from April 1, 1972 to March 31, 1975 assessments were issued in which tax was charged on specific items. The bank has appealed these assessments. It is not possible at this stage to evaluate the ultimate results of this appeal. Provision has been made in the books of the bank to cover the amounts of tax in dispute.

Note 15—**Linked Assets and Liabilities**
Assets (except Government bonds) and Liabilities which are linked and those in foreign currency are as follows:

	March 31, 1977		March 31, 1978			
	In Foreign Currency IL.000	Linked to the Consumer Price Index IL.000	Total IL.000	In Foreign Currency IL.000	Linked to the Consumer Price Index IL.000	Total IL.000
Assets						
Deposits with the Ministry of Finance	—	118,951	118,951	—	153,872	9,371
Loans receivable	—	41,921	41,921	—	89,697	5,463
	—	160,872	160,872	—	243,569	14,834
Liabilities						
Debentures	—	78,539	78,539	—	102,648	6,251
Deposits and loans from banking institutions and others	511,947	376,567	888,514	990,132	562,674	34,268
	511,947	455,106	967,053	990,132	665,322	40,519
Less:						
liabilities insured with the Ministry of Finance against loss on account of accrued linkage differences—Note 4(b)	511,947	320,944	832,891	990,132	453,083	27,593
	—	134,162	134,162	—	212,239	12,926
Excess of linked assets over linked liabilities	—	26,710	26,710	—	31,330	1,908

NOTE 16—STATEMENT PURSUANT TO SECTION 107 (5) OF THE ISRAEL COMPANIES ORDINANCE

Profits of the Subsidiary Companies have been included in the accounts of the Bank.

SIGNATURES OF THE BANK AND ITS DIRECTORS

ISRAEL BANK OF AGRICULTURE LIMITED

ABRAHAM BRUM

ABRAHAM KNAANI

NURI BAR-HAVA

DOV MIRON

MICHAEL CAHANA

HAIM NEDIVI

DAVID CALDERON

YAIR E. ORGLER

AVINOAM FINKELMAN

ARIEH PATAKI

BENJAMIN FEUCHTWANGER

HANOCH PRISSMAN

MENAHM FREEMAN

MOSHE SALAMON

JACOB GADISH

ASHER ZALEL

ISACK GROSS

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