

PROSPECTUS

ISRAEL BANK OF AGRICULTURE LTD.

(A Limited Company Registered in Israel)

**150,000 7 1/2% CUMULATIVE REDEEMABLE PREFERENCE "C" SHARES
LINKED TO THE DOLLAR**

Par Value IL. 420 per Share

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

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.

ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

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

- (1) The Shares are being offered only to non-residents of the State of Israel by Capital for Israel, Inc. (the "Underwriter") on a best efforts basis. It is anticipated that the offering will continue for a period of two years, subject to the requirement, under Israel law, for the filing of a new Prospectus (see "Additional Information Required Under Israel Law"). Regardless of the number of Shares sold by the Underwriter, no funds will be returned if all of the Shares are not sold. As at May 31, 1972, 6,936 Shares had been sold.
- (2) The Underwriter will receive commissions of 7 1/2%, and the Bank has agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933 as amended.
- (3) Before deduction of certain expenses, estimated at approximately \$100,000 payable by the Bank, in connection with the issuance and sale of the Shares.

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

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

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

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

All permits, approvals and licenses required under Israel Law for the offer and the issuance of the shares offered hereby and for the publication of the Prospectus have been granted. A copy of this Prospectus has been filed for registration with the Registrar of Companies in Israel.

CAPITAL FOR ISRAEL, INC.

The date of this Prospectus is June 29, 1972

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

TABLE OF CONTENTS

	<u>PAGE</u>		<u>PAGE</u>
Registration Statement	2	Management and Control	22
The Bank	3	Convertibility of Currency and Israel Taxes.	24
Important Factors to be Considered	3	Conditions in Israel	25
Terms of Offering	4	Underwriting	27
Application of Proceeds	5	Legal Opinions	27
Capitalization	6	Experts	27
Statements of Income	8	Report of Independent Accountants	29
Business of the Bank	11	Financial Statements	30
Outstanding Securities of the Bank	17	Additional Information Required Under Israel Law	40

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

REGISTRATION STATEMENT

The Israel Bank of Agriculture Ltd. has filed with the Securities and Exchange Commission, Washington, D. C., a registration statement (herein together with all amendments thereto called the "Registration Statement") under the Securities Act of 1933, as amended, with respect to 150,000 7½% Cumulative Redeemable Linked Preference "C" Shares being offered to the public. This Prospectus omits certain information contained in the Registration Statement. For further information, reference is made to the Registration Statement and to the exhibits thereof.

THE BANK

The Bank was incorporated under the laws of the State of Israel as a company with limited liability, under the name "Israel Bank of Agriculture Ltd.", on April 24, 1951, for the purposes of financing agricultural enterprises in Israel. On April 26, 1951 the Bank was granted permission to commence business. The Bank was organized by the Government of Israel, which supplied the original capital. The Bank's offices, which it owns, are located at 83 Hashmonaim Street, Tel-Aviv, Israel and its telephone number is Tel-Aviv 262141.

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

IMPORTANT FACTORS TO BE CONSIDERED

Summary of Program for Development of Israel Agriculture

Israel's agriculture has been the product of a planned transformation of land. Since 1948 there has been extensive development of irrigation and reclamation of swamp lands, sand dunes and hilly areas, with the result that Israel now provides about 78% of its food needs. Israel has developed an agricultural program designed to achieve certain specific objectives within the years 1972 through 1976. These objectives include increasing land under cultivation, increasing gross production and the export value of agricultural products and investments in agriculture. Funds for the implementation of this program come from the Israel Government budget, a loan granted by the World Bank (see "Business of the Bank—World Bank Loan") and from private financing, such as the funds being raised as a result of this offering. There is no assurance that all of the goals established by the development program will be accomplished.

Relationship of the Bank to the Israel Government

The Government of Israel, which supplied substantially all of the original capital of the Bank, is the owner of approximately 93% of the outstanding voting shares of the Bank. As such, the Government has the power to elect all of the directors of the Bank. The Bank's policies are based upon the general policies of the Ministry of Agriculture, in accordance with the above stated program for the development of Israel agriculture. These policies are coordinated with the Ministry of Agriculture through a joint committee for the granting of loans (see "Business of the Bank—Nature of Loans"). Since the Bank is the prime allocator of funds in accordance with the Government development program, the Government of Israel has granted certain guarantees to the Bank. These guarantees include

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

Enforcement of Liabilities

All of the directors and officers of the Bank and certain of the experts named herein are residents of Israel. It may be difficult for investors to effect service within the United States on such directors or officers or experts, or to realize against them in the United States on judgments of courts of the United States predicated upon civil liability under the Securities Act of 1933 or the Securities Exchange Act of 1934. The Bank has been advised by its Israel Counsel that there is doubt as to the enforceability in Israel, in original actions, of remedies predicated solely upon such Acts, but that the courts of Israel have jurisdiction to enforce valid final judgments whereby any sum of money is made payable, if rendered by courts of competent jurisdiction in the United States and provided that such judgments are not contrary to Israel law or public policy, and provided further that the courts of the United States would enforce similar Israeli judgments. Under the provisions of the recently enacted Securities Law of Israel, any person signing a prospectus and any expert giving an opinion or report therein, may be liable thereunder, subject to certain limitations, for any misleading statement in the prospectus, or in the opinion or report, as the case may be, to a person who acquires securities from the offeror under the prospectus.

Development of Trading Market

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

Economic Conditions in Israel

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

TERMS OF OFFERING

The Shares being offered hereby are being offered only to non-residents of the State of Israel, at a price of \$100.00 per share. The purchase price is payable either in United States dollars or in State of Israel bonds (Development Issue, Second, Third and Fourth Development Issue, Development Investment Issue or Second or Third Development Investment Issue), provided, in the case of the Development Issues, such bonds are at least five years old. The value of the Bonds so tendered shall be their nominal values together with interest on coupon bonds and appreciation on savings bonds credited through the last day of the month preceding the month in which the bonds are delivered to the Underwriter. In the case of coupon bonds, the bonds must have attached thereto all interest coupons which mature after the date of delivery of the bonds to the Underwriter.

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

The Bank has been advised by its counsel, Goldstein, Shames & Hyde, that persons who pay for the Shares with State of Israel Bonds will be subject to income tax in the United States on the excess, if any, of the amount at which such bonds are accepted as payment for the Shares over the amount paid for the Bonds.

Arrangements have been made for the re-purchase at par, in United States currency, of Shares offered by the estate of the original holder thereof, if an individual, or from the estate of the last survivor, in the event of more than one individual owner, at any time up to five years from the date of this Prospectus, but no such repurchase shall be made more than two years from the date of death.

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

In September, 1964, a law was passed in the United States providing for a tax payable by persons resident in the United States and acquiring securities of foreign issuers (Interest Equalization Tax). Under the provisions of the law, the acquisition of securities of "less developed country corporations" are exempt from the tax. The Bank has received an exemption from the Interest Equalization Tax on the basis that the Bank qualifies as a "less developed country corporation" under the terms of the law and the present regulations of the Treasury Department relating thereto.

APPLICATION OF PROCEEDS

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

CAPITALIZATION

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

TITLE OF CLASS	Authorized (Shares)	Outstanding or to be Outstanding as of March 31, 1972 (Shares)	Outstanding if all securities being Registered are Sold (Shares)
A. SHARE CAPITAL			
Ordinary Shares, par value IL.1	104,700,000	79,550,926	79,550,926
8% Cumulative and Participating Preference "A" Shares, par value IL.10	750,000	750,000	750,000
8% Cumulative and Participating Preference "B" Shares, par value IL.10	750,000	750,000	750,000
4% Cumulative Preference Shares, par value IL.1 ..	300,000	300,000	300,000
7½% Cumulative Redeemable Linked Preference "C" Shares, par value IL.420	150,000	—	150,000
Receipts on account of Ordinary Shares—IL. 1,889,260 as of March 31, 1972			

B. DEBENTURES

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

C. LOAN

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

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

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

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

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

* Includes linking differences received or paid, respectively.

** Includes linking differences accrued—see Note D.

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

ISRAEL BANK OF AGRICULTURE LTD.

NOTES TO THE STATEMENTS OF INCOME

For the five years ended March 31, 1972

NOTE A—INTEREST ON LOANS

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

Interest includes the following amounts on loans granted to subsidiaries:

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

NOTE B—PROVISION FOR POSSIBLE LOSSES ON LOANS

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

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

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

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

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

ISRAEL BANK OF AGRICULTURE LTD.

NOTES TO THE STATEMENTS OF INCOME (Continued)

For the five years ended March 31, 1972

NOTE C—DEPRECIATION OF BANK PREMISES AND EQUIPMENT

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

NOTE D—ADJUSTMENT OF THE STATEMENTS OF INCOME

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

NOTE E—EARNINGS PER SHARE

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

NOTE F—RATIO OF EARNINGS TO FIXED CHARGES

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

BUSINESS OF THE BANK

Nature of Loans

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

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

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

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

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

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

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

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

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

* Reflects consolidation of loans per borrower.

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

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

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

Linking of Loans

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

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

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

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

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

World Bank Loan

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

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

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 purposes of loans to be granted are: (i) to finance investments in the construction of hot houses for the growing of flowers; (including the installation of heating, ventilation and irrigation systems); (ii) to increase the area of fruit plantations, (iii) to provide export handling facilities for farmers; and (iv) to institute a water development program. These projects are expected to be completed by December 31, 1973 and provide for a total investment of IL. 205,000,000. Approximately 80% of the funds necessary to supplement the Program will be given as loans to the cooperative settlements and individual farmers and approximately 20% of the funds necessary must be financed from private resources.

Each loan will be financed as follows: 50% of every loan will be financed from moneys loaned to the Bank under the Loan Agreement; 25% will be financed from moneys deposited by the Government of Israel with the financial institutions making the loan; and the remainder by the financial institution making the loan.

Where loans are to be made by YAAD and NIR, they will be entitled to receive from the Bank 50% of each loan so made, the 50% being their share in the World Bank loan made to the Bank. They will pay to the Bank on money so received $7\frac{1}{4}\%$ interest, with an addition of $\frac{1}{8}\%$ per annum on the outstanding balance of sums received.

Government moneys, which will be deposited for the purpose of making loans to borrowers, will carry interest at the rate of 7% per annum. Loans made within the Program to borrowers will be made at an interest of 9% per annum, with no linkage provisions.

Since the World Bank loan will be repayable in foreign currency, and since loans granted from World Bank funds are made to borrowers with no linkage provisions to foreign currency, the Ministry of Finance has agreed to compensate the Bank for any losses arising from a change in the parity between the Israel Pound and the foreign currency in which the loan to the World Bank is repayable, both as to principal and as to interest.

Other Activities of the Bank

In addition to the activities described above, the Bank has made investments in outstanding Government loans and has made investments in subsidiaries.

Deposits with Government

The Bank maintains deposits with the Ministry of Finance as its share in the financing in the Government Agricultural Development Budget. The funds so deposited are funds received by the Bank mainly from other depositors. Equivalent funds are then received by the Bank from the Government of Israel for use by the Bank in its ordinary operations. The Government has agreed to repay all deposits so made in varying amounts through 1988. As of March 31, 1972 these deposits aggregated IL.36,438,600.

The Bank also maintains deposits with the Ministry of Finance of funds arising from the proceeds of the sale of Debentures Series 4 through 9, which deposits are maintained by the Ministry of Finance on the same terms as those contained in the Debenture Series. The Ministry of Finance then deposits equivalent

funds in the Bank for use by the Bank for its ordinary operations. These deposits were made with the Government to protect the Bank against the linking provisions contained in said Debentures. As at March 31, 1972, IL.22,379,608 were so deposited with the Ministry of Finance.

In order to protect the Bank's obligations for linkage under its Debenture Series 1 through 3 and 10, which funds were not deposited with the Ministry of Finance, the Government of Israel has undertaken to indemnify the Bank for any obligations under the linkage provisions of said Series.

Government Advances to Bank

In addition to its participation in the capital of the Bank, the Government has advanced to the Bank moneys from its Agriculture Development Budget or from other sources, by way of deposits. The said deposits are deposited with the Bank within the framework of a general Agreement which was made between the Bank and the Ministry of Finance in 1951 and which was amended, subsequently, in 1955 and 1970, sometimes under special agreements. The deposits are being repaid to the Government at pre-agreed rates and dates, and in accordance with the purposes of the loans made thereunder.

As of March 31, 1972, the said deposits totalled IL.282,521,029. Out of the said deposits, the sum of IL.215,349,359 is repayable by the Bank in the following terms:

<u>Period</u>	<u>Percent of Deposits Repayable</u>
Up to 5 years from March 31, 1972	25.4%
6 to 10 years from March 31, 1972	31.1%
11 to 15 years from March 31, 1972	24.7%
Over 15 years from March 31, 1972	18.8%

The Bank will have to repay the residue of the Government deposits, totalling IL.67,171,670 as of March 31, 1972, simultaneously with the collection of loans to sub-borrowers made from the said deposits. In accordance with the said agreements, the Government has the right to instruct the Bank to transfer rights which arise from the said sub-loan agreements to the Government or to the Government's order, and the compliance of the Bank with the said instructions is deemed to be repayment of the deposits to the same extent.

The Government has the right to set-off any sums due it or to become due for any reasons whatsoever against amounts due the Bank from the Government.

Deposits of other depositors in the Bank, as of March 31, 1972, amount to IL.115,316,958.

The analysis of deposits, in accordance with the type of depositor, is as follows:

	<u>IL.</u>
Banks	83,725,305
Monetary Institutions and Others	11,973,808
Funds and Organizations	10,634,342
Clients and Others	8,983,503

Subsidiaries of Bank

AGRICULTURAL INVESTMENT COMPANY LIMITED

In 1952 the Bank organized a wholly-owned subsidiary, Agricultural Investment Company 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 ordinary 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 as of the date of this Prospectus, is IL.399,997 and the Bank has received 799,997 Bonus Shares by way of capitalization of current profits.

During the years ended March 31, 1971 and 1972 the Bank collected from the Investment Company interest in an amount of IL.38,082 and IL.151,586 respectively.

For the year ended March 31, 1972 the Investment Company showed a profit before taxes of IL.348,005, an after tax profit of IL.182,855 and for the year ended March 31, 1971, a profit before taxes of IL.307,808 and after taxes of IL.174,138. As at March 31, 1972 the Investment Company owed the Bank IL.851,328, including linkage increments, of which IL.441,838 is linked to the Dollar, carries interest at the rate of 6% per annum, and is repayable in varying amounts through 1978. The balance of the debt consists of an overdraft from the Bank which carries interest at the rate of 13% per annum.

PALESTINE AGRICULTURAL SETTLEMENT ASSOCIATION LIMITED

The Bank owns 50% of the outstanding capital stock of The Palestine Agricultural Settlement Association Limited ("PASA"). PASA is engaged in the business of financing investments in public projects in agricultural settlements. The registered share capital of PASA is IL. 7,000,000, divided into 100 Founder Shares of IL.1 each and 6,999,900 Ordinary Shares of IL.1 each. The issued share capital of PASA as of the date of this Prospectus is 100 Founder Shares and 6,611,372 Ordinary Shares, and the paid-up share capital is 100 Founder Shares and 5,509,510 Ordinary Shares.

Through March 31, 1972 the Bank had paid IL.2,203,824 for the Ordinary Shares of PASA and was obligated to pay an additional IL.1,101,862 which was paid on April 30, 1972. As at March 31, 1972 PASA owed the Bank IL.6,047,857 which bears interest at the rate of 9%-13% per annum and is repayable through 1996. During the years ended March 31, 1971 and 1972, the Bank collected from PASA interest in the amount of IL.83,039 and IL.386,043 respectively. For the year ended December 31, 1970, PASA showed a profit before taxes of IL.438,847 an after tax profit of IL.379,698 and for the year ended December 31, 1971 PASA showed a profit before taxes of IL.892,844 and after taxes of IL.363,078.

MORTGAGE AND INVESTMENT BANK OF MOSHAVIM LTD.

The Bank owns 50% of the outstanding capital stock of the Mortgage & Investment Bank of Moshavim Ltd. ("Bank HaMoshavim"). The share capital of Bank HaMoshavim is 1,100,000 Shares of IL.1 each. Bank HaMoshavim was organized in 1962 for financing housing projects of individual settlers in agricultural cooperative settlements (Moshavim), as well as in public projects in such settlements. As at March 31, 1972, Bank HaMoshavim owed the Bank IL.80,000 bearing interest at the rate of 9% per annum, repayable until November 15, 1973. For the year ended December 31, 1970 Bank HaMoshavim showed a profit before taxes of IL.125,808 and after taxes of IL.58,808, and for the year ended December 31, 1971, a profit before taxes of IL.124,516 and after taxes of IL.60,516.

During the years ended March 31, 1971 and 1972, the Bank collected from Bank HaMoshavim interest in an amount of IL.27,012 and IL.24,621 respectively.

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 $\frac{1}{2}$ acre of land.

OUTSTANDING SECURITIES OF THE BANK

The Shares

Linking Terms

If on the day on which any amount becomes due for payment to the holders of the Shares, whether on account of dividend or on account of capital in the event of winding up or redemption (hereinafter referred to as "the Determining Day"), the price of the Dollar shall exceed IL. 4.20; the Bank will pay, for every IL. 4.20 of such payment on account of capital or dividend, an amount in Israel Pounds which will be equivalent to One Dollar on the Determining Day. Should the price of the Dollar on the Determining Day be less than IL. 4.20 the Bank will make such payment on account of capital or dividend at its nominal amount.

If, during the period of the offering of the Shares, there should be a change in the parity of the U.S. Dollar to the Israel Pound, the Bank will receive IL. 4.20 for each U.S. Dollar received upon sale of the Shares, with the balance, if any, paid to the Government of Israel, in consideration of the Government's obligation relating to the linking provisions (see "Business of the Bank—Linking of Loans").

The expression "the price of the Dollar" means—in respect of the period during which there exist legal restrictions on the free use of Dollars in Israel—the highest amount in Israel currency which an Israeli resident would be required to pay on the Determining Day for the purchase of a Dollar from a dealer authorized by law to deal in Dollars in Israel, less such bankers' commission as would then be customarily charged by such authorized dealer for such transaction; and in respect of the period during which there will not be any legal restrictions on the free use of Dollars in Israel—the highest purchase rate of the Dollar which exists on the Determining Day at the Bank of Israel for telegraphic bank drafts on New York; the expression "Dollar" means a Dollar of the United States of America; the expression "the day on which any amount becomes due for payment"—when used in relation to dividend or to arrears of dividend—means the day of payment fixed in the declaration of dividend or of arrears of dividend, and when used in relation to arrears of dividend or repayment of capital on winding up of the Bank or redemption of Shares, means—the day of the commencement of the winding up or the day of redemption, as the case may be.

Dividends

The Shares entitle the holders thereof to fixed cumulative preferential dividends at the rate of $7\frac{1}{2}\%$ per annum (together with any additional payments necessitated by the Dollar linking payable in cash, before payment of dividends on the 4% Cumulative Preference Shares and the Ordinary Shares of the

Bank). All dividends are computed on paid up capital and will be paid semi-annually. For purposes of dividends, all Shares sold and paid for during any quarter will be deemed to have been paid for on the first day of such quarter, and dividends will accrue from such date.

The cumulative dividends for the Shares will be paid out of the profits of the Bank (including profits available for distribution as dividends from previous years and earned surplus). As to the additional payments to be made because of the linking provisions of the Shares, they will be made out of moneys which the Bank will receive from the Government of Israel pursuant to an undertaking by the Government made to the Bank, to pay the Bank any linkage increments which would become due on the Shares due to a change in the parity of the Israel Pound to the U.S. Dollar with respect either to dividend, redemption, or winding up. This understanding relates to the extent of the fall of the Israel Pound below IL. 4.20 in relation to the U.S. Dollar. However, the Government undertaking provides that should there occur a change in the present parity of the Israel Pound to the U.S. Dollar and the Bank continues to sell the Shares against foreign currency or State of Israel Bonds and receives amounts in excess of the nominal value of the Shares, the Bank will pay such amounts to the Government on all Shares so sold (see "Business of the Bank—Linking of Loans").

If there are sufficient profits including accumulated profits, from prior years, the Bank will pay the above-mentioned dividend of $7\frac{1}{2}\%$. The Articles of Association of the Bank require the Directors to submit to every Annual General Meeting of Stockholders of the Bank a Certified Profit and Loss Statement. Mr. E. Likhovski, Special Counsel to the Bank, has opined that it is permissible under Israel law to issue shares which carry the right to mandatory annual dividends to be declared from profits, as described above. If such statement indicates sufficient profits, the Board of Directors is required to recommend to the meeting, and the meeting is required to declare arrears in dividends up to the date of the declaration of dividends on the 8% preference shares and the Shares. The payment of dividends on other classes of shares of the Bank is in the discretion of the Directors as to recommendation and of the General Meeting as to declaration. The Shares have no rights of participation in profits beyond the abovementioned $7\frac{1}{2}\%$ dividend.

The Shares rank, for the purpose of payment of Preferred dividends (less linking increments), *pari passu*, with the 8% Cumulative Participating Preference Shares of both classes, which are entitled to an 8% fixed, cumulative preferred dividend. (As to other rights of dividends and bonus shares attached to the classes of shares in the capital of the Bank, see "Additional Information Required Under Israel Law".)

Interim Dividends—The Articles of Association provide that if the state of business permits, the Directors shall declare interim dividends on the three classes of Preference Shares once in six months on account of future dividends at a rate of half the fixed dividends thereon.

Voting Rights

The Shares have no voting rights. The holders of all classes of outstanding shares, other than the Shares, have the exclusive right to vote on all matters and to appoint Directors. (See "Management and Control" herein.)

Redemption

The Shares are redeemable at the option of the Bank at $105\frac{1}{8}\%$ of the par value, plus accrued dividends accrued at the rate of $7\frac{1}{2}\%$ per annum to the date of redemption, both linked to the Dollar as aforesaid. Of the amount over the linked par value, 35% will be deducted at source for Israel tax purposes.

No redemptions may be made by the Bank prior to 1982 and all redemptions made thereafter must be made with the consent of the Ministry of Finance of the Government of Israel. The Bank is not obligated, however, to redeem the Shares at any time.

No dividend shall accumulate after the date fixed for redemption with respect to the Shares to be redeemed, unless the Bank shall refuse to redeem the Shares after the Shares have been delivered for redemption.

The permission of the Controller of Foreign Exchange relating to the issue of the Shares is subject inter alia, to the condition that the Shares shall not be redeemable prior to 1982, and then only with the consent of the Ministry of Finance. The resolution of the Bank which created the Shares authorizes the Bank, with the consent of the Controller, at any time to acquire the Shares in the open market out of accumulated profits of the Bank, or the proceeds of a new issue, at a price not in excess of the redemption price which would have applied on the date of such acquisition by the Bank. All shares so acquired shall be considered as Shares duly redeemed.

When redemption is effected otherwise than by purchase in the open market, the date of redemption and the number of the Shares to be redeemed from time to time shall be fixed by the Board of Directors. The Shares shall be redeemed after giving notice in writing of not less than 90 days to the holders of the Shares which the Bank is about to redeem. In the event that the Bank determines to redeem only part of the Shares for the time being outstanding, the Shares to be so redeemed will be ascertained by a drawing to be held at the registered office of the Bank or at such other place as the Board of Directors shall determine, such drawing to be held in the presence of a representative of the Auditors of the Bank and subject to the conditions fixed by the Board of Directors with the approval of the Auditors of the Bank.

Under Israeli Law, redeemable preference shares may be redeemed only out of the profits of the Bank which would otherwise be available for dividends or out of the proceeds of a new issue of shares made for the purpose of such redemption.

The only redeemable Preference shares of the Bank are the Shares.

Issue of Further Shares

Subject to rights of existing classes of shares (see "Change in Rights"), the Bank may create other classes of shares with any rights which a general meeting of the Bank, by special resolution (75% majority), will determine. However, the Articles of Association provide that the Bank shall not create or issue any additional shares which will entitle the holders thereof, in connection with receipt of dividends or repayment of capital on liquidation, to rank in priority to the 8% Cumulative and Participating Preference shares of both classes, or to rank in priority in connection with receipt of dividends, on repayment of capital on liquidation, before the Shares. But it shall be permissible to issue shares which rank pari passu with both classes of 8% Cumulative and Participating Preference shares and the Shares.

Liquidation Rights

In the event of a winding up of the Bank, the holders of the Shares will be entitled to the following rights and benefits in the assets available for distribution:

- (a) to receive arrears of fixed cumulative dividends pari passu with the holders of the 8% Cumulative Participating Preference Shares of both classes, up to the date of the commencement of the dissolution, together with any additional amounts due as a result of linking provisions, whether such dividends have been earned or declared or not;

(b) to receive repayment of the capital paid up on the Shares after unpaid dividends accumulated on the outstanding 4% Cumulative Preference Shares have been paid, pari passu with the paid up capital on the 8% Cumulative Participating Preference Shares of both classes, together with any additional amounts due as a result of linking provisions.

The surplus, if any, of the assets thereafter available for distribution will be repaid in the paid up capital amount to the holders of the 4% Cumulative Preference Shares and thereafter to the Ordinary Shares, with the balance, if any, being distributed pari passu among the shareholders of all classes, except for the Shares, according to the amount paid upon such shares or credited as paid up thereon.

The foregoing description of the Shares contains summaries of various sections of the Bank's Articles of Association, as now in effect. The summary does not purport to set forth all the provisions of the Articles of Association. For a complete statement of all of said provisions, reference is made to the Articles of Association filed with the Securities and Exchange Commission as an exhibit to the Registration Statement of the Bank, and the foregoing summary is qualified in its entirety by such reference.

Change in Rights

The rights attached to any class of shares in the Share Capital of the Bank, including the Shares, may be modified or abrogated with the consent in writing of the holders of 75% of the issued shares of that class, or with the sanction of a Special Resolution passed at a separate General Meeting of the holders of the shares of that class, unless otherwise provided by the terms of issue of the shares of that class. Until now, no shares have been issued upon terms other than those provided above. The provisions of the Articles of Association of the Bank relating to General Meetings, to the convening thereof, to notices in respect thereof, and to the Resolutions passed thereat apply mutatis mutandis to every such separate General Meeting, provided a quorum exists of two holders present in person or by proxy, holding or representing not less than 33 $\frac{1}{3}$ % of the outstanding shares of the class in question.

Under Israeli Law, if a Special Resolution modifying or abrogating rights of any class of shares is passed, the holders of at least 15% in the aggregate of the outstanding shares of such class who did not consent to or vote in favor of such resolution may apply to a court of competent jurisdiction within seven days to have such change in rights cancelled. When such application is duly made, the change in rights is not effective unless and until it is confirmed by such court.

Reports to Stockholders

The Bank intends to furnish to its Shareholders annual reports containing a review of the Bank's activities and financial statements certified by the Bank's independent Israel auditors. All financial information will be stated in Israel Pounds.

Transfer Agent

The Transfer Agent for the Shares is Bankers Trust Company, 485 Lexington Avenue, New York, New York 10017.

Debentures and Charges

As of March 31, 1972, the Bank had outstanding various Series of Debentures aggregating IL. 30,764,138, all of which were linked either to the U.S. Dollar or to the Cost of Living Index (see "Capitalization"). All outstanding Series are secured by a floating charge on all of the Bank's assets.

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 the linkage and 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 and 10 and the World Bank Loan 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 rank *pari passu*.

In addition to the outstanding Debentures, the Bank has obtained a loan from the World Bank (see "Business of the Bank—World Bank Loan"). As at March 31, 1972, the Bank had borrowed IL. 31,663,151 (\$8,042,326) of this loan. Under the terms of the loan, the Bank is permitted to secure, by way of floating charges ranking *pari passu* with the charges made in favor of the World Bank, additional Debentures or Series of Debentures to be issued by the Bank and additional loans to the Bank, provided however that the aggregate amount of unredeemed Debentures (including linkage) outstanding at the time of the issue of such additional Debentures or at the time of the securing of any loan does not, together with such additional Debentures or loans, exceed twice the aggregate amount of the paid up share capital of the Bank together with its reserve funds.

Preference Shares

In addition to the Shares, the Bank has outstanding three classes of additional 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).

Unlike the Shares, the Preference "A" and "B" Shares have no linking provision but they rank *pari passu* with the Shares as to dividends and on liquidation. The Preference "A" 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 by the Preference "A" and "B" Shares. Each Preference Share is entitled to one vote per share for all purposes including the election of directors.

Ordinary Shares

The Bank also has outstanding 79,550,926 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 non-assessable. Each of these shares is entitled to one vote per share for all purposes including the election of directors.

MANAGEMENT AND CONTROL

The Board of Directors are elected by the General Meeting of Stockholders and consists of not less than nine (9) nor more than twenty (20) persons. Each director holds office until the next Ordinary Meeting and shall continue in office for so long as no other director has been elected in his place.

All outstanding shares, with the exception of the Shares, are entitled to one vote per share for all matters including the election of directors. Since the Government of Israel owns approximately 93% of all outstanding shares of the Bank, it has the power to elect all directors. (For transactions between the Government and the Bank, see "Important Factors to be Considered—Relationship of the Bank to the Israel Government".)

The name and principal occupation for the past five years of each executive officer and director of the Bank is as follows:

<u>Name and Address</u>	<u>Position</u>	<u>Principal Occupation during the last 5 Years</u>
Prof. Haim Halperin 22, Rembrandt Street Tel Aviv	Chairman of the Board of Directors	Chairman of the Board of Directors of the Bank; Professor Agricultural Economics; formerly Man- aging Director of the Bank
Abraham Brum Shefayyim	Director	Director-General, Ministry of Agriculture; formerly Deputy Director-General, Ministry of Agriculture
David Cahane Ramat Yohanan	Director	Member, Secretariat of the Agricultural Centre
David Calderon 43, Oranim Street Kefar Shemaryahu	Managing Director	Managing Director of the Bank; formerly Director of the Settlement Department of the Jewish Agency
Aharon Frank Hagiborim Street Hadera	Director	Member, Presidium of Farmers' Federation and Chairman of the Executive of Amir Ltd.
Nahum Ganz Kefar Ahim	Director	Deputy Director of the Settlement Department of the Jewish Agency and Director of Economic and Financial Organizations of the Moshavim Movement
Isack Gross Hafez Hayyim	Director	Director of the Settlement Department of Poalei Agudat Israel in Israel
Ben Zion Halfon Hazav	Director	Deputy Minister of Agriculture; formerly Manager, Central Farmers' Wholesale Purchasing Society
Abraham Knaani Gevat	Director	Member, Secretariat of the Agricultural Centre
Issachar Kochba Yavne	Director	Agriculturist
Dov Miron Ruhama	Director	Agriculturist
Yoram Galon 12, Hashachar Street Jerusalem	Director	Assistant Director in Charge of Financing and Money Markets, Ministry of Finance; formerly Principal Assistant to Director of Budgets, Ministry of Finance

<u>Name and Address</u>	<u>Position</u>	<u>Principal Occupation during the last 5 Years</u>
Haim Nedivi Massuo't Yizhaq	Director	Manager, Hapoel Hamizrahi Farmers' Wholesale Purchasing Society
Anshel Perl 11, Shymshon Street Jerusalem	Director	Deputy Accountant General, Ministry of Finance; formerly Accountant, Ministry of Posts
Dr. Ludwig Pinner 2, Oranim Street Kefar Shemaryahu	Director	Chairman of Boards of Directors of Agricultural Companies
Aharon Uzan Gilat	Director	Secretary of the Moshavim Movement; formerly Deputy Minister of Agriculture
Asher Zalel 21, Lamerhav Street Ramat HaSharan	Deputy Managing Director	Deputy Managing Director of the Bank; formerly Head of Planning Department of the Bank
*Jacob Intrator 129, Rothschild Blvd. Tel-Aviv	Deputy General Manager	Deputy General Manager; formerly Head of Loans Department of the Bank
*Menahem Bonne Olei HaGardom 10 Tel-Aviv	Deputy General Manager	Deputy General Manager; formerly Head of Accounts Department of the Bank
*Yehoshua Kenner 38, Yair Street Ramat Hen	Deputy General Manager	Deputy General Manager & Secretary; formerly Secretary-General of the Bank

* Not members of the Board of Directors.

The Bank employs 106 persons, including the Chairman of the Board of Directors, the Managing Director, the Deputy Managing Director, three Deputy General Managers, four Economists, three Agronomists and one Lawyer. Generally, all employees are members of a Union and the Management believes that its relations with its employees have been satisfactory.

During the years ended March 31, 1971 and 1972 and as of the date of this Prospectus, no officer or director of the Bank received a salary in excess of \$30,000 per year. The aggregate amount of cash remuneration paid to the Chairman of the Board of Directors, the Managing Director and the Deputy Managing Director (including social benefits and reserves for severance payment) aggregated IL. 93,750 and IL. 98,500, for the two respective years.

CONVERTIBILITY OF CURRENCY AND ISRAEL TAXES

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

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

Under the law, certain tax benefits are granted on income derived from "Approved Investments in Foreign Currency". The Shares being offered hereby have been designated by the Investment Center as "Approved Investments in Foreign Currency". Accordingly, as the law now stands, a Shareholder, if resident outside Israel, will be subject to Israel income tax at a rate not exceeding 25% of the dividend, which will be deducted at the source in Israel. Each non-resident Shareholder is entitled to repatriate in United States Dollars the dividend payable on the Shares, and the capital in the event of the redemption of the Shares or the dissolution of the Company.

Counsel to the Bank, Goldstein, Shames & Hyde, have advised that under the provisions of the Internal Revenue Code, United States shareholders (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 and availability 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 taxpayer-shareholder and his tax advisor.

The designation, by the Investment Center, of the Shares as an "Approved Investment in Foreign Currency" does not imply that the Investment Center recommends these Shares as an investment, nor does it imply that the Investment Center has passed upon the commercial merits of the Shares. The Law for the Encouragement of Capital Investments does not in any way protect against fluctuations in the exchange rate.

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

Organizations acting for public purposes within the meaning of Section 9(2) of the Israeli Income Tax Ordinance are exempt from Israel Income Tax. The Israeli Income Tax Authorities usually grant such exemption to charitable institutions in the United States on the basis of a photostatic copy of the confirmation in that respect issued by the United States Treasury or on the basis of the list of charitable institutions published by the United States Government. Institutions claiming such exemption will have to provide such proof to the Tax Authorities in Israel directly or through the Bank. Only upon receipt of such exemption will the Bank not be required to withhold at source Israel Income Tax on dividends to such institutions.

CONDITIONS IN ISRAEL

The State of Israel is governed by a Cabinet headed by a Prime Minister which is responsible to its Parliament, called the Knesset. The President is the head of State and is elected by the Knesset. The members of the Knesset are elected in free multi-party elections. The present Government is a coalition supported by a majority of the Knesset.

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

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

Israel lies on the western edge of Asia bordering on the Mediterranean Sea. It is bounded on the north by Lebanon and Syria and on the east by Jordan and on the south by the United Arab Republic (Egypt), all of which are more or less linked in their hostility to Israel. In October 1956, this hostility resulted in armed conflict between the forces of Israel and Egypt. In June of 1967, armed conflict arose between the forces of Israel and the forces of certain of her Arab neighbors. A cease-fire was subsequently negotiated. Since the imposition of the cease-fire, however, periodic incidents have taken place between Israel and certain of her Arab neighbors. No settlements have as yet been reached and what the future course of events may be, cannot be ascertained at this time.

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

National Income and Investments. The following tables indicate the national income, the gross national product and the gross and net investment of Israel for the years 1969, 1970 and 1971. All figures contained in these tables are stated in prices current for the respective years. At the beginning of 1965 a new price index was introduced, based on the yearly average for 1964, which was adjusted to 100. On this revised basis, the yearly average for 1969 was 123.7 and for 1970 was 131.2. The consumer price index rose by 11.2% in 1971 for a yearly average of 146.9.

The increase in Gross National Product reflected in the following table is attributable in part to the movement in the price index.

National Income			Gross National Product (in IL. millions)		Gross and Net Investment (in IL. millions)		
Year	Total (in IL. millions)	Per Capita	Year	Total	Year	Gross	Net
1969*	13,019	4,510	1969*	15,882	1969*	3,909	2,349
1970*	14,990	5,050	1970*	18,455	1970*	4,687	2,990
1971**	17,500	5,645	1971**	21,910	1971**	6,261	4,990

* Revised

** Provisional figures

Foreign Exchange. The official exchange rate of IL. 4.20 per U.S. dollar has been in effect since August 22, 1971 and is applicable to all foreign exchange transactions. The prior rate of exchange was IL. 3.50 per U.S. Dollar.

Population and Employment. The total number of gainfully employed persons at the end of 1971 was 1,014,000, out of a total population of 3,100,000. Their distribution in 1971 among the various branches of the economy was approximately as follows: industry, 26.2%; agriculture, 10.5%; commerce and finance, 12.9%; building and public works, 8.2%; transportation, 7.7%; services (public, business, and personal) 32.6%; and electricity and water, 1.9%.

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

The value of Israel's foreign trade in goods and services since 1969 is as follows:

<u>Year</u>	<u>Imports</u> (in \$ millions)	<u>Exports</u> (in \$ millions)	<u>Deficit</u> (in \$ millions)
1969*	2,149.8	1,256.2	893.6
1970*	2,601.5	1,386.1	1,215.4
1971**	3,020.0	1,660.0	1,360.0

* Revised

** Provisional

Agricultural Development. Israel's agriculture is the product of a planned transformation of land. In the years since 1948 there has been extensive development of irrigation and reclamation of swamp lands, sand dunes and hilly areas, with the result that Israel now provides about 76% of its food needs. The total area under cultivation in 1971 (agricultural year runs from October 1, 1970 to September 30, 1971) amounted to 4,400,000 dunams (just over one million acres) of which 40% was under irrigation. Israel's gross agricultural output in 1971 totalled approximately IL. 2,517,000,000. The diversification of Israel's farming is shown by the following percentages of the total agricultural output: citrus and other fruits represent 32.5%; vegetable crops, 10.9%; field crops (including grains, fodder and industrial crops), 15.5%; poultry products, 20.4%; cattle products, 13.3%; and other livestock products, 7.4%. Approximately 90,000 persons are engaged in these agricultural pursuits.

Agricultural exports in 1971 totalled \$155,200,000, of which citrus fruits accounted for \$114,600,000.

Industrial Development. The gross product of Israel's industry in 1971 (fiscal year runs from April 1, 1970 to March 31, 1971) totalled approximately IL. 12,230,000 at 1967 prices. This output was distributed among the various segments of industry as follows: textile and leather products, 15.1%; food products, 22.4%; chemicals, rubber and non-metallic minerals, 15.5%; machinery and equipment, 17.4%; metals and metal products, 12%; wood products and furniture, 3.7%; industrial diamonds, 6.3%; mining and oil refining, 2.5%; and paper and printing, 5.1%. The number of workers employed in industry in 1971 was approximately 270,000 as compared with approximately 260,000 in 1970.

Industrial exports in 1971 amounted to \$796,000,000 (including exports of polished diamonds valued at \$265,000,000) while industrial imports (raw materials and manufactured goods) totalled \$907,000,000.

Consumption of electricity in 1971 totalled 5,300 million kilowatt hours, of which 2,000 million kilowatt hours were consumed by industry.

The foregoing information, relating to the State of Israel, has been obtained from the Prospectus of State of Israel Bonds.

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 shares offered hereby. The agreement provides that the Underwriter shall receive a commission of 7½% of the sales price on all shares 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 all of the Shares will be sold. As at May 31, 1972, 6,936 Shares had been sold. The Underwriter is authorized by the Underwriting Agreement to reallow to dealers selling the Shares 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

Legal matters in connection with this offering have been passed upon for the Bank by Messrs. Goldstein, Shames & Hyde, 655 Madison Avenue, New York, New York 10021, who have relied upon the opinion of the Bank's special legal adviser, E. Likhovski, Esq., 18 Achad Haam Street, Jerusalem, Israel, on all questions of Israeli law.

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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and the Shareholders
Israel Bank of Agriculture Ltd.

We have examined the balance sheet of the Israel Bank of Agriculture Ltd., as of March 31, 1972 and the statements of income, earned surplus and source and application of funds for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly we have applied such auditing procedures as we considered necessary in the circumstances.

In our opinion, the balance sheet as of March 31, 1972 and the statements of income and earned surplus for the five years then ended present fairly the financial position of the Bank as at March 31, 1972 and the results of its operations for the respective years, in conformity with generally accepted accounting principles applied on a consistent basis, except for the changes—which we approve—in the method of providing for possible losses on loans, as described in Note B to the statements of income. Also, in our opinion the statements of source and application of funds for the five years ended March 31, 1972 present fairly the information shown therein.

We confirm that, in our opinion, the above-mentioned 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 a commercial bank.

BAWLY MILLNER & Co.
Certified Public Accountants (Israel)

Tel-Aviv, Israel
May 3, 1972

ISRAEL BANK OF AGRICULTURE LTD.
BALANCE SHEET

March 31, 1972

ASSETS

	IL.
Cash in hand and balances with the Bank of Israel and banking institutions	9,921,659
Securities (Note 2) :	
Government securities	7,413,577
Shares in subsidiary companies	4,255,733
Shares in other companies	205,100
	<u>11,874,410</u>
Loans and other accounts (Note 3) :	
Loans	487,022,530
Other accounts	14,695,679
	<u>501,718,209</u>
Deposits with the Ministry of Finance of the State of Israel	58,818,208
Bank premises and equipment at nominal amount (Note 4)	<u>1</u>
Liabilities of customers (see contra) :	
Documentary credits	5,983,140
Guarantees (including subsidiary companies IL. 1,147,427)	9,519,167
	<u>15,502,307</u>

597,834,794

The notes to financial statements are an integral part thereof.

ISRAEL BANK OF AGRICULTURE LTD.

BALANCE SHEET

March 31, 1972

LIABILITIES AND SHAREHOLDERS' EQUITY

IL.

Funds for the granting of loans and for deposit with the Ministry of Finance of the State of Israel:

Deposits from the Ministry of Finance of the State of Israel ...	282,521,029
Deposits and loans from banking institutions (Note 5)	83,725,305
Deposits and loans from others	22,608,150
	<u>388,854,484</u>

Deposits and other accounts:

Demand deposits (including subsidiary company IL. 5,606) ...	8,983,503
Other accounts (including IL. 1,101,862 due to subsidiary company reserve and proposed dividends)	18,360,077
	<u>27,343,580</u>

Debentures (Note 5)

31,087,326

Provision for possible losses on loans (Note 8)

13,370,000

Liabilities on account of customers (see contra):

Documentary credits	5,983,140
Guarantees	9,519,167
	<u>15,502,307</u>
	<u>476,157,697</u>

Shareholders' equity (Note 10):

Share capital:

Ordinary shares, par IL. 1; authorized 104,700,000 shares; issued and outstanding 79,550,926 shares	79,550,926
8% cumulative and participating preference "A" shares, par IL. 10; authorized, issued and outstanding 750,000 shares ...	7,500,000
8% cumulative and participating preference "B" shares, par IL. 10; authorized, issued and outstanding 750,000 shares ...	7,500,000
4% cumulative preference shares, par IL. 1; authorized, issued and outstanding 300,000 shares	300,000
7½% Cumulative redeemable preference "C" shares linked to the dollar, par IL. 420; authorized 150,000 shares; issued—none	
	<u>94,850,926</u>

Receipts on account of ordinary shares

1,889,260

Earned surplus:

General reserve	24,000,000
Unappropriated income (Note 11)	936,911
	<u>24,936,911</u>
	<u>121,677,097</u>
	<u>597,834,794</u>

The notes to financial statements are an integral part thereof.

Prof. Haim Halperin,
Chairman

David Calderon,
Managing Director

Ben Zion Halfon,
Director

ISRAEL BANK OF AGRICULTURE LTD.

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

	Year ended March 31,				
	1968	1969	1970	1971	1972
	IL.	IL.	IL.	IL.	IL.
Source of funds:					
Net income for the year	4,548,442	5,976,189	6,603,194	7,720,977	8,934,940
Provision for possible losses on loans	2,200,000	1,375,000	1,760,000	1,015,000	1,220,000
Provision for depreciation, deferred income taxes and other provisions	5,941	204,668	147,286	205,166	179,214
	<u>6,754,383</u>	<u>7,555,857</u>	<u>8,510,480</u>	<u>8,941,143</u>	<u>10,334,154</u>
Proceeds from issue of ordinary shares and receipts on account	67,532	56,412	4,868,660	1,183,167	1,703,993
Proceeds from issue of 8% cumulative and parti- cipating preference "B" shares	—	—	—	7,500,000	—
Proceeds from issue of debentures and receipts on account	—	800,000	2,200,000	5,500,000	8,800,000
Proceeds from sale of shares in other companies	—	—	1,438,392	—	—
Increase in deposits by the Ministry of Finance, banks and others, net	21,588,579	33,056,809	66,707,740	55,126,011	70,108,329
Total source of funds	<u><u>28,410,494</u></u>	<u><u>41,469,078</u></u>	<u><u>83,725,272</u></u>	<u><u>78,250,321</u></u>	<u><u>90,946,476</u></u>
Application of funds:					
Increase in loans and other accounts, net	14,922,722	29,012,390	62,130,328	45,154,764	86,003,819
Increase (decrease) in deposits with the Ministry of Finance, net	2,200,000	10,689,009	15,385,574	19,332,083	(7,177,501)
Cash dividends paid or declared, net	2,198,430	2,339,056	4,266,042	5,051,292	5,051,292
Increase of investment in shares in subsidiary company	—	—	—	3,305,736	—
Increase of investment in shares in other companies	34,392	35,000	—	140,000	100
Redemption of debentures	6,556,800	1,994,300	1,973,800	1,974,800	1,972,800
Increase (decrease) of investments in Government securities	3,662,421	(1,751,708)	836,430	2,028,407	791,980
Purchase of equipment	22,242	35,316	87,618	13,119	69,423
Interest on receipts on account of ordinary shares	—	—	—	—	67,906
Total funds applied	<u>29,597,007</u>	<u>42,353,363</u>	<u>84,679,792</u>	<u>77,000,201</u>	<u>86,779,819</u>
Increase (decrease) in cash in hand and balances with the Bank of Israel and banking institutions	(1,186,513)	(884,285)	(954,520)	1,250,120	4,166,657
	<u><u>28,410,494</u></u>	<u><u>41,469,078</u></u>	<u><u>83,725,272</u></u>	<u><u>78,250,321</u></u>	<u><u>90,946,476</u></u>

The notes to financial statements are an integral part thereof.

ISRAEL BANK OF AGRICULTURE LTD.

STATEMENTS OF EARNED SURPLUS

	Year ended March 31, (audited)				
	1968	1969	1970	1971	1972
	IL.	IL.	IL.	IL.	IL.
Unappropriated profit:					
Balance at beginning of year	937,769	1,287,781	1,614,332	951,484	1,121,169
Net income for the year	4,548,442	5,976,189	6,603,194	7,720,977	8,934,940
Dividends declared or proposed, net of income tax* (Note 9):					
Cash dividends	(2,198,430)	(2,339,056)	(4,266,042)	(5,051,292)	(5,051,292)
Stock dividend	—	(1,310,582)	—	—	—
Interest on receipts on account of ordinary shares (7% pro-rata temporis)	—	—	—	—	(67,906)
Transferred to general reserve	(2,000,000)	(2,000,000)	(3,000,000)	(2,500,000)	(4,000,000)
Balance at end of year	1,287,781	1,614,332	951,484	1,121,169	936,911
General reserve:					
Balance at beginning of year or period	10,500,000	12,500,000	14,500,000	17,500,000	20,000,000
Transferred from unappropriated profit	2,000,000	2,000,000	3,000,000	2,500,000	4,000,000
Balance at end of year	12,500,000	14,500,000	17,500,000	20,000,000	24,000,000
Total earned surplus	13,787,781	16,114,332	18,451,484	21,121,169	24,936,911

* See Note D(a) to the statements of income.

The notes to financial statements are an integral part thereof.

ISRAEL BANK OF AGRICULTURE LTD.

NOTES TO FINANCIAL STATEMENTS

As of March 31, 1972

NOTE 1—LINKING OF ASSETS AND LIABILITIES

Assets and liabilities linked to the cost-of-living index were included on the basis of the index published for the month of February 1972; those in U.S. dollars or linked to the rate of the U.S. dollar were included at the official rate of exchange of the U.S. dollar in Israeli Pounds (U.S. \$1. = IL. 4.20); those in other foreign currencies were included at the official rate of exchange of the U.S. dollar in those currencies prevailing on balance sheet date.

Assets (except linked Government securities) and liabilities of the Bank subject to linking increments are as follows:

	Original amount	Linking increments	Adjusted total
	IL.	IL.	IL.
Assets:			
Deposits with the Ministry of Finance of the State of Israel and loans receivable:			
Linked to U.S. dollars	1,989,273	2,555,009	4,544,282
Linked to cost-of-living index	30,820,000	8,413,103	39,233,103
	<u>32,809,273</u>		<u>43,777,385</u>
Ministry of Finance liability to compensate the Bank for its loss on account of accrued linkage differences—Note 3(c)		5,358,276	
		<u>16,326,388</u>	
Liabilities:			
Debentures, deposits and loans from banking institutions and others:			
In or linked to U.S. dollars or other currencies	33,839,137	6,087,396	39,926,533
Linked to the cost-of-living index	38,300,500	10,072,535	48,373,035
	<u>72,139,637</u>	<u>16,159,931</u>	<u>88,299,568</u>

ISRAEL BANK OF AGRICULTURE LTD.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2—SECURITIES

a. Government securities

- (1) According to the guidelines issued in 1971 by the Examiner of Banks, the bank included in its income the linkage differences on Government bonds approved for investment and interest thereon which had accrued since the purchase thereof. Such linking differences have been added to income retroactively in the years during which they accrued. See Note D(b) for the statements of income.
- (2) Bonds optionally linked to the cost of living index, were stated at the higher of the two bases:
 - adjusted to the cost of living index, with the addition of interest;
 - with the addition of maximum interest only.
- (3) The bonds approved for investment were acquired for investment purposes and not for trading. They will be redeemed at their nominal value, with the addition of linkage or exchange differences, and interest. Fluctuations in the market value of these bonds do not affect the result of operations of the Bank, as the method of accrual of linkage differences, and of interest during the period in which these bonds are held, ensures that their value upon redemption will be identical with their book value at that date.
- (4) Securities including linkage differences and interest accrued as described above, comprise:

	Unquoted	Quoted	Total
	IL.	IL.	IL.
<i>Treasury bills</i> , at cost	31,050	—	31,050
<i>Bonds approved for investment</i> , at cost	4,162,112	3,220,415	7,382,527
	4,193,162	3,220,415	7,413,577
Total, at cost, shown under "Government Securities"	4,193,162	3,220,415	7,413,577
Linkage differences and interest accrued—included in the item "Other Accounts"	863,738	1,952,915	2,816,653
	5,056,900	5,173,330	10,230,230
Total	5,056,900	5,173,330	10,230,230
Market value		4,936,275	

b. Shares in subsidiary companies

The shares in subsidiary companies are unquoted and were included at cost, which is not above their estimated value.

c. Shares in other companies

- (1) The shares are unquoted and were included at cost which is not above their estimated value.
- (2) There is a liability linked to the rate of the U.S. dollar—to purchase further shares in the amount of IL. 588,000.

ISRAEL BANK OF AGRICULTURE LTD.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3—LOANS AND OTHER ACCOUNTS

- a. The loans include IL. 362,262,800 out of funds for the granting of loans.
- b. They include loans to subsidiary companies amounting to IL. 6,979,185.
- c. The Ministry of Finance has undertaken according to various arrangements, including insurance—to compensate the Bank on account of accrued linkage differences outstanding on a part of the Bank's liabilities.

The ensuing liability of the Ministry of Finance amounting to IL. 5,358,276 was included under assets in "Other accounts".

NOTE 4—BANK PREMISES AND EQUIPMENT

Bank premises and equipment acquired by the Bank are written off in the year of acquisition.

The cost of premises and equipment amounts to IL. 1,741,174, including IL. 212,571 cost of land. Accumulated depreciation allowed for income tax purposes amounts to IL. 744,132.

NOTE 5—DEBENTURES

Debentures issued by the Bank are linked either to the U.S. dollar or to the cost-of-living index and are secured by floating charges on the assets of the Bank.

Payments of principal are due as follows:

Year ending March 31,	IL.
1973	4,012,075
1974	2,354,054
1975	1,018,419
1976	1,018,419
1977	1,556,663
Subsequent to 1977	20,804,508
	<hr/>
	30,764,138
Accrued interest	323,188
	<hr/>
	<u>31,087,326</u>

The assets of the Bank are also subject to a floating charge in connection with the loan agreed upon with the International Bank for Reconstruction and Development in the amount of IL. 84,000,000 to be received in different currencies equivalent to US \$20,000,000 and repayable in the same currency as received. Amounts received on this loan were IL.31,663,151.

ISRAEL BANK OF AGRICULTURE LTD.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6—SEVERANCE PAY

The Bank's liability for severance payments to its staff is fully covered by payments to a provident fund. Payments to the fund to meet its obligations in respect of severance compensation to its employees are made monthly with annual adjustments for additional liability resulting from salary increases.

The fund is managed by the Employees Organization; accumulated income belongs to the employees and the Bank does not exercise any manner of control over the fund. The Bank's contribution to the provident fund amounted to IL.168,469; IL.307,125 and IL.268,311 for the years ended March 31, 1970, 1971 and 1972, respectively.

NOTE 7—INCOME TAX

The Bank has received final income tax assessments for the period up to March 31, 1969. The full provision for income tax is under liabilities included in "Other accounts". See Note D(a) to the statements of income.

NOTE 8—PROVISION FOR POSSIBLE LOSSES ON LOANS

	Balance at beginning of year or period	Additions Charged to income	Deductions Write-off of bad debts	Balance at end of year or period
	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>	<u>IL.</u>
YEAR ENDED MARCH 31,:				
1968	5,800,000	2,200,118	118	8,000,000
1969	8,000,000	1,375,000	None	9,375,000
1970	9,375,000	1,760,000	None	11,135,000
1971	11,135,000	1,059,602	44,602	12,150,000
1972	12,150,000	1,220,000	None	13,370,000

ISRAEL BANK OF AGRICULTURE LTD.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9—DIVIDENDS

	Year ended March 31,									
	1968		1969		1970		1971		1972	
	%	IL.	%	IL.	%	IL.	%	IL.	%	IL.
On 8% cumulative and participating preference "A" shares—cash dividends	10	562,500	12½	703,125	13	731,250	13	731,250	13	731,250
On 8% cumulative and participating preference "B" shares—cash dividend	—	—	—	—	—	—	13	731,250	13	731,250
On 4% cumulative preference shares—cash dividends	4	9,000	4	9,000	4	9,000	4	9,000	4	9,000
On ordinary shares:										
Cash dividends	3	1,626,930	3	1,626,931	6	3,525,792	6	3,579,792	6	3,579,792
Stock dividend	—	—	2½	1,310,582	—	—	—	—	—	—
		2,198,430		3,649,638		4,266,042		5,051,292		5,051,292

The rates of the dividends are before deduction of income tax; the amounts are net after deduction of income tax. See Note D(a) to the statements of income.

The 8% cumulative and participating preference shares have the prior right to 8% dividend per annum on a cumulative basis before payment of dividends on the 4% cumulative preference shares and the ordinary shares of the Bank. After the payment of 4% dividend (cumulative) on 4% cumulative preference shares and after 3% dividend on the ordinary shares and 2% additional dividend on the 8% cumulative and participating preference shares, any additional dividend shall be paid at an equal rate on 8% cumulative and participating preference shares and ordinary shares.

ISRAEL BANK OF AGRICULTURE LTD.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10—SHARE CAPITAL AND RECEIPTS ON ACCOUNT OF ORDINARY SHARES

The Bank's authorized capital at March 31, 1972 was IL. 183,000,000, after addition in 1971 of 150,000 7½% cumulative redeemable linked preference "C" shares, par value IL. 420 each.

	Ordinary shares <u>IL.</u>	8% "A" and "B" cumulative and participating preference shares <u>IL.</u>	4% Cumulative preference shares <u>IL.</u>
ISSUED AND PAID CAPITAL			
Balance on April 1, 1969	73,618,602	7,500,000	300,000
Sale of Shares	4,732,324	—	—
Balance on March 31, 1970	78,350,926	7,500,000	300,000
Sale of Shares	1,200,000	7,500,000	—
Balance on March 31, 1971 and 1972	79,550,926	15,000,000	300,000
RECEIPTS ON ACCOUNT OF ORDINARY SHARES			
To be issued	1,889,260	—	—
TOTAL, March 31, 1972	<u>81,440,186</u>	<u>15,000,000</u>	<u>300,000</u>

NOTE 11—STATEMENT PURSUANT TO SECTION 107(5) OF THE ISRAEL COMPANIES ORDINANCE

Profits of the subsidiary companies have not been included in the accounts of the Bank.

NOTE 12—POST BALANCE SHEET EVENT—ISSUE OF PREFERENCE SHARES

The Bank offered in a prospectus issued on April 12, 1972, 150,000 7½% cumulative redeemable preference shares, linked to the dollar par value IL. 420 per share for a total amount of IL. 63,000,000 (\$15,000,000). The shares are offered only to non-residents of Israel at a price of \$100 per share.

The Ministry of Finance of the State of Israel has undertaken to cover any obligation arising from changes in the rate of the U.S. dollar regarding the rights of the above mentioned shares.

ADDITIONAL INFORMATION REQUIRED UNDER ISRAEL LAW

Rights attached to the Shares (including the Shares offered hereby) in the Share Capital of the Company.

Dividends.

The profits of the Bank which it shall decide to distribute from time to time between the shareholders of the Bank will be applied in the order and degree of priority following:

Firstly: In paying arrears of unpaid dividends (including the current Preferred Dividend for which the payment is made) on all three classes of the preference shares of the Bank (including the Shares), *pari passu*, *inter se* (and also payment of the linkage increments on the Shares), up to and until such time.

If the profits allow, payments will be made semi-annually. It is, however, to be noted that the terms of issue of the Shares provide that for the purposes of dividend on Shares sold and paid for during any Quarter they will receive dividends from the first days of each Quarter (see Outstanding Securities of the Bank—The Shares).

Secondly: In paying the unpaid preferential dividend which has accumulated in favour of the 4% Cumulative Preference Shares—up to and until such time.

Thirdly: In paying an ordinary dividend up to 3% on the Ordinary Shares.

Fourthly: In paying an additional dividend up to 2% on the A. and B. 8% Cumulative and Participating Preference Shares.

Fifthly: In distributing the surplus, *pari passu*, amongst the holders of the A. and B. 8% Cumulative and Participating Preference Shares, and the Ordinary Shares.

The Bank is entitled to distribute bonus shares from capital funds (i.e. from any fund not permitted to be distributed as cash dividend) to shareholders of the Bank (other than the holders of the Shares) after it has paid in cash the preferential dividends on the Shares and on the 8% Preference Cumulative and Participating Shares A. and B. of both classes (hereinafter the 8% Preference Shares of both classes). The 8% Preference dividends on the latter can be paid either in cash or in bonus shares. Each shareholder receiving such bonus shares from capital funds shall receive bonus shares of the same class of share in respect of which the bonus shares are received by him.

The General Meeting may resolve (on the recommendation of the Board of Directors) to make an allotment of bonus shares instead of the payment of a cash dividend (in full or in part) to the Ordinary shareholders, and to the holders of the 8% Preference shares of both classes. The 8% Preference shareholders of both classes are given the option of notifying the Bank, within 30 days of the adoption of such resolution of their choice to accept, in whole or in part, such bonus shares. Failure to elect bonus shares is deemed to be an election to receive a cash dividend from the Bank in respect of their shares. Bonus shares so issued are to be distributed in an amount equal to the net cash dividend to which they would have been entitled after income tax had been deducted at source, in accordance with the Income Tax Ordinance. Bonus shares so distributed shall be of a class uniform to all shareholders who received them pursuant to the above provisions.

Quorum and Voting

The members of the Bank present at a General Meeting in person or by proxy representing between themselves no less than 50% of the voting power then existing, shall be a quorum, and no business shall be transacted in any meeting unless such quorum is present at the commencement of the business. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of such members, shall be dissolved; and in every other case it shall stand adjourned to the same day in the next week at the same time and place. The quorum required for the adjourned meeting is the same quorum required for the meeting at which the adjournment took place.

In any General Meeting any matter submitted to it shall first of all be decided on a show of hands. Any one member who is entitled to vote may demand a poll on any such matter and upon such a demand being made, the matter on which a poll has been demanded as aforesaid shall be wholly resolved on a poll. A resolution on a show of hands shall be carried by a majority of members voting and in the case of an equality of votes, the Chairman of the meeting shall have a casting vote in addition to the vote to which he is entitled as a member. On a poll, every member entitled to vote shall have one vote for every share of which he is the holder.

Any resolution of the Bank in a General Meeting shall be deemed duly passed if passed by a simple majority unless a different majority is required by Israeli law or by the Articles of Association of the Bank.

Miscellaneous

- (a) From September 1, 1969, the Bank issued its 7th and 8th 5½% Debenture Issues of IL. 5,500,000 and IL. 1,250,000, respectively and its 9th and 10th Debenture Issues, 6% of IL. 4,250,000 and IL. 3,300,000, respectively. The Bank undertook to pay a commission in connection with the sale thereof of 2% and has paid as of the date of this Prospectus, IL. 110,000 with respect to sales of the 7th issue and IL. 25,000 with respect to sales of the 8th issue, IL. 85,000 with respect to sale of the 9th issue, and IL. 66,000 with respect to the 10th issue. As at May 31, 1972, the sum of IL. 215,484 was paid as a commission with respect to the sale of 6,936 shares.
- (b) As of September 1, 1969, the Bank has allotted and/or undertaken to allot 1,310,582 of its Ordinary Shares by way of bonus distribution.
- (c) No minimum subscription within the meaning of Section 27a of the Securities Law, 1968, has been fixed for the Shares issued under this Prospectus.

Save as aforesaid for the Underwriting Agreement with respect to the Shares mentioned above, the Bank has not paid nor has it undertaken to pay any commission in respect to agreements to subscribe or for undertakings to procure subscriptions of its shares or debentures.

Under Israel law, this Prospectus may only be used for a period not exceeding seventeen months from the date of the last audited annual financial statements, i.e. August 31, 1973.

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 General Agreement signed between the Bank and the Ministry of Finance of the Government of Israel (hereinafter the "Ministry of Finance") on August 15, 1951 (amended on June 6, 1955 and on March 23, 1970) with respect to the acceptance of deposits from the Ministry of Finance and making loans therefrom.

- (b) A letter from the Ministry of Finance (Department of the Accountant-General) dated October 22, 1968, in respect of the specific charge on the Bank's deposit—Sixth Issue.
- (c) A Trust Deed dated July 27, 1970 made between the Bank and the Bank HaPoalim Trust Co. Ltd., as trustee for Debenture Holders, Seventh Issue.
- (d) A letter from the Ministry of Finance (Department of the Accountant-General) dated July 28, 1970, in respect of the specific charge on the Bank's deposit—Seventh Issue.
- (e) Letters of the Ministry of Finance dated June 6, 1963, July 7, 1968 and March 12, 1969, respectively, in respect of compensation to be given by the Ministry of Finance in consequence of the linkage provisions in respect of loans (whether to U.S. Dollar or Cost-of-Living Index).
- (f) An Agreement between the Bank and Karen Hayesod dated July 2, 1970
- (g) 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.
- (h) A Trust Deed dated March 21, 1971 made between the Bank and the Bank HaPoalim Trust Co. Ltd., as trustee for debenture-holders of the Eighth Issue.
- (i) A Loan Agreement dated October 21, 1970, between the Bank and the International Bank for Reconstruction and Development relating to a U.S. \$20,000,000 loan secured by a floating charge on the assets of the Bank.
- (j) Amendment dated August 28, 1971 to Trust Deed described in paragraph (h) with respect to Ninth Issue.
- (k) A letter dated September 22, 1971, from the Controller of Foreign Exchange to the Bank, giving the necessary consents under the Defense (Finance) Regulations 1941, to the matters set out herein.
- (l) 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 this Prospectus.
- (m) Agreement dated November 15, 1971, between Capital for Israel Inc. and the Bank, setting out the terms on which Capital for Israel Inc. is acting as Underwriter for the Shares offered herein.
- (n) A Trust Deed dated November 25, 1971 made between the Bank and Bank HaPoalim Trust Company Ltd. as Trustees for the Debentureholders of Tenth Issue.
- (o) A letter of the Bank to the Ministry of Finance dated November 19, 1971 confirmed by the Ministry of Finance (Accountant General Department) on November 21, 1971 with respect to insuring the linkage difference on the debenture of the Tenth Issue.

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

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

The following is a translation of an opinion by Mr. E. Likhovski, Advocate, 18 Achad Haam Street, Jerusalem, Israel, Bank Special Counsel for this issue.

May 26, 1972

Israel Bank of Agriculture Ltd.,
TEL AVIV.

Dear Sirs,

In connection with an offer of 150,000 7½% Cumulative Redeemable Preference "C" Shares linked to the Dollar par value IL. 420 per share (the "Shares") to be issued in a prospectus which you are about to publish, I am giving you at your request my opinion as follows:

- a. The rights which are attached to the Shares were properly described in the prospectus.
- b. The other rights attached to the shares of your Bank are properly described in the prospectus.
- c. Your Bank is authorized to issue the Shares as described in the prospectus.
- d. The Directors of your Bank were duly appointed, and their names are properly included in the prospectus.

I agree that you will include this opinion in the prospectus whereby you will offer the Shares to the public.

Yours faithfully,

E. LIKHOVSKI,
Advocate.

SIGNATURES OF THE BANK AND ITS DIRECTORS

ISRAEL BANK OF AGRICULTURE LIMITED

PROF. HAIM HALPERIN

ABRAHAM KNAANI

ABRAHAM BRUM

ISSACHAR KOCHBA

DAVID CAHANE

DOV MIRON

DAVID CALDERON

YORAM GALON

AHARON FRANK

HAIM NEDIVI

NAHUM GANZ

ANSHEL PERL

ISACK GROSS

DR. LUDWIG PINNER

BEN ZION HALFON

AHARON UZAN

ASHER ZALEL